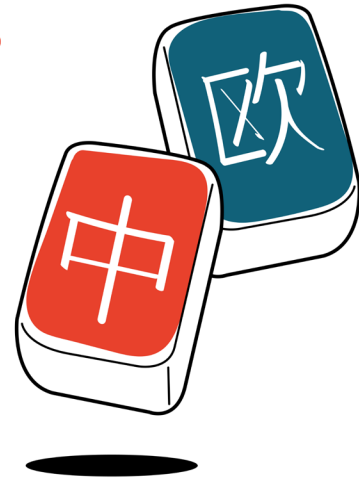


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# MERICS

## Europe China 360°



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## ANALYSIS

### Relations between the European Union and China: what to watch for in 2024

By **Abigaël Vasselier**

Only few weeks into 2024, Europe has not seen a single day without a headline related to China, from brandy to spies, from anti-dumping investigations to leaders' meetings. The European public and decision-makers face a China-intensive year in 2024 – although they should not expect a dramatic change in a complicated relationship. Potentially turbulent geopolitics involving Russia, Taiwan and the USA look set to play a greater role than China's domestic problems or Europe's various long-standing issues with Beijing.

#### *China needs Europe to maintain the status quo*

The Chinese leadership's priority is currently not foreign policy but the country's socio-economic issues that are getting more pressing by the day. As Beijing sees no role for Europe in tackling its domestic problems, the region remains very low on China's political agenda. But this is premised on Europe upholding its role as a proponent of geopolitical stability through engagement and as a more reliable and open economic partner than the US.

China wants Europe to remain a hedge against and potential counterweight to Washington (especially with the US presidential election in November creating huge uncertainty), keep the European single market open for Chinese goods and ensure European companies remain (and keep investing) in China. While the first aim chimes with European ambitions for "strategic autonomy", Beijing's defense of the status quo in the other two areas looks unlikely without some moves to level the economic playing field.

**What to watch:** Beijing could make a surprise offer to Europe in the economic sphere. Such a gift could be highly selective, but high-profile enough for Europe not to decline it.

#### *Geopolitics could be the main factor affecting bilateral relations*

**Russia** is the biggest threat to European security, stability, prosperity, and the future of our democracies. In that sense, China's support of Russia's war against Ukraine will be the most important factor for Europe-China relations. Beijing's pro-Russian "neutrality" has forged the most unified stance towards China Europe has ever seen. There is a sense that there will be no return to business as usual. Beijing has understood that this will change the nature of its relations with Europe and has taken great care to keep its support of Russia's war effort in a calibrated manner, avoiding crossing established red lines.

**What to watch:** In supporting Russia, China remains in constant danger of crossing a red line that would force Europe to react and in turn, rethink the trajectory of bilateral relations with Beijing.

The **United States** and the ongoing geopolitical and technological competition will remain a defining factor in Europe-China relations. Despite mutual efforts to reengage, the US presidential race will prominently feature unflattering images of China. With the recent US visit of top diplomat (and possibly next foreign minister) Liu Jianchao, Beijing has

signaled that managing tensions to avoid derailing bilateral relation is a priority for China this year.

**What to watch:** While caution and reengagement are Beijing's watchwords at the start of 2024, moments of irrationality on both sides could trigger another crisis. Beijing's positioning towards each of the two presidential candidates will be crucial.

The recent presidential election in **Taiwan** gave the independence-leaning Democratic People's Party a third consecutive ruling mandate, albeit without a majority in the legislature. This blemish is unlikely to stop China once again ratcheting up tensions in the Taiwan Strait, probably even before William Lai takes over from Tsai-Ing Wen in May.

**What to watch:** Any rise in tensions in the Taiwan Strait would become an issue in the US presidential election, likely raising geopolitical strains another notch including for Europe.

### ***China is firmly in Europe's mind in 2024***

Brussels will focus on finalizing work in progress and setting the China agenda for the new European Commission, which will start work in the second half of the year. The China-related debate is likely to focus on de-risking and the economic security strategy, including with a proposal released on January 24 that requires a final push by member states and European companies. While this Commission has successfully created a European defensive toolbox that can be used to protect and promote European interests vis-a-vis China, the rest of this mandate will be about using it (as we saw with the launch of the investigation over Chinese subsidies on electric vehicles). China has reacted with measured tit-for-tat, for instance with an investigation into French brandy, although Beijing may yet react to European anti-dumping investigations or the use of other instruments more forcefully. Expectations about engagement are limited: China will not make concessions to an outgoing Commission, nor will the EU become transactional.

