

Policy Paper

Pushed by the pandemic

Shaping Europe's changing geo-economic relations with China

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The coronavirus crisis accentuates many of the existing tensions in EU-China relations. While some see China's economic rebound as a main factor in Europe's own recovery, the crisis will also harden the country's adherence to a state-led development model, further reduce its willingness to level the playing field and intensify big power competition with the U.S. This policy paper argues that the EU should not overestimate its dependencies on China and take a robust stance in ongoing negotiations, for example regarding the Comprehensive Investment Agreement. Moreover, the EU should further strengthen its ability to counter the distorting effects of Chinese economic practices and step up efforts to shield itself from the negative repercussions of the geo-economic rivalry between China and the U.S.

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Introduction¹

The coronavirus crisis has put the issue of EU-China relations at the centre of European policy debates for at least two reasons. First, the pandemic has sharply accentuated existing ambiguities in those relations. The disruption of supply chains and political tensions surrounding China's management of the crisis have fuelled European concerns about becoming over-reliant on a "systemic rival"². At the same time, however, China is likely to be the only major economy reporting any growth in 2020, making it a key factor in Europe's recovery. Striking the right balance between economic dependence and independence, thus, seems to have become more important but also more complicated than ever before. Second, the outbreak of the virus has further escalated the geo-economic tensions between China and the United States (U.S.). As the repercussions of the Sino-American trade war, decoupling strategies and tech rivalries increasingly resonate throughout Europe, the crisis has also revealed that both China and the U.S. are using economic tools to advance their own geopolitical objectives. Given that Europe has little reason to believe that this will change fundamentally under a Biden administration, it underlines the need for the EU to build up its economic sovereignty.

As Josep Borrell, the EU High Representative for Foreign Affairs and Security Policy, put it: "in that context, we need to hold our nerve and frame our own EU approach"³. To inform such an approach, this policy paper maps how the pandemic has impacted the economic relations between China and the EU and how Europe is affected by Sino-American economic tensions. We then go on to discuss the political priorities that should guide a new EU geo-economic strategy.

We argue that the crisis could harden China's rigid adherence to a state-led development model, further reduce the People's Republic willingness to level the playing field and intensify big power competition between China and the U.S. By accentuating many of the long-term issues, the crisis, thus, highlights the need for a common European position and there is a growing consensus amongst member states that EU-China relations should be built on a more assertive promotion of European interests. This consensus now needs to be honed into action.

For one thing, the EU should not overestimate its dependencies on China. While the economic ties between China and the Europe have increased substantially in recent decades, dependencies are largely reciprocal and, with the exception of some key sectors, remain limited in scope. The EU can, therefore, afford to take a robust stance in ongoing negotiations, for example regarding the Comprehensive Investment Agreement. Moreover, the EU should further strengthen its ability to counter the distorting effects of Chinese economic practices and reduce its excessive reliance on Chinese inputs in selected supply chains. Finally, the EU needs to step up efforts to shield itself from the negative repercussions of the geo-economic rivalry between China and the U.S. This includes strengthening Europe's own footprint in key strategic sectors such as digital technology and the green economy but also reasserting European interests in the conflict by seeking better coordination with the U.S. and leveraging China's interest in a functioning rules-based international system.

"The EU can, therefore, afford to take a robust stance in ongoing negotiations, for example regarding the Comprehensive Investment Agreement."

¹ This paper draws on insights from an expert workshop held in the summer of 2020 as part of a workshop series on the economics of European sovereignty co-organised by the Policy Planning Unit of the German Federal Foreign Office and the Jacques Delors Centre. However, the paper reflects neither the position of the Federal Foreign Office, nor of any individual participant, but the opinion of the authors.

