



## DISCUSSION PAPER

### Post-covid-19: what should we expect from EU-China relations?



\*This Discussion Paper was written by **Maddalena Testa** | 4 May 2020



Rue de la Science 14, 1040 Brussels



[office@vocaleurope.eu](mailto:office@vocaleurope.eu)



+ 32 02 588 00 14

## VOCAL EUROPE

RUE DE LA SCIENCE 14B, 1040 BRUSSELS

TEL: +32 02 588 00 14

VOCALEUROPE.EU



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## Introduction: Overview on EU-China relations

The European Union and China have developed diplomatic relations since 1975 and sealed their economic ties in 1985 with the signing of the EC-China Trade and Cooperation Agreement<sup>1</sup>. From the 1990s, the two actors formed burgeoning trade and economic cooperation<sup>2</sup>. Their relationship has deepened in a wider range of areas since 2003, with the creation of the EU-China Comprehensive Strategic Partnership, whose policy was meant to increase the interdependence between the two actors beyond investment and trade and address jointly some of the most pressing global political and security challenges.

In fact, China's participation and support has been crucial for securing the Joint Comprehensive Plan of Action for Iran and ensuring its effective implementation<sup>3</sup>. Moreover, the EU coordinated in concert with China counter-piracy operations off the Horn of Africa as well as in the Gulf of Aden, improving the security of shipping<sup>4</sup>.

However, when it comes to maritime claims and human rights the relationship between these two actors cracks. China's claim for representation on Arctic matters and its refusal to accept the binding arbitration rulings under the United Nations Convention on the Law of the Sea (UNCLOS) – concerning Chinese maritime claims over the South China Sea because of “historic rights” under customary international law<sup>5</sup> – undermines the international legal order as well as sea-lanes of communication crucial to the economic interests of the Union<sup>6</sup>.

In addition, the EU-China dialogues aimed at fostering not only human rights but also democratic values such as rule of law and freedom of speech and expression produced inconsistent results<sup>7</sup>. The EU is particularly concerned about the establishment of detention camps in the province of Xinjiang, in China, with the purpose of re-educating “up to 1 million Uyghurs, Kazakhs and other predominantly Muslim ethnic groups”<sup>8</sup> that are considered a threat to Chinese national security.

Despite the amount of evidence and documents confirming the abuses and inequalities, China denies access to journalists and independent observer in the region and refuses to provide information requested by EU member states, the UN, the United States Congress and other international actors<sup>9</sup>, insisting that Xinjiang is an “internal affair” and, therefore, foreign governments or international bodies are not allowed to interfere<sup>10</sup>.

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<sup>1</sup> [https://www.cairn-int.info/article-E\\_POEU\\_039\\_0158--the-issue-of-identity-in-the-eu-china.htm](https://www.cairn-int.info/article-E_POEU_039_0158--the-issue-of-identity-in-the-eu-china.htm)

<sup>2</sup> Ibid.

<sup>3</sup> <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

<sup>4</sup> Ibid.

<sup>5</sup> <https://www.ft.com/content/1ab003c8-5790-11e9-91f9-b6515a54c5b1>

<sup>6</sup> <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

<sup>7</sup> <https://isdpr.eu/publication/china-and-the-eu-strategic-partners-no-more/>

<sup>8</sup> <https://www.politico.eu/article/europe-real-test-china-human-rights/>

<sup>9</sup> <https://www.politico.eu/article/europe-real-test-china-human-rights/>

<sup>10</sup> <https://isdpr.eu/publication/china-and-the-eu-strategic-partners-no-more/>

## POST-COVID-19: WHAT SHOULD WE EXPECT FROM EU-CHINA RELATIONS?

In the last decade, the context of the relations between the EU and China has dramatically changed<sup>11</sup>. The EU has become China's largest trading partner, while China is the Union's main source of imports and the second largest export market<sup>12</sup>. The economic downturn triggered by the 2008 financial crisis that affected the European economies favoured a more symmetric relationship with China whose economic development and growth was rising rapidly.