At the same time, each EU member state will be seeking to reengage China, putting the spotlight on Europe's ability to coordinate messaging and find joint positions. The same question will apply to European partners: The Italian 2024 presidency of the G7 promises to feature China heavily, if Rome agrees to continue building on Japanese efforts and the past commitments of the bloc to better coordinate on China and promote a solid economic security agenda.

**What to watch:** It will be crucial for EU member states to maintain unity of action and coherence in their respective approaches to China. How they fare will be influenced by how actively China inserts itself in debates around the European Parliament elections and how Beijing reacts to the use of more defensive instruments by the EU.

### **Selected events relevant to EU-China relations in 2024**

- Spring: Xi Jinping possible to visit France
- Spring/summer: German Chancellor Scholtz to visit China
- June 6-9: European Parliament election
- June 13-15: G7 summit in Rome

- July: NATO summit in Washington
- November 5: US presidential election
- November 11-24: COP29 in Azerbaijan
- November 18-19: G20 summit in Brazil

**Read more:**

- MERICS: [Bracing for geopolitical competition – insights from the MERICS China Forecast 2024](#)

## UPDATE

### The European Commission sticks to its economic-security agenda

The European Commission has outlined on January 24 more measures to advance its economic security agenda, including recent proposals for the revision of the foreign direct investment screening, more EU-coordination on export controls, monitoring research and development (R&D) for dual-use technologies and increasing research security across the board. A more tentative initiative on a screening mechanism for some outward investments is rumored to have been dropped. China and Russia are the main motivation for most of those measures.

**What you need to know:**

- **Building on past successes:** June’s economic security agenda was a reminder of the EU’s steady advances in this area, with the FDI screening framework, initiated in 2017 and approved in 2019, seen as a first. With almost all member states having established a national mechanism and more than 1.000 transactions reviewed, the framework is deemed a success. A similar assessment can be made of the less ambitious and more recent efforts to raise awareness of foreign interferences in European research. Both endeavors could now be considered for an upgrade.
- **And pressing on sensitive matters:** But the Commission is also pushing forward on the more contested dimensions of its agenda. Export controls have been a very sensitive topic for many member states. While there is a consensus on the benefits of more EU coordination, member states with large defense industries are reluctant to give more say to their European partners regarding their foreign clients. For screening of outward investments, many European stakeholders remain unconvinced of the necessity of an instrument being pushed by the US.
- **The panda in the room:** If the EU formally sticks to its “country agnostic” approach, the challenges posed by China are one of the main forces steering its economic security ambitions. FDI screenings have been a G7-led response to the multiplication of Chinese investments in strategic sectors in the mid-2010s, while similar mechanisms for outward investments have been pushed by the Biden administration as part of its agenda to sever China of key resources for its industrial upgrading. Besides, European intelligence officials have repeatedly

pointed at Beijing for the most egregious practice of technological espionage and theft.

- **Not the usual perspectives:** With the European Parliament elections set for June, those propositions have no chance of being agreed before then. However, the elections will be followed by intensive negotiations among member states on the composition and agenda of the new Commission's 2024-2029 term.

**Quick take:** The five propositions put concrete building blocks on which to negotiate with member states and European political parties on how much Europeans are willing to put in common to bolster the EU geoeconomic standing. Ursula von der Leyen had presciently put her first mandate under the mantra of being a “geopolitical Commission” and she is now the front-runner for heading the EU Commission for the next five years. She is likely to double down on ramping up the EU's geopolitical capacities. Beyond the five propositions, the Commission is laying the foundation of the discussion around its future mandate.

#### Read more:

- European Commission: [New initiatives to strengthen economic security](#)
- European Commission: [Remarks by EVP Dombrovskis on economic security](#)
- GMF: [Watching China in Europe—January 2024](#)
- MERICS: [Mapping achievements of de-risking from China + EU-China Summit](#)

## MERICS EU-CHINA OPINION POOL

In the latest MERICS EU-China Opinion Pool, we asked leading experts **what issues will define Europe-China relations in 2024**. You can find the assessments of Rebecca Arcesati, Nicolas Bequelin, Friedolin Strack, Abigaël Vasselier and Gunnar Wiegand [here](#).