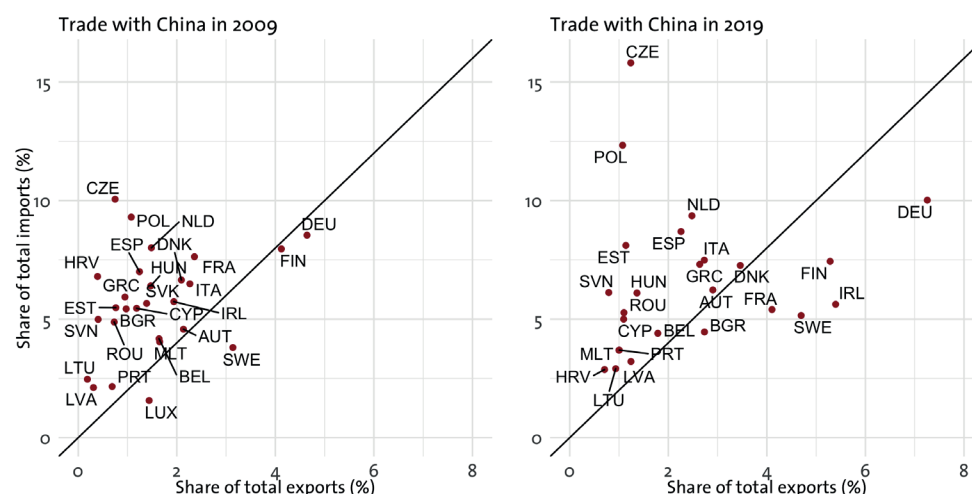
² European Commission (2020): EU-China – A strategic outlook, Brussels.

³ Borrell, Josep (2020): *China, the US and us*, Brussels.

1 EU-China relations – Structural economic trends before the pandemic

Already before the Covid-19 pandemic, economic relations between China and the EU were characterised by deep structural tensions. On the one hand, recent years have seen a massive increase in trade ties. Between 2009 and 2019, European imports from China increased by more than 130% while exports to China almost tripled (182%). The EU has become China's largest trade partner and the Chinese market is the second largest destination for EU goods after the U.S. While this increase was by no means uniform across the EU (see Figure 1), it has substantially heightened the economic stakes that many member states have in a functioning economic relationship with the People's Republic.⁴

Figure 1: Deepening of trade relations between China and the EU



Calculations based on Eurostat (2020)

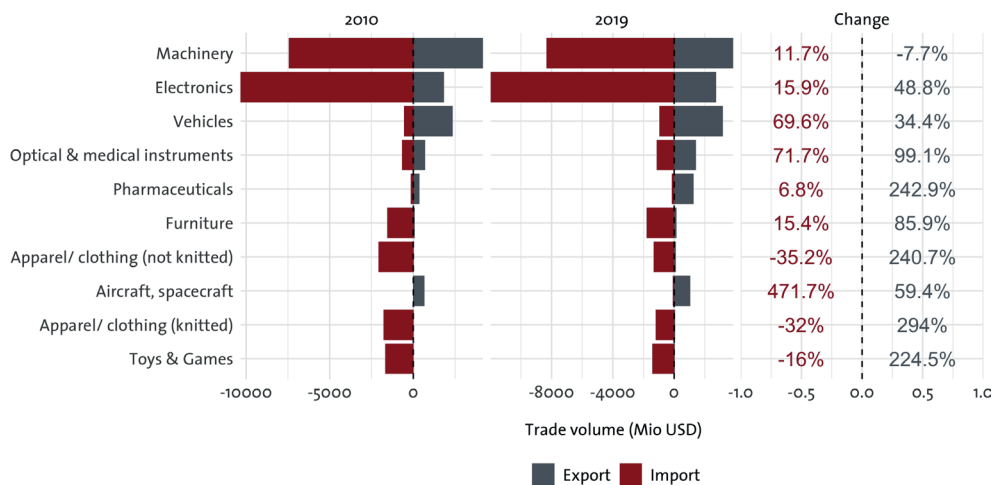
At the same time, however, this deepening of Sino-European economic ties has occurred against the backdrop of greater state control of the Chinese economy. After a period of liberalisation, the financial crisis of 2008 and, especially, the assumption of the presidency by Xi Jinping in 2012 have led China to reaffirm its adherence to a state-dominated growth model characterised by a strong reliance on state-owned enterprises (SOEs) (today, SOEs account for 30% of GDP and about 37% of all Chinese assets)⁵ and widespread government involvement in the private sector. On the one hand, the rapid state-led climb up the value-chain has led Chinese inputs to become a more integral part of European goods production. While dependency remains relatively small (ranging from 3% of gross output in Greece to 8% in the Netherlands), it has grown immensely over the last years and Chinese inputs are increasingly replacing intra-European supply chains.⁶

⁴ Esteban et. al (2020): *Europe in the Face of US-China Rivalry*, Madrid.