Chinese investments were welcomed as a source of financial capital, means of growth, market opportunities, employment, tax revenues, and infrastructure development by those European economies which were still recovering from the Eurozone crisis<sup>13</sup>. As a result, the interdependence in economic and political relations between all EU member states and China have deepened. However, EU member states' diverging interests and views concerning China's presence in their economies undermined the possibility of a well-coordinated European approach<sup>14</sup>.

China's investment strategies in Europe are diversified according to the three areas: west, east and south according to their differences in geographic location, institutional framework, economic wealth, and technological advancement. In Western Europe, where the wealthiest and largest member states attract greater investments, Chinese investors focus on strategic assets as well as research and development networks.

In Central and Eastern Europe, China is leading the "17+1", a forum aiming at creating a platform for bolstering China's relations with countries of Central and Eastern Europe (CEE). Although China's investments in the region still constitute a relatively small percentage with respect to the core EU countries, Beijing is lured by the strategic geographic position of the region as it perfectly matches China's objectives to build a transportation network connecting Europe and Asia through the Belt and Road Initiative as well as to increase capital expansion throughout Europe.<sup>15</sup>

In Western Europe, such forum is perceived as an attempt by Beijing to undermine the European integration process, as 12 are EU member states (Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Croatia, Slovenia and Greece), four are EU candidate countries (Serbia, Montenegro, Albania and North Macedonia) and one (Bosnia and Herzegovina) is a potential candidate<sup>16</sup>.

In Southern Europe, instead, the repercussions of the economic crisis acted as a leverage for stimulating Chinese investments in both large-scale privatization process and post-crisis restructuring<sup>17</sup>. Italy, once China acquired Pirelli in 2015 – one of the world's major car tire manufacturer – became the top destination of Chinese FDI<sup>18</sup>. In Greece, instead, COSCO Holdings Company – a major Chinese state-owned enterprise – granted China with a shorter shipping route to

<sup>11</sup> [https://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/er/116848.pdf](https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/116848.pdf)

<sup>12</sup> <https://www.bruegel.org/2017/09/eu-china-economic-relations-to-2025-building-a-common-future/>

<sup>13</sup> <https://thediplomat.com/2019/03/mapping-chinas-investments-in-europe/>

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid

<sup>17</sup> <https://thediplomat.com/2019/03/mapping-chinas-investments-in-europe/>

<sup>18</sup> <https://www.china-briefing.com/news/chinese-fdi-eu-top-4-economies/>

reach Europe by acquiring 67 percent of the Piraeus port<sup>19</sup>. Another EU member state that became a key destination of Chinese FDI is Portugal, where Beijing invested in manifold strategic<sup>20</sup>.

The lack of a coherent EU approach face with Chinese ambitious economic and diplomatic power in the international arena leaves Europe in a vulnerable position. Beijing's growing economic clout is fostered not only by the divergent national interests among EU member states but also by the wave of Euroscepticism that characterises these past years. Such conditions fuel intra-European competition for primacy in relations with China which inevitably hinder a common policy approach as well as an effective leverage at EU level.

### **State of play: China's interests in Europe before and during covid-19 crisis**

In the last years, the world has witnessed an increasingly proactive China in both bilateral and multilateral diplomacy. Its economic and political clout have grown at an unprecedented pace, highlighting Chinese assertiveness to become a global leader. The absence of the United States in the international arena – as Trump Administration adopted the “America First” approach, which aims at resolving domestic problems and reducing the country's international burdens on global challenges such as trade, climate change, and poverty reduction – allowed China to bundle its foreign policy presence and foster its image as global leader by finding potential avenues for cooperation and investments.

