

# Status and Prospects of EU–China Relations



Jorge Toledo Albiñana

## Introduction

From the establishment of diplomatic relations in 1975, to the 2003 commitment for a comprehensive strategic partnership, to the European Council Conclusions on China of June 2023, the balance of challenges and opportunities in the EU–China relationship has shifted over time. Recently, the EU’s China policy has been experiencing a period of recalibration, of reassessment and redefinition, to reflect changes in China and on the global stage.

At the European Council meeting at the end of June 2023, the European Union Heads of State and Government reaffirmed the EU’s multifaceted policy approach towards China that was first adopted in the March 2019 in the “EU-China: A strategic Outlook” document, where China is simultaneously a partner, a competitor and a systemic rival. At the Council, the EU leaders underlined that *“despite their different political and economic systems, the European Union and China have a shared interest in pursuing constructive and stable relations, anchored in respect for the rules-based international order, balanced engagement and reciprocity.”*

This strategic discussion took place after an intense spring, filled with numerous high-level interactions between European and Chinese interlocutors following the post-pandemic reopening of China’s borders in early 2023. After three years where China had shut itself off from the world, in-person meetings could finally take place again. For the first time in three years, it was possible to break the bubbles that the restrictions had created.

Even if flights had not returned to pre-pandemic levels, Europeans could start experiencing China again, and Chinese could now come to Europe. Returning visitors from both sides may have found that they had arrived in a different place compared to

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Ambassador of the European Union to the People’s Republic of China.

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J. T. Albiñana (✉)  
Beijing, China

a few years ago. This is why the importance of resuming people-to-people exchanges cannot be emphasised enough. It is the only way for both sides to start bridging the gap between China and Europe that grew during the pandemic.

After three years, in-person high-level meetings and dialogues between EU and China resumed even before the end of the pandemic restrictions with the visit by the President of the European Council, Charles Michel, to Beijing on 1 December 2022 with European Commission President Ursula von der Leyen later