⁵ Zhang, Chunlin (2019): *How Much Do State-Owned Enterprises Contribute to China's GDP and Employment?*, World Bank, Washington, DC.

⁶ Gerschel, Elie et al. (2020): *Propagation of shocks in global value chains: the coronavirus case*, IPP Policy Brief, Number 53.

Figure 2: Changes in the most important European exports and imports from China.



Source: Calculations based on Comtrade (2020)

On the other hand, China's focus on indigenous innovation and national supply chains has enabled the country to produce many of the goods it used to import from the EU itself. Despite the massive increase in overall trade, European exports of manufacturing capital and machinery have fallen in the most recent decade and China is increasingly exporting high-value added goods such as optical and medical instruments or aircraft parts the EU (Figure 2). Overall, the share of value added by foreign inputs in China's exports has dropped by about 10% between 2006 and 2016.⁷

2 Key challenges in EU-China economic relations and how COVID-19 affects them

For many Europeans, these trends create a worrying picture. While the EU economy has become relatively more dependent on China, China seems increasingly willing to emancipate itself from European inputs.⁸ At the same time, Beijing's push towards high value-added production means that deep-pocketed, state-backed Chinese firms are gaining ground in sectors of keen European interest such as communication, transport and space. Conflicts have, therefore, arisen on three issues: how to ensure a level playing field in global competition, how to manage Europe's dependence on China in some key sectors and how to deal with China on issues concerning global economic governance. The pandemic is likely to heighten many of these.

2.1 Levelling the playing field in global competition

First, conflicts have emerged on the distortive effects of Chinese economic practices on competition. These practices include direct subsidies for SOEs as well as private Chinese firms. According to the latest available IMF data, subsidies to SOEs

⁷ OECD (2020), *Domestic value added in gross exports* (indicator).

⁸ Huotari, Mikko et. al (2020): *Towards a "principles first approach" in Europe's China policy – Drawing lessons from the Covid-19 crisis*, Merics Papers on China, No 9, September 2020.

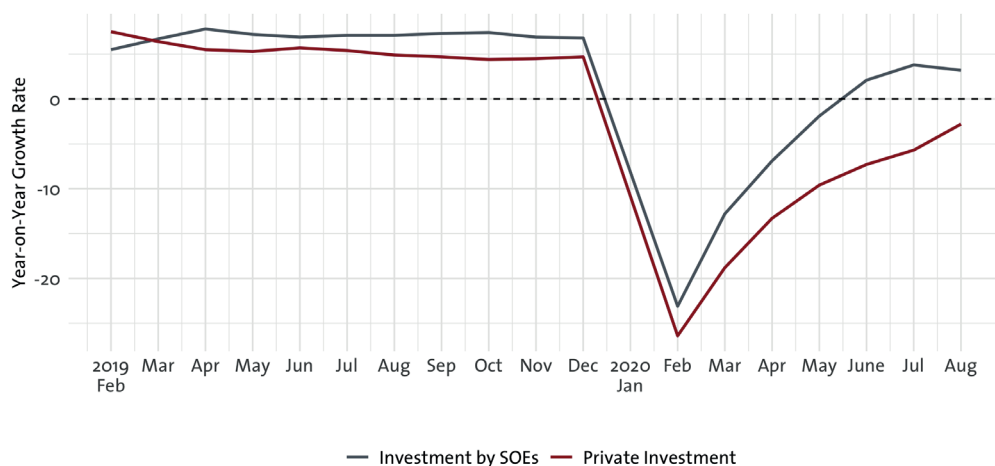
totalled about 3 percent of GDP⁹ in 2016 and while support for private companies is smaller, it still amounted to about 22.3bn USD in 2018.¹⁰ In addition, selected Chinese firms benefit from indirect subsidies ranging from lower interest payments via lighter tax burdens to under-priced state-supported inputs. They are also helped by the fact that the domestic market in many sectors still remains largely closed to foreign investors through quantitative restrictions and other barriers such as forced technology transfers and obligatory joint ventures.