In Europe, China's interest is increasingly expanding into new areas. China's foreign direct investment (FDI) in the EU rose by about “50 times in the last eight years, from less than \$840 million in 2008 to a record high of \$42 billion (35 billion euro) in 2016, according to Rhodium Group statistics.”<sup>21</sup>

European capitals have realised that there has been a shift in the balance of opportunities and challenges in their relations with China. Depending on the policy areas, the EU perceives China as a cooperation and negotiating partner, an economic competitor in the technology sector, as well as a systemic rival for what concerns fostering alternative models of governance<sup>22</sup>. Such strong political stance is expressed in the European Commission's strategic outlook on EU-China relations published on 12 March 2019.

While Beijing is increasingly becoming a key player in European affairs, European countries are struggling to strike a balance between core principles of economic openness and security concerns linked to the “perceived role of the Chinese state in the economy, the lack of reciprocity and fair competition, risk of losing national competitiveness and technological leadership, as well as more traditional security concerns related to critical infrastructure, strategic assets, and defence technologies”.<sup>23</sup>

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<sup>19</sup> Ibid

<sup>20</sup> Ibid

<sup>21</sup> <https://thediplomat.com/2019/03/mapping-chinas-investments-in-europe/>

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.



For the first time, the EU sharpened its position against China and it also reproached those member states, such as Italy, that aligned too closely to China's Belt and Road Initiative (BRI), aimed at fostering Chinese trade through an infrastructure project running across Asia and Europe<sup>24</sup>. Such a tougher position against the Chinese influence in European affairs was strongly supported by Germany: in fact, when China announced in 2015 to pursue its "Made in China 2025" – an industrial modernisation campaign aimed at fostering Chinese high-tech manufactures and reducing its dependence on foreign technology – industrial countries like Germany and South Korea saw it as a major threat to their economies<sup>25</sup>.

Facing this potential vulnerability, Berlin urged the EU to adjust its firm competition rules while "shielding its economic ecosystems from Chinese investments"<sup>26</sup> in order to ensure German national, economic as well as industrial interests.

The eagerness of Italy – an EU founding member, a NATO member, the third largest economy of the Eurozone and a member of G7 – to join the transcontinental project worried both the EU and the US, fearing a potential influence and interference of Beijing in European affairs. The memorandum of understanding (MoU)<sup>27</sup> was concluded during the state visit of the President of the Popular Republic of China to Italy at the end of March 2019, marking Italy as the first among the G7 members and the founders of the European Union to publicly commit to the BRI.

At that time, the Italian government was led by the coalition of the two populist parties, the 5 Star Movement and the Northern League. While, on the one hand, the Northern League was more sceptical about joining the Belt and Road Initiative, the 5 Star Movement, on the other hand, advocated the signing of the MoU – especially the former Vice-President Luigi Di Maio and the former Undersecretary of State for Economic Development, Michele Geraci – suggesting that the BRI will intensify trade relations between Italy and China, bolster Chinese investment, bring the Made in Italy back and, therefore, increase jobs<sup>28</sup>. The Chinese project, however, would touch on Italian vital interests such as infrastructures like railways and ports, telecommunications and development of 5G technology in the country, and even the possibility for China to take over Italian public debt<sup>29</sup>.

However, while the Italian government claimed that the deal with China will allow Italy to return to be a protagonist in the international arena, several political scientists, such as Aldo Giannuli, are convinced that the government developed ideas that never formed an overall strategy for its relations with China<sup>30</sup>. This can put Italy in a vulnerable position when negotiating with a fast-growing economic and geopolitical power like China. While the signing of the MoU benefited Chinese political propaganda, it only caused problems for Italy in its relations with the United States and some EU member states, which consider that the Italian unilateral decision towards the BRI could damage the image of the EU in maintaining a common front.

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<sup>24</sup> <https://www.politico.eu/article/eu-slams-china-as-systemic-rival-as-trade-tension-rises/>

<sup>25</sup> <https://www.ispionline.it/it/pubblicazione/bri-or-not-bri-europes-warring-member-states-22786>

<sup>26</sup> Ibid.