## SHORT TAKES

### EU countries congratulate the Taiwanese electorate, not the DPP

Since DPP candidate Lai Ching-te won the Taiwanese presidential election on January 13, European countries have been slow to send out congratulatory messages. While representatives of Czechia and Lithuania explicitly congratulated the president-elect on his victory, other European member states only cautiously acknowledged the elections without mentioning who won. In a statement by the EEAS spokesperson, the European Union “welcomed” the elections, congratulating participants on engaging in a “democratic exercise”, while warning that the EU “opposes any unilateral attempt to change the status quo”. Italy, France and Germany put out vague statements emphasizing their adherence to the One China Policy and the importance of peace and stability in the region. Muted reactions from the Union and Europe's largest economies suggest fears of retaliation from China as trade tensions mount.

- EEAS: [Statement by Spokesperson on the elections](#)

- German Federal Foreign Office: [Statement on elections in Taiwan](#)
- Lithuanian Foreign Minister: [Twitter post on the elections](#)

### **Beijing claims arrest of alleged MI6 spy**

China's Ministry of State Security has reported the arrest of an alleged spy, a foreign national working as the head of a consulting firm. Chinese state media reported that the UK's MI6 established an "intelligence cooperative relationship" with the individual in 2015, instructing him to use his public identity to enter China and collect state secrets. This comes after a UK parliamentary researcher was arrested for allegedly spying for China and an investigation found that Chinese spies had paid a Belgian lawmaker to influence political discussions in Europe. This is also the latest move in China's crackdown on foreign consulting firms, which previously hit Capvision, Mitz Group and Bain.

- New York Times: [China Says It Detained a Foreign Consultant for Spying for Britain](#)
- Global Times: [Ministry of State Security reveals UK'S MI6 using foreign consultant for espionage targeting China](#)

### **China paid Belgian politician to help its agenda**

A scandal has broken out in Belgium as an investigation uncovered that a lawmaker from the far-right Vlaams Belang party, Frank Creyelman, had been recruited as an intelligence asset by China's Ministry of State Security. Over a period of three years Creyelman was reportedly paid to influence political discussions in Europe on topics including human rights violations in Xinjiang and the suppression of democracy in Hong Kong, a joint investigation by the Financial Times, Der Spiegel and Le Monde found. Creyelman has been expelled from his party, but has so far not been prosecuted. Belgian Prime Minister De Croo responded by emphasizing the importance of respecting each other's political systems "without interference" during his visit to Beijing in early January.

- Financial Times: [Chinese spies recruited European politician in operation to divide west](#)
- Politico: [Belgium's PM to China: Respect our political system — 'without interference'](#)

### **BYD announces its first European car factory in Hungary**

Chinese electric vehicle producer BYD has announced that it will build its first European car factory in Hungary, where it already makes electric buses. 2023 was particularly busy for the company, as it overtook Tesla as the world's top-selling EV producer in Q4. Now looking to expand its European base, BYD is increasing the number of dealerships and plants in what appears to be an effort to boost sales and win the support of governments. This announcement will add to European concerns over the "flood" of Chinese EVs entering the market and their impact on European car makers.

- BYD: [BYD to build a new energy passenger vehicle factory in Hungary](#)
- AP: [China's BYD to build its first European electric vehicle factory in Hungary](#)

### **EU announces EUR 902 million in State aid to Northvolt**

The European Commission has approved EUR 902 million in German State aid to Swedish battery producer Northvolt to build a new electric vehicle battery plant in the country. The grant is the first to be allocated under a new EU mechanism which allows member states to provide more funding to companies that have been offered generous subsidies abroad. Northvolt had considered moving the factory to the US due to higher subsidies made available through US President Biden's Inflation Reduction Act until the EU approved the German aid match. The move comes as trade tensions over foreign subsidies increase, with the Union suggesting it will do more to keep firms on the continent.

- European Commission: [EUR 902 million German State aid measure to support Northvolt](#)
- Bloomberg: [EU lures Northvolt away from US with EUR 902 million German aid](#)

### **Beijing opens an anti-dumping case into French brandy**

On January 5, the Chinese Ministry of Commerce announced the opening of an anti-dumping investigation on "spirits made from distilled wine originating in the EU and imported into containers of less than 200 litres." According to the Chinese customs data, French exports make up for more than 99 percent of such flows into the mainland market. French liquor brands such Remy Cointreau and Pernod Ricard saw their stock value take a substantial hit following the announcement. The move looks seems to be a retaliation against Paris for being behind the EU investigation on subsidies for Chinese-made electric-vehicles, which was launched late last year by the Commission.

- PRC Ministry of Commerce: [商务部公告 2024 年第 1 号 关于对原产于欧盟的进口装入 200 升以下容器的蒸馏葡萄酒制得的烈性酒进行反倾销立案调查的公告](#)
- Politico: [Chinese liquor probe escalates trade tensions with Brussels](#)

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