In 2019, the EU made levelling the playing field between Chinese and European companies a key priority of its strategic outlook.¹¹ However, so far, there has been little progress. Despite regular Chinese pledges towards more marketisation, data on reform efforts shows that recent years have seen them backsliding on issues such as competition policies, the governance of SOEs and labour and environmental regulations.¹² Similarly, a recent survey from the European Chamber of Commerce in China shows that the number of European firms reporting an opening of Chinese market access in their sectors has stagnated for years.¹³

The pandemic is unlikely to make China change course. First, the Chinese government is currently relying heavily SOEs for its economic recovery. Figure 3 shows that much of the Chinese rebound since the spring has been driven by heavy investments by SOEs, which have ramped up spending on capital, infrastructure and production capacities. While private investment is also recovering, it still trails state-led investment by a significant margin.

“Much of the Chinese rebound since the spring has been driven by heavy investments by SOEs.”

Figure 3: Year-on-year growth rate of fixed asset investments in China



Source: Calculations based on NBS 2020

Besides the direct recovery, the lingering trade war with the U.S. and the rising political tensions between China and the EU seem to have reaffirmed Xi’s commitment to a strong state-led development model. In the crisis, the Chinese president has regularly stressed the need to maintain the “public economy as

⁹ Lam, Raphael et al. (2017): *Modernizing China: Investing in Soft Infrastructure*, International Monetary Fund, Washington D.C.

¹⁰ Lardy, Nicholas (2019): *The state strikes back: The end of economic reform in China?*, Peterson Institute for International Economics, Washington D.C.

¹¹ European Commission (2019): *EU-China – A strategic outlook*, Brussels.

¹² Rhodium Group (2020): *Tracking China’s Economic Reform Program*, New York.

¹³ European Union Chamber of Commerce (2020): *European Business in China Business Confidence Survey 2020*, Brussels.

the mainstay of the economy” and called for strengthening party leadership control over state firms.¹⁴ Accordingly, China’s next Five-Year Plan (2021–25),¹⁵ as well as future targets for 2035 are expected to continue to focus on state-led industrial upgrading and indigenous innovation. Much like Europe, China is seeing the current crisis as an opportunity to gear the recovery towards achieving leadership in strategic industries.¹⁶

2.2 Managing European economic dependencies on China

Second, the pandemic has reinforced debates about how best to manage the EU’s economic dependency on China. Even before the outbreak of the virus, many European policymakers were concerned that the EU has become too reliant on a systemic rival for both its own growth and for essential inputs into key supply chains.

However, recent months have also shown that both concerns should be qualified. For one thing, even before the pandemic, alarms about the EU’s general overdependency on China seemed overblown. Despite the massive extension of trade ties in recent years, China remains one amongst many trade partners of the EU. Even Germany – the member state with the biggest economic exposure to the People’s Republic – ships more than 92% of its exports to other parts of the world.¹⁷ The same goes for European foreign direct investment (FDI) in China. China still accounts for only about 2.3 % of the total European FDI stock and that number has largely stagnated since 2015.¹⁸ While for some specific sectors direct investments in China are hugely important – for example, in 2019 German car manufacturers for the first time produced more vehicles in China than at home¹⁹ – their overall relevance for the European economy, thus, remains quite tiny. Moreover, trade dependencies are largely mutual. The EU is a key export market for China, providing the People’s Republic with goods (e.g. semiconductor manufacturing equipment or specialized machinery and tools) that are essential for its industrial upgrading ambitions. Crucially, Chinese growth rates, in recent years, have started to converge towards (lower) OECD averages. The gold-rush mood that characterised much of the EU’s earlier perspective on the Chinese economy has, therefore, faded in recent years.

“Even before the pandemic, alarms about the EU’s general overdependency on China seemed overblown.”

China’s solid rebound from the current crisis is doing little to change this trend. Figure 4 shows that Beijing’s investment-oriented recovery strategy has led to a rapid expansion of industrial output which is only slowly pulling consumption along. China’s main weapon against the crisis is pushing on the supply side, with no concomitant boost to domestic demand. As a result, Chinese exports in August

¹⁴ Merics (2020): *Xi signals unshaken commitment to state’s role in Chinese economy*, China Briefing, Berlin.

¹⁵ Tang, Frank (2020): *China’s five-year plan to focus on independence as US decoupling threat grows*, Souther China Morning Post, May 24.

¹⁶ Huotari, Mikko et. al (2020): *Towards a “principles first approach” in Europe’s China policy – Drawing lessons from the Covid-19 crisis*, Merics Papers on China, No 9, September 2020.