<sup>27</sup> <https://www.wired.it/attualita/politica/2019/03/19/nuova-via-setta-accordo-cina-divide-governo/>

<sup>28</sup> <https://www.ispionline.it/it/pubblicazione/bri-or-not-bri-europes-warring-member-states-22786>

<sup>29</sup> <https://www.wired.it/attualita/politica/2019/03/19/nuova-via-setta-accordo-cina-divide-governo/>

<sup>30</sup> <https://formiche.net/2019/03/ideuzze-improvvisazione-politica-estera-grillina-giannuli/>

The lack of a state's grand strategy together with the fickleness of the two Italian populist parties in power until 5 September 2019, which frequently changed their statements, actions, and opinions according to what they consider best to gain political consensus undermined Italy's credibility both at EU and international level. On the other hand, China has a grand strategy and knows more about Europe, and specifically about Italy, than the other way around. Knowledge gives advantage and promptness to seize opportunities. It is not surprising that China exploited the EU weaknesses during the COVID-19 outbreak for its global propaganda and self-promoting purposes. For years it has been driving wedges between EU member states in the perspective of "divide and conquer" strategy in order to weaken EU unity and boost Chinese political leverage.

When Europe became the epicentre of the coronavirus pandemic, China seized the opportunity to publicly committing to sending medical aid to the worst-hit European countries and, particularly, to those states where Beijing had strategic interests. For instance, it provided 800,000 masks to the Netherlands, state that was far from being one of the worst-hit states but, not by chance, the Dutch government launched the first 5G spectrum auction that will take place in June 2020 and, at the same time, it has to decide whether to exclude Huawei for its 5G networks in the light of the espionage allegations<sup>31</sup>. Chinese medical aid were also donated to Greece, an EU member state that openly supports China in Brussels and vetoes EU's condemnation of China's human rights record as well as those measures on trade and security that Beijing deems unfavourable for its interests<sup>32</sup>.

In the Western Balkans, both Russia and China contributed to disinformation campaigns surrounding the coronavirus crisis with the purpose of demonstrating "that the EU is weak and unable to demonstrate solidarity"<sup>33</sup>. China's coverage of the pandemic focused on showing display of gratitude by European leaders for receiving the medical aid and promoting the superiority of the Chinese model in addressing COVID-19. Serbia, especially, expressed its resentment for the absence of an European response and for restricting exports of medical equipment to the countries outside the bloc, claiming that the only state that helped was China. In response to the criticism, the EU announced, on 30 March 2020, that it will provide a €38 million aid package directed to the Western Balkans<sup>34</sup>.

European solidarity is at the centre of the battle of narratives during this pandemic. The lack of such solidarity has echoed both within and outside the Union, but nowhere hit harder than in Italy. When the EU member state was facing the darkest days at the beginning of the coronavirus crisis, the rest of the EU was preparing for their own crises. But wherever there is a vacuum there is usually China ready to fill it. Hence, not only Beijing widely publicised the delivery of urgent medical equipment and personnel to Italy but also the now Minister for Foreign Affairs Luigi di Maio praised the arrival of a planeload with doctors and medical supplies, appearing as a rebuke to the EU partners<sup>35</sup>. Di Maio linked the medical aid received from China to his strategic decision to sign the 2019 Memorandum of Understanding.

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<sup>31</sup> <https://foreignpolicy.com/2020/03/25/china-coronavirus-propaganda-weakens-western-democracies/>

<sup>32</sup> Ibid.

<sup>33</sup> <https://www.euractiv.com/section/eastern-europe/news/coronavirus-used-to-promote-anti-eu-narrative-in-balkans-report-finds/>

<sup>34</sup> Ibid.

<sup>35</sup> <https://www.politico.eu/article/italys-foreign-minister-hails-chinese-caronavirus-aid/>

The members of the PD party, the party forming the governing coalition together with the 5 Star Movement, strongly criticized Di Maio's enthusiasm and ingenuity in China's friendship with Italy, deeming it "embarrassing"<sup>36</sup>. They asked for greater balance and composure to the person in charge of the foreign affairs of a core EU member state, for a matter of geopolitical positioning.

