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Partners, rivals and something in between

From trade to climate, EU-China relations are facing a stress test. Yet joint solutions are urgently needed

The leaders of China and the EU had so much going for them when they met to celebrate the 50th anniversary of their diplomatic relations. After all, the second and third largest economies in the world have a lot in common. Their economies are closely intertwined and mutually dependent. Europe obtains around 70 per cent of its critical raw materials from China, and China's export-oriented economy needs the European market more than ever. US President Donald Trump's erratic policies pose similar problems to Beijing and Brussels. Furthermore, the common problems of humanity – from climate change through global health to sustainable development – can be solved only together.

But despite all the photo opportunities and warm words, the summit was dominated by a sense of gloom rather than celebration. It was preceded by a long period of European-Chinese estrangement in the wake of the Covid-19 pandemic and Russia's invasion of Ukraine. Brussels sees China's continuing close relations with Russia and support for the Russian war economy as every bit as controversial as overproduction in China's heavily state-subsidised economy and the export restrictions on critical raw materials imposed also on European buyers under the aegis of the trade war with the USA.

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The Chinese, meanwhile, feel somewhat let down but continue to talk of the EU as a 'strategic partner'. As far as Beijing is concerned, it's all just a big misunderstanding. Chinese dominance in world markets is the result of innovative and competitive companies, while export restrictions are by no means peculiar to China, but in line with international norms. They reject the idea that they are directly supporting Russia's war effort against Ukraine and point instead to the effects of Western

support for Kyiv: it's not enough to be decisive, and so it's just dragging the whole thing out. Europe has been advised to step up its 'strategic autonomy' from big brother in Washington. In Brussels, however, this goes hand in hand with reducing its one-sided dependencies on China.

In the weeks leading up to the Beijing summit, expectations were scaled back even further. The state of EU-Chinese relations can best be illustrated by head of state and party boss Xi Jinping's participation in May in the Moscow parade marking victory in the Great Patriotic War against the Nazis; Chinese Foreign Minister Wang Yi's fruitless trip to Europe in early July; and the deadlocked negotiations on EU retaliatory tariffs on Chinese electric cars. European Commission President Ursula von der Leyen recently spoke out in criticism of the distortion of global markets by Chinese overcapacity, the use of critical raw materials as a geopolitical weapon and China's 'pro-Russian neutrality' in the Ukraine war. Xi responded in kind by turning down an invitation to Brussels and leaving open his participation in the Beijing summit right until the last minute.

It is thus scarcely surprising that the serious differences affecting bilateral relations were still in place after the summit. The summit's most evident achievement was a joint climate declaration. Both sides are committed to actively assuming global leadership on the issue. The EU and China outlined specific areas of future cooperation, including accelerating the expansion of renewable energies, targeted support for climate-friendly technologies, linking CO_2 emissions markets and improved access to clean technologies, especially for developing countries.

The 64 000 dollar question, however, is not so much what's in the summit closing document, but the development of EU-China relations in the medium and long term. The EU's threefold China strategy from 2019 still stands as a blueprint. It characterises China's role as partner, competitor and systemic rival and, against the background of a volatile geopolitical situation, offers a pragmatic analytical framework for recalibrating relations. The biggest upside of this triad is that it takes full account of the unavoidable paradoxes in relations, allowing for a flexible policy response and the formulation of the EU's own strategic interests. But this also means that reducing EU-Chinese relations to only one aspect, whether it be partnership or systemic rivalry, is totally inadequate.

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Systemic rivalry with China is all too evident. The People's Republic represents more than a rival political system and centralised market

dependence on China as quickly and comprehensively as possible.

governance. Beijing also has different ideas on the international order, challenging Western-dominated institutions and advocating as an alternative to the US-led global order a vaguely defined multipolarity based on deliberately blurred rules in which China plays a central role.

China's presence as an economic competitor is inescapable. China's innovative and state-supported companies in key and future industries – such as the automobile industry, artificial intelligence and green technologies – are aggressively securing market share not only in China, but also in the European market and global third markets. China's successful industrial policy poses an existential challenge to Europe's industrial base. However, at best, the EU-China summit has brought about some minor improvements, such as Beijing's commitment to improve communications when it comes to export approvals for critical raw materials or the fundamental recognition that China has an overcapacity problem.

Clearly, Europe needs to reduce its economic dependence on China as quickly and comprehensively as possible. This requires building cooperation with partners who share the same values and up-and-coming economies, and making more strategic use of the biggest single market in the world. It is also clear, however, that Europe and China remain mutually dependent when it comes to creating prosperity and jobs. For EU-China relations, this means that trade and industrial policy cannot be an end in themselves, but should aim at fair competition with clearly defined rules.

'The colour of EU-Chinese cooperation is green'

On a positive note, the joint summit declaration shows that China, even in difficult times, can and wants to be a partner, in particular with regard to climate change. After the withdrawal of the Trump White House from international climate negotiations, all eyes in the Global South are on China and the EU. Together, they need to breathe new life into international climate diplomacy. To this end, they require ambitious domestic targets for greenhouse gas emissions and need to help the rest of the world in fighting climate change and tackling its consequences. The international community should therefore rejoice that 'the colour of EU-Chinese cooperation is green', as the joint declaration puts it. However, that is true only to a limited extent. Although the joint declaration on

climate cooperation can be seen as a positive sign, it remains largely symbolic, its contents vague and non-binding. It will turn out only in September whether and how the announced voluntary commitments to cut emissions by 2035 will be realised, and whether the fine words will be followed by deeds.

China's lead is growing relentlessly every month.

The fact that China and the EU are both pioneers and thus also competitors in the transition to clean energy and industry complicates things even further. Fair competition between the EU and China could lead to a well-functioning division of labour with regard to clean technologies. However, the geopolitical weather is highly unfavourable, especially in terms of Europe's position, sandwiched between the two rival great powers. Brussels is vulnerable in two respects. China has rare earths and key technologies, while the United States has security policy and LNG deliveries. Under these circumstances, Europe will find it hard to assert its own interests, especially because Washington is demanding European support for its hardline policy on China.

This precarious position is to some extent self-inflicted. For two decades now, China has been pursuing a consistent strategy in which industrial policy, climate goals and geopolitical interests are closely intertwined. Europe should have responded earlier and more decisively. It's futile to make a fuss about Chinese subsidies and overcapacity. Trade policy measures are no panacea, either. They would pay dividends only alongside a smart, long-term-oriented industrial policy. But instead of going all out to invest in clean technologies, Europe is currently debating whether to roll back climate measures already adopted and to put the brakes on the expansion of renewables and clean tech.

It is difficult to avoid the view that the EU remains oblivious to the seriousness of the situation. China's lead is growing relentlessly every month. Europe finally needs to come up with a coherent strategy that systematically combines research, market incentives and industrial production for clean technologies. To that end, it can learn a lot from China's formula of patents plus scaling plus exports. That way, in future, it will be able to negotiate from a position of strength on a range of partnerships, not least on climate policy.



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