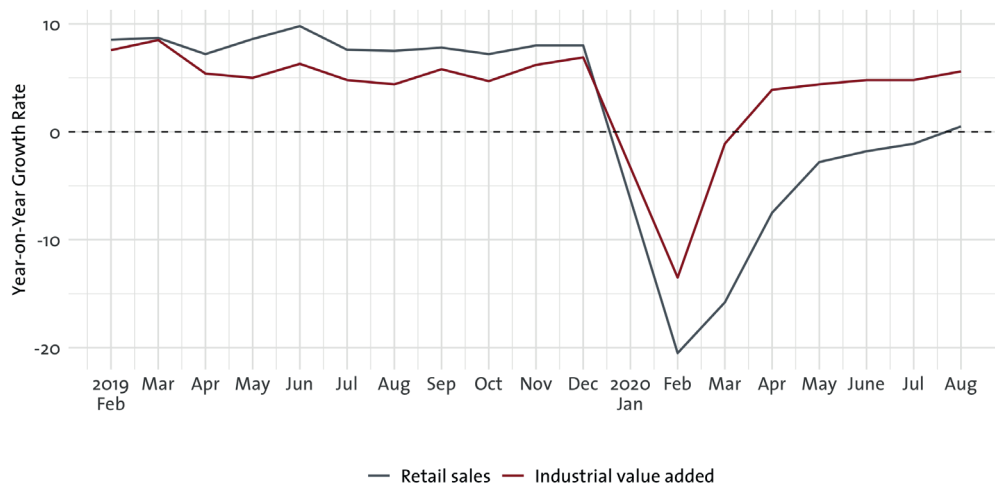
¹⁷ Calculations based on Comtrade (2020). These aggregate numbers, of course, do not account for the fact that some large individual European companies such as, for example, German automotive companies or the Dutch semiconductor equipment company ASM rely heavily on sales to China.

¹⁸ Eurostat (2020): *Foreign direct investment – stocks*. Dataset, Brussels.

¹⁹ Heymann, Eric (2020): *German auto industry: Output in China exceeds domestic production*, Deutsche Bank Research.

surged by 9.5% from a year earlier while its imports fell by 2.1%. The country is back to producing massive trade surpluses. Whether this makes for a sustainable strategy remains questionable. For the EU it mainly means that, despite the promising headline figures, European firms are unlikely to experience significant tailwind from Chinese demand.

Figure 4: Year on Year growth rate of Chinese retail sales and Industrial value added



Source: Calculations based on NBS 2020

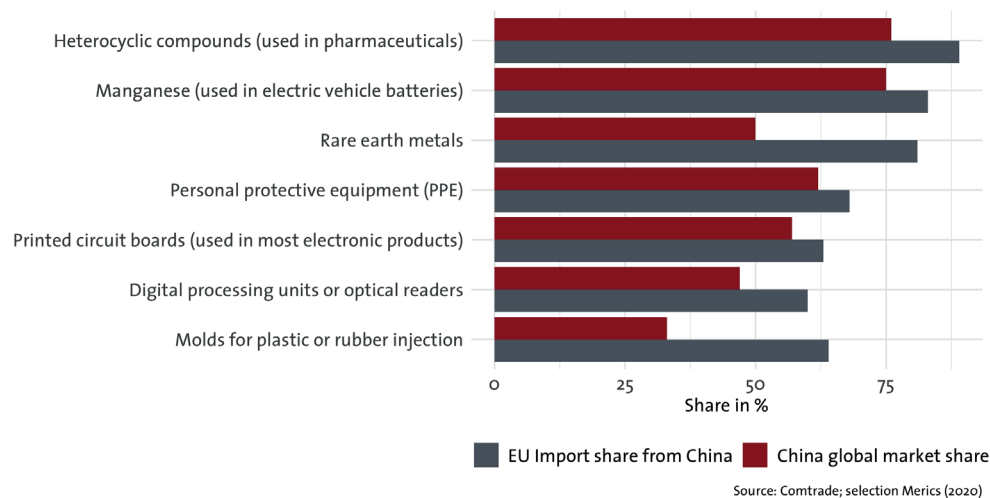
Concerns seems more warranted when it comes to some specific essential goods and inputs. During the COVID-19 outbreak, this was most obvious for medical supplies. For example, the EU currently sources almost 90% of its heterocyclic compounds, which are essential to produce many pharmaceuticals, and almost 70% of its personnel protective equipment (PPE) from China. Large dependencies also exist for other key inputs such as rare earth metals, chemical inputs into electric vehicle batteries and other elements of electronics manufacture (Figure 5).

