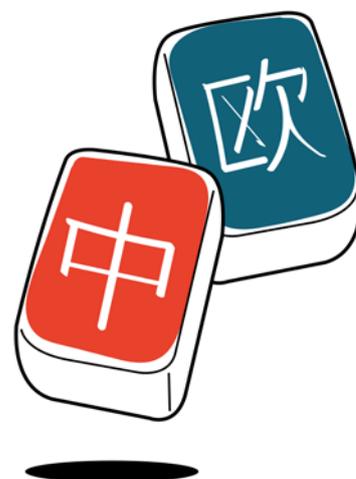


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MERICS

Europe China 360°



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ANALYSIS

What lies beneath - EU-China relations under Swedish presidency

On January 1, Sweden took over the rotating EU Council Presidency from Czechia. The issues linked to Russian aggression in Ukraine are set to dominate Sweden's term. But China policy will remain a topic of interest as it underpins several topics on the EU agenda.

Sweden on China

The Swedish [program](#) specifically lists "efforts for a clear, united and effective EU policy on China" as one of its objectives. The EU is calibrating its China policy, trying to develop tools to deal with a "strategic competitor" and at the same time keep a level of economic engagement that does not create strategic vulnerabilities. Stockholm plans to work on increasing information sharing, consensus building and solidarity among EU member states, referencing the EU's Indo-Pacific Strategy in that context. Coordinating the EU's position ahead of the EU-China summit – likely to take place during the Swedish Presidency – will be a test of those efforts.

More broadly, Stockholm is likely to advocate an assertive approach. Sweden-China relations have been turbulent over the past few years between the ongoing case of the detention of Swedish citizen Gui Minhai, the explicit exclusion of Huawei from Swedish telecommunication infrastructure and tensions over diplomatic incidents by former Ambassador Gui Congyou. Sweden's application to join NATO may also factor into Stockholm's calculation. With the US pressing for a tougher approach towards China within NATO, Stockholm may try to align more closely with Washington's position. The country's new Prime Minister Ulf Kristersson has a [history](#) to that regard, including critical remarks on Gui's detention.

EU-China relations - next six months

As of the beginning of 2023, EU-China relations appear to be entering a period of stabilization as diplomatic channels reopen and Beijing signals a softening of its tone. Late last year German Chancellor Scholz and European Council President Michel conducted high-level visits to Beijing, with French President Macron and Italian Prime Minister Meloni set to follow suit.

Beijing also appointed its new Ambassador to the EU, Fu Cong (see his profile below), who arrived in Brussels with a message of diplomatic re-engagement. However, the fragile stabilization between the EU and China could be tested by a plethora of challenges during the Swedish Presidency.

Geopolitical tensions

Beijing appears committed to maintaining its tacit support for Russia as exemplified by direct recent [exchanges](#) between the presidents of the two countries. In a recent [interview](#), Ambassador Fu attempted to frame Russia's invasion as an issue external to EU-China relations. It is doubtful that such rhetoric will convince many in Brussels.

Tensions also persist in the Taiwan Strait. Over the last month, the People's Liberation Army carried out [two large scale military exercises](#) and [sent](#) 16 planes and three warships to pass in vicinity of Taiwan shortly after a visit of a US trade delegation to Taipei. Such increasing displays of force could push the Swedish EU Presidency to advocate for more deterrence efforts. Especially as there may be more room for coordinated action with like-minded partners, with the Japanese G7 Presidency likely to promote joint statements on security in the Indo-Pacific.

Dependencies

With China opening up again after the end of the Zero-Covid policy, questions of European businesses' exposure to the Chinese market have re-emerged. Zero-Covid had led businesses, especially small and medium enterprises, to questioning their investments in China. If the economy picks up, those questions may recede along with the support for EU strategy to reduce economic vulnerabilities.

The end of Zero-Covid also highlights the issue of energy dependency for Europeans. China's energy consumption is likely to pick up in 2023. The country might have to use rather than sell any excess liquid natural gas (LNG) reserves it has. Seven percent of Europe's gas import for the first half of 2022 came from China. In 2023, the EU may not be able to count as much on imported LNG from China.

The WTO

The EU is going ahead with [the WTO case](#) against China for trade restrictions imposed on Lithuania. A request to establish two panels to deal with the case was rejected by China. The EU now looks set to advance the request once more, in which case it will automatically go through. A decision is, however, unlikely to be reached in 2023.

Furthermore, while China has introduced restrictions against Japan and South Korea as a response to both countries introducing measures for individuals travelling into their countries, it has not done the same against European countries who introduced similar measures. This is likely the result of the decrease in travel from China to Europe in the short-term, but it could also be a sign of China's commitment to improving its relationship with the EU.