In reality, the supplies coming from China were sent thanks to an agreement between the Chinese and Italian Red Cross – a customary practice between branches of the Red Cross – for reciprocating the help received from the Italian Red Cross when China was the epicentre of the pandemic<sup>37</sup>.

## Future prospects and recommendations

### *1. Future prospects: EU-china relations post covid-19*

Crises stress the weaknesses of a system. They can be a chance for change. This pandemic is going to shape the future of Europe: in the end, political leaders and public opinion will draw their conclusions on what system of governance excelled, what measures were effective, who helped and who hindered. What is and will be crucial from now on is a compelling strategic communication, something that the Union's lacked in the battle of narratives.

Chinese government managed to change its national image and shift people's focus, both internally and globally, from blaming China for the global pandemic and the way authorities mishandled in Wuhan and withheld information on the severity of the situation to believing that the China's governance system managed to suppress COVID-19 more effectively than Western countries, which now need and hail Chinese aid.

Although China may enhance its position in the short term, particularly among populist parties, it is unlikely that its efforts will lead to long-lasting improvements in its image in Europe. However, the EU should take a cue from China's assertive communication strategy and learn to communicate through the "power of timely visual story"<sup>38</sup>. The Union has the advantage that no other power has come up with better approaches so far by adopting exceptional measures to tackle the repercussions caused by the coronavirus. The EU has the chance to develop an "explicit fact-base counternarrative"<sup>39</sup>, whose effectiveness will influence the final outcome of the battle of narratives.

2020 was supposed to be a decisive year for EU-China relations. In April 2019, the EU finalised and investment screening mechanism aimed at forging a more effective, coherent and common EU approach for detecting and raising awareness on foreign and direct investment (FDI) from China in critical assets, infrastructure, and technologies<sup>40</sup>. The screening mechanism will enter into force in

<sup>36</sup> <https://www.lastampa.it/esteri/2020/03/25/news/aiuti-cinesi-lite-tra-pd-e-m5s-per-le-parole-di-luigi-di-maio-sbilanciato-no-ringrazia-tutti-1.38635468>

<sup>37</sup> <https://thediplomat.com/2020/03/china-italy-and-coronavirus-geopolitics-and-propaganda/>

<sup>38</sup> <https://www.euractiv.com/section/eastern-europe/news/coronavirus-used-to-promote-anti-eu-narrative-in-balkans-report-finds/>

<sup>39</sup> <https://carnegieendowment.org/2020/04/15/no-covid-19-isn-t-turning-europe-pro-china-yet-pub-81571>

<sup>40</sup> <https://carnegieendowment.org/2020/02/19/eu-and-china-in-2020-more-competition-ahead-pub-81096>



late 2020, and it will allow the EU to scrutinise foreign investments<sup>41</sup>. Moreover, 2020 would have been crucial for concluding the EU-China investment treaty, now more unlikely since negotiation rounds have been cancelled due to the coronavirus. Through this deal “the EU wants China to open up on key sectors, such as telecommunications, information and communication technology, health, financial services, and manufacturing”<sup>42</sup>. In addition, the Union wants Beijing to comply with international labour and environment conventions, to stop its forced technology transfer, to enhance transparency, ban discriminatory procedures as well as subsidies to state-owned enterprises<sup>43</sup>.

For what concerns the BRI, the pandemic has exposed the weaknesses and risks related to globalisation and global interconnectedness, this could hamper the continuation of the project. However, Beijing’s official rhetoric argues that the coronavirus will only temporarily impact the Belt and Road Initiative and that the transport corridors can be used for a “Health Silk Road”<sup>44</sup>. Nevertheless, the outbreak of COVID-19 has proven the risks of an excessive reliance on China, which may convince the international community to increase wariness when dealing with it.