The disruptions brought about by the pandemic have, therefore, fuelled debates on diversifying supply chains and reshoring output of essential goods on European soil. So far, these ambitions, however, remain largely political. Surveys from the European Chamber of Commerce in China show that only about 10% of European businesses are considering moving part of their production or planned investments away from China as most changes within supply chains would significantly increase production costs.²⁰ At the same time, the pandemic has also demonstrated some of the advantages of global sourcing. When European factories were forced to shut in lockdown, some Chinese firms were already able to resume production and pick up the slack, ensuring a continued supply of goods.²¹

²⁰ European Union Chamber of Commerce (2020): *European Business in China Business Confidence Survey 2020*, Brussels.

²¹ Huotari, Mikko et. al (2020): *Towards a “principles first approach” in Europe’s China policy – Drawing lessons from the Covid-19 crisis*, Merics Papers on China, No 9, September 2020.

Figure 5: European dependencies on key inputs



2.3 Dealing with China's role in global economic governance

Finally, the EU has made engaging with China to uphold the rules-based international system a priority in its 2019 Strategic Outlook. However, even pre-pandemic, China was an ambiguous partner in this pursuit. On the one hand, the People's Republic has become a member of a wide range of international organisations. At least formally, it tends to comply with most of the rules it has committed to and often presents itself as defender and promoter of a stable multilateral system.²² However, recent years have also shown that China often resists real constraints on its strategic interests and increasingly uses its diplomatic clout to create new quasi-multilateral frameworks for which the country alone determines the rules of the game such as the Belt and Road Initiative (BRI).²³

In the realm of economic governance this approach has become most apparent in the case of the World Trade Organisation (WTO). While China, of course, is not the only country that has weakened the functioning of the institution in recent years, it has played a major role. In contrast to, for example, the Trump administration, the People's Republic seldomly acts in open defiance of WTO rules and has almost always complied with the rulings of the dispute settlement body. At the same time, however, the practices of the Chinese development model often directly contradict the spirit of open and rules-based trade and, so far, the country has resisted some reforms that would improve the WTO's ability to enforce rules designed to reduce state interference, neutralise subsidies, protect IP rights or strengthen transparency and reciprocity. So, while China formally accepts multilateralism, in substance it often strategically undermines institutions it sees as dancing to the tune of Western interests and norms.

“The practices of the Chinese development model often directly contradict the spirit of open and rules-based trade.”

²² China's State Council Information Office (2018): *China and the World Trade Organization*, Beijing.

²³ Often and the Asian Infrastructure Investment Bank (AIIB) is listed in a similar context. The establishment of the AIIB reflects China's discontent with the existing international financing architecture and the Bretton Woods system. Although the United States opposed the AIIB, 14 EU Member States joined the new China-led bank as founding members. While the economic influence of the AIIB remains limited in scope, the momentum it has gained also symbolises China's growing role in global economic governance.

The pandemic has further complicated multilateral cooperation with China for the EU. For one thing, the crisis has underlined China's willingness to instrumentalise multilateral institutions, including the UN, to promote its positions and narratives – such as on the pandemic's origin and spread and China's role in combatting it. In this context, the EU has been especially annoyed by China's recent efforts at “mask diplomacy”, a strategy that, for example, included sending equipment and medical teams to Italy in an apparent active attempt to divide European unity in the crisis.²⁴ Finally, most analysts agree that China's relative success in reviving its economy via strong state intervention will lead Beijing to reinforce its rejection of any international rules that could restrain its development model in the future.

3 The Economic Costs of U.S.–China big power rivalry for the EU

Besides heightening structural rifts in the economic relations between China and the EU, the pandemic has also intensified the rivalry between China and the U.S. Growing economic tensions between the two superpowers are increasingly felt throughout Europe. For the EU this means it must invest heavily in shielding its economy from negative repercussions of the Sino-American conflict on a range of fronts.