CAI

China's new Ambassador to the EU has put his money on the ratification of the Comprehensive Agreement on Investment (CAI). However, for the European Parliament, CAI's ratification remains conditional to the lifting of China's sanctions against Europeans. It seems that for China a lifting of sanctions would require the EU to remove sanctions linked to the violation of human rights in Xinjiang. That would require the situation in Xinjiang has improved, and there has not yet been any reliable evidence of that.

The Swedish presidency of the Council will, in the months to come, have to deal with the consequences of China's reopening. There will be a push for re-engagement by China. Yet, many of the issues that have burdened the relationship between the EU and China in the past years have not disappeared and will re-emerge throughout 2023.

Read more:

- Swedish Presidency: [The Swedish Presidency programme](#)

RECOMMENDED READING

China's precarious path forward

Unbridled power in the hands of Xi Jinping, underlying pressures economic and social, and unpredictable policies in any number of fields – the level of uncertainty about China in the year ahead has never been higher than in this fourth edition of our **MERICS China Forecast**.

We solicited the views of 880 China experts and non-expert members of the public with an interest in the country. Their responses don't make for optimistic reading. Our survey suggests the country's course is most unpredictable – except that it will continue to stand by Moscow and accept the fraying of EU-China economic relations.

Read the analysis of the key results by MERICS Senior Analyst **Roderick Kefferpütz**.

- MERICS: [China's precarious path forward – insights from the MERICS China Forecast 2023](#)

MERICS EU-CHINA OPINION POOL

Calibrating interdependence with China

In this MERICS' EU-China Opinion Pool, MERICS Analyst **Grzegorz Stec** has put the question of “**How should the EU proceed in calibrating interdependence with China?**” to the following experts:

- **Jörg Wuttke**, President of the European Union Chamber of Commerce in China
- **Luisa Santos**, Deputy Director General at Business Europe
- **Friedolin Strack**, Head of International Markets Department at BDI
- **Jürgen Matthes**, Head of Global and Regional Markets Research Unit at the German Economic Institute
- **François Chimits** and **Francesca Ghiretti**, Analysts at MERICS

Read here – [MERICS EU-China Opinion Pool: Calibrating interdependence with China](#)

PROFILE

Fu Cong - China's new Ambassador to the EU

Fu Cong, Beijing's new top representative in Brussels is on a mission to improve EU-China relations – at least on the surface. Over the last month Fu organized a flurry of meetings with European counterparts to reopen diplomatic channels with a message that “China is back and ready to talk to Brussels”. Fu seems to have been tasked with changing the perception of Beijing in the heart of the EU after close to a year of ambassadorial absence, since his predecessor Zhang Ming left the position in December 2021.

The new ambassador wants to shift the dynamics in EU-China relations, and that is not an easy task. All the hurdles that have strained the relationship over the last two years – from matters of unequal market access, through concerns over human rights violations in Xinjiang and Hong Kong, through China's economic coercion towards Lithuania to geopolitical tensions in the Taiwan Strait and China's tacit support for Russia – have neither been resolved, nor lost their validity.

Multilateral diplomacy veteran

Fu Cong is a career diplomat with extensive experience working in multilateral institutions and specifically in Europe. He spent over 15 years working as a PRC representative to United Nations structures in Geneva and Vienna, holding positions of Deputy Permanent Representative to the UN, Ambassador Extraordinary and Plenipotentiary for Disarmament Affairs. He also spent over a decade working on the topic of arms control within UN structures and in the headquarters as Director-General of the Department of Arms Control.

With his fluency in English and personal communication style, Fu makes for an approachable interlocutor to his European counterparts - compared to the wolf-warrior diplomatic style of some of his colleagues. Yet it remains to be seen whether Fu will have the ability to independently negotiate with EU counterparts or still be constrained by the need to defer to his superiors.

Old wine in new bottles?

Fu is on a busy schedule. Since presenting his accreditation documents to President Charles Michel in mid-December, the Ambassador has offered a few long media interviews and met with a range of EU and NATO representatives.

It appears that Fu offers new rhetoric, but no significant changes in Beijing's position. One key proposal seems to be an offer of bringing the Comprehensive Agreement on Investment out of the political freezer by simultaneously lifting sanctions exchanged between the EU and China in 2021. But this seems politically unfeasible as the underlying reason for EU sanctions, the human rights situation in Xinjiang, does not appear to have fundamentally changed. In a similar vein, Fu pushes back on criticism over China's position vis-à-vis Russia, arguing that it does not concern EU-China relations. Still, he keeps signaling hope to achieve progress on “practical cooperation on the ground” with “tangible results”. What that means in practice remains to be seen.