## ***2. Recommendations: reducing the EU’s overdependence on China and building more resilient supply chains***

The pandemic stressed the European Union’s overdependence on imports of vital drugs coming from China and India<sup>45</sup>. The reason behind this dependence is that nowhere else can large quantities of active ingredients for antibiotics be produced so cheaply<sup>46</sup>.

An EU pharmaceutical strategy will be needed for the future in order to bring the market of generic drugs back to the EU and reduce its reliance on other countries, especially on China. Although a total autonomy of supply would be impossible, Brussels’ goal is to encourage industry and production within the EU but also to build supply chains based on diversification<sup>47</sup>.

Not only across the pharmaceutical but also the automotive, electronics, technology and consumer goods sectors almost all the supply chains have their source in China, representing the leading global provider of intermediate material and components<sup>48</sup>.

Plans to reduce supply chain overdependence on China were already existing, but the coronavirus might accelerate the process. The dependence exposed by the pandemic may offer manufacturers incentives to leave China and diversify their supply chains to countries like Vietnam, Cambodia and

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<sup>41</sup> Ibid.

<sup>42</sup> <https://www.euractiv.com/section/eu-china/opinion/2020-critical-year-for-eu-china-relations/>

<sup>43</sup> Ibid.

<sup>44</sup> <https://thediplomat.com/2020/04/the-belt-and-road-after-covid-19/>

<sup>45</sup> <https://www.ft.com/content/c30eb13a-f49e-4d42-b2a8-1c6f70bb4d55>

<sup>46</sup> <https://www.euractiv.com/section/health-consumers/news/europes-dependence-on-medicine-imports/>

<sup>47</sup> <https://www.bloomberg.com/news/articles/2020-04-21/china-s-coronavirus-diplomacy-has-finally-pushed-europe-too-far>

<sup>48</sup> <https://www.brinknews.com/coronavirus-global-supply-chain-reliance-china-manufacturers-economic-recession-risk/>

Ethiopia<sup>49</sup> or even Bangladesh, Turkey, and Brazil<sup>50</sup>. This could strengthen supply chains' resilience and mitigate supply shocks with a view to similar events in future.

## Conclusion

In the last years, the world has witnessed an increasingly proactive China in both bilateral and multilateral diplomacy. Its economic and political clout have grown at an unprecedented pace, highlighting Chinese assertiveness to become a global leader. European capitals have realised that there has been a shift in the balance of opportunities and challenges in their relations with China. While Beijing is increasingly becoming a key player in European affairs, European countries are struggling to strike a balance between core principles of economic openness and security concerns.

Both the EU and its member states have been confronted with challenges that have also emerged from China's proactive propaganda machine, which exposed the EU deficiencies. However, the pandemic is going to shape the future of Europe and can be a chance for the EU to correct weaknesses in its system such as those related to lack of coordination and of a strategic communication strategy to contrast disinformation.

Europe needs to act accordingly to the plurality of interests and concerns vis-à-vis China. Since no EU member state, not even the largest, can compete with the China's political, diplomatic and economic clout, the EU as a whole has to find a more effective and coherent approach to deal with this powerful actor.

Neither the EU or China can thrive without one another, therefore cutting the relations is not an option but the strategy can change: a more flexible and pragmatic approach at EU level is required to enable a "principled defence of interests and values"<sup>51</sup>. The Union should differentiate the tools of engagement with China according to the issues and policies at stake and exert more leverage in achieving its objectives by connecting different policy areas and sectors<sup>52</sup>.

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<sup>49</sup> Ibid.

<sup>50</sup> <https://www.cnbc.com/2020/04/21/supply-chains-will-move-away-from-china-after-coronavirus-mark-mobius.html>

<sup>51</sup> <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

<sup>52</sup> Ibid.

## VOCAL EUROPE

RUE DE LA SCIENCE 14B, 1040 BRUSSELS

TEL: +32 02 588 00 14

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