3.1 The U.S.-China trade war and tariffs

First, the EU has been damaged by both the trade war between China and the U.S. and by its temporary resolution. To reduce the trade deficit with China and protect American producers, the Trump administration has imposed several rounds of tariffs on Chinese imports. U.S. protectionist measures have led to retaliatory tariffs by China. In 2019, the situation escalated into a U.S.-China trade war as average American tariffs on Chinese imports rose from 12% to 21%, and tariffs in the other direction rose from 17% to 21%. As the U.S. and China subsequently entered into trade negotiations, a so-called Phase One trade agreement was reached at the beginning of 2020 to pause the battle.

For the EU, both this trade war and its temporary resolution have been costly. While the direct effects of the new tariffs on goods passing between China and the U.S. have so far been contained for European businesses, most studies estimate that the uncertainties caused by trade conflicts have weighed on European business confidence and investments.²⁵ A 2019 survey by the European Chamber of Commerce in China, for example, found that two thirds of European companies were concerned about the conflict and about 15% of them had already delayed planned investment or expansion.²⁶ These uncertainties are especially problematic for European firms that produce in the US and export to China. For example, in 2018 German car exports from the US to China fell by almost 40%. Critically, these

²⁴ Koenig, Nicole; Stahl, Anna (2020): *How the coronavirus pandemic affects the EU's geopolitical agenda*, Jacques Delors Centre, Policy Paper.

²⁵ Gunnella, Vanessa; Quaglietti, Lucia (2019): *The economic implications of rising protectionism: a euro area and global perspective*, ECB Economic Bulletin, Issue 3/2019.

²⁶ European Union Chamber of Commerce (2020): *European Business in China Business Confidence Survey 2020*, Brussels.

uncertainties were not completely resolved by the Phase One agreement. As part of that deal, China pledged to import at least \$200 billion more in U.S. goods and services by 2021. These additional imports must come from somewhere and it is highly likely that Europe will suffer from some trade diversion as a result.²⁷ The pandemic could make things worse. The recession has led to a 5% drop in Chinese imports from the U.S. in the first half of 2020. If China still wants to reach the target set out under Phase One, it will have to compensate for this drop or else risk renewed tariffs. Neither would be a good outcome for the EU.

3.2 Export controls and sanctions

Second, the EU is also affected by the rise of U.S. export controls and sanctions on China. Especially in the tech sector, Chinese and U.S. producers are increasingly barred from using each other's inputs. In 2019, the U.S., for example, issued an export ban on the Chinese technology firm Huawei, stating that it has been involved in activities contrary to the national security or foreign interest of the U.S.²⁸ In May this year, the U.S. government further tightened sanctions on Huawei, prohibiting companies operating outside the U.S. from using American-made designs or inputs to produce the semiconductors that Huawei needs for its smart phones and tablets and in September the US put new restrictions on exports to Semiconductor Manufacturing International Corporation, China's most advanced maker of computer chips.

For the EU, the rise in unilateral and uncoordinated U.S. export bans and sanctions produces a range of costs. In the short term, it may lead to rising costs and blockages of technologies Europe now largely imports from China. In the case of the 5G rollout in Europe, some already expect a substantial delay in those European states that still rely on Chinese inputs. Moreover, unilateral U.S. export bans and sanctions produce difficult hurdles, especially for companies in advanced technology producing countries such as France, Germany, or the Netherlands. In these countries, firms are often deeply involved in both Chinese and U.S. supply chains and are, thus, increasingly exposed to secondary sanctions.²⁹ The most important costs for the EU, however, are likely to emerge in the longer run. Many expect that the escalation of sanctions and counter-sanctions between the two superpowers could lead to a divergence of spheres of influence, especially in the tech sector but also in trade relations more generally. For the EU this might imply having to choose between who they want to do business with.

“Many expect that the escalation of sanctions and counter-sanctions between the two superpowers could lead to a divergence of spheres of influence.”

²⁷ Feenstra, Robert; Hong, Chang (2020): *China's import demand for agricultural products: The impact of the Phase One trade agreement*, VoxEu.

²⁸ US Industry and Security Bureau (2019): *Addition of Entities to the Entity List*, Washington D.C.

²⁹ Merics (2020): *Export controls and the US-China tech war: Policy challenges for Europe*, China Monitor.

4 Implications for European sovereignty: what next in EU-China relations?

The pandemic has hardened many of the issues shaping the EU's difficult relations with China over a prolonged period. By accentuating these, it has also highlighted the need for common European action. In many ways, recent tensions have been a sobering experience for EU member states and there is a growing consensus that a more assertive common European position towards China is needed.³⁰ This consensus now needs to be honed into action.

4.1 Define common European priorities and insist on strong rules for a level-playing field with China

First, single European member states need to define a set of common European priorities regarding China while the EU should be more confident in defending them in its negotiations with China. With its big internal market, the EU is economically in a strong position to do so. Despite the massive increase in trade ties, the EU's direct dependencies remain limited. China's solid rebound from the downturn is a stabilizing factor for the international economy, but unlikely to offer massive returns for European firms. Economically, China remains one of many partners for the EU and should be approached as such.

This, for example, means that the EU should insist on a strong and reciprocal Comprehensive Investment Agreement (CAI) with China. The agreement, designed to regulate subsidies and enhance market access for European firms, was set to be concluded this year. The fact that little progress has been made in recent months underlines that the economic crisis has not increased China's appetite for marketisation. However, the EU should favour a substantive deal over any weak deal since any negotiated outcome is likely to lock in the rules for some time to come. Similar guidelines apply to other negotiations such as ongoing attempts to reform WTO rules in ways that better equip that body to deal with the issue of indirect subsidies and investment restrictions. Advancing the EU's interest in these forums will be crucial for EU-China relations and should be prioritised.

4.2 Strengthen trade defence, reduce specific dependencies, and boost the EU industrial strategy

The economic crisis is likely, that said, to hamper progress in these negotiations in the short run. As a second key priority, the EU should, therefore, strengthen its own economic capabilities and better link them to its geopolitical agenda regarding China. This includes strengthening the EU's toolbox on trade defence by ensuring that the new FDI screening mechanism becomes operational in all member states and actioning the Commission's 2020 White Paper on foreign subsidies. Moreover, the EU should oversee a careful reduction of vulnerabilities in key value chains. While economic interdependence with China is neither one-sided nor harmful in and of itself, some specific dependencies should be addressed. In some cases,

³⁰ Oertel, Janka (2020): *The new China consensus: How Europe is growing wary of Beijing*, European Council on Foreign Relations, Policy Brief.

such as rare earth metals and electronic inputs, this may include a policy-induced push for diversification. In other durable goods that rely on cheap labour costs, like medical equipment, stockpiling seems more warranted. Finally, in the long run, however, harmful dependencies can only be avoided through a robust EU-wide industrial policy that would make for a stronger footprint in strategic sectors, for example, by seriously stepping up public support for European ecosystems in technologies such as 5G, semiconductors, hydrogen and the cloud. The recovery should be leveraged to deliver on this goal, especially in sectors that promise both strategic autonomy and jobs growth.

“The recovery should be leveraged to deliver on this goal, especially in sectors that promise both strategic autonomy and jobs growth.”

4.3 Seek flexible coalitions based on the transatlantic relationship

Finally, the EU should remain flexible on how to promote its own geo-economic interests towards China on the international stage. In many instances, such as levelling the economic playing field and reducing the impact of Chinese distortive practices, EU and U.S. interests with regards to the People’s Republic remain aligned. The EU should, therefore, seek better transatlantic coordination of policies towards China, especially under the incoming Biden administration. At the same time, the EU should continue to ramp up Sino-European cooperation on topics of mutual interest. For example, both are interested in developing a vaccine against Covid-19 that would be available as a global public good and in fighting climate change. European Commission President von der Leyen has cited climate change and the implementation of the EU’s “Green Deal” as the most pressing issue for her term in office. At the same time, the Chinese leadership has introduced the concept of “ecological civilization” and signed the international Paris Agreement, from which the U.S. has withdrawn (perhaps temporarily). This could provide a basis for practical cooperation with China in building an effective global CO2 Emissions Trading Scheme (ETS).

Conclusion

The Covid-19 crisis is accentuating many of the issues that have shaped EU-China relations for a very long time; it is likely to harden the great power rivalry between China and the U.S. The EU should take this as a call for action to enhance European economic sovereignty. It should develop a strong common European position towards the People’s Republic, insist on strict rules for a level playing field, ramp up its unilateral trade defence capacities and reduce overdependencies in a limited numbers of targeted supply chains. At the same time, the current crisis also shows that economic interdependencies are neither one-sided nor problematic in and of themselves. In order to position itself as a geo-economic player on the world stage, the overriding goal of the EU should, therefore, be to operate from a position of strength to keep China at the negotiating table.

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