Wider strategy

Fu's work prepares the ground for Wang Yi's visit next month to Germany and Belgium – his first visit to Europe in his new role as the Director of the Central Foreign Affairs Commission. Will concrete and acceptable proposals from the Chinese side follow in the months to come? For now, it is more likely that, facing domestic challenges and an unstable geoeconomic environment, Beijing shifts rhetoric to weather the storms, but it will stay the course.

Read more:

- Mission of the PRC to the EU: [Transcript of Ambassador Fu Cong's Interview with the South China Morning Post](#)
- CGTN [Video]: [Looking Ahead 2023: Exclusive with Head of the Chinese Mission to the EU](#)
- Politico: [China's top diplomat plans European tour to thaw relations](#)

SHORT TAKES

Ursula von der Leyen announces Green Deal Industrial Plan at Davos

The plan that would facilitate a pooling of EU-wide projects and subsidize green sector industries comes as a response to China and the United States' state-funded measures to beef up their position in the green industries. Speaking at Davos Forum, von der Leyen criticized China for its excessive use of subsidies, labor dumping and regulatory arbitrage paired with limiting access to its domestic green tech market. Still, the President also called for the EU to seek “de-risking” rather than decoupling from the Chinese market.

- France24: [Davos forum: EU unveils clean tech plan amid competition from US and China](#)
- Reuters: [EU must seek to de-risk rather than decouple from China, von der Leyen says](#)

EU and NATO mention China for the first-time in a joint declaration

The fifth of 14 points from a January 10 declaration includes the following statement: “We live in an era of growing strategic competition. China's growing assertiveness and policies present challenges that we need to address”. The document has been promptly criticized by Beijing.

European Council: [Joint Declaration on EU-NATO Cooperation, 10 January 2023](#)

France and Italy strengthen security ties with Japan to address China

The announcements were made during Japanese Prime Minister Fumio Kishida's trip to Europe, when he met with President Emmanuel Macron and Prime Minister Giorgia Meloni. France and Japan are set to cooperate more closely on security in the Indo-Pacific, implicitly in the context of China's attempts to change the status quo in the East and South China Sea. Italy and Japan elevated their ties to "strategic partnership" and plan to launch a foreign-defense 2+2 consultation format this year. Japan, which holds the G7 presidency this year, may seek to engage more EU actors in a similar way.

- RFI: [Japan, France to reinforce security cooperation in Asia-Pacific region](#)
- The Diplomat: [Why and How Italy and Japan Are Upgrading Their Partnership](#)

China overtakes Germany as second-largest car exporter

China's exports jumped over 50 percent year-on-year to 3.11 million vehicles in 2022, making China second only to Japan. Many exported cars are produced by European companies based in China, with many planning to expand their operations to target China's domestic market. The commitment of German business to the Chinese market is also evident in recent position papers by the Asia-Pacific Committee, the German Chamber of Commerce Abroad in Beijing (AHK) and the Association of German Plant and Mechanical Engineering Manufacturers (VDMA). They can be summarized as: diversification yes, decoupling no.

- SCMP: [China closes gap with Japan after 2022 car exports surpass Germany with 54.4 per cent surge to 3.11 million vehicles](#)
- Reuters: [Volkswagen relishes competition in Chinese EV market](#)
- Handelsblatt [DE]: [Debate about German China strategy makes economy nervous](#)

The Netherlands mulls restricting export of semiconductor tech to China

The measure would be a result of an agreement prepared together with Japan and the United States. The export restrictions may already be finalized in the coming weeks. In parallel, the Dutch industry group FME urged the European Commission to draft a proposal of a more unified European position on semiconductor related exports to China.

- BNR [NL]: [The Netherlands and Japan close to a deal with the US about chip exports to China](#)
- Reuters: [Dutch tech industry urges EU to take a stand on China chip exports](#)

Sweden's discovery of rare earths doesn't change dependence on China

Swedish mining company LKAB has discovered 1 million tons of the resource, the largest rare earths deposit in Europe. The discovery sparked interest given that 98 percent of the EU's rare earths supply comes from China. Yet, it does not change the fact that it will take between 10 – 15 years before the excavation could begin. The EU still lacks the rare earths processing capacity, which remains China's forte.

- Euractiv: [Sweden announces discovery of Europe's biggest deposit of rare earth metals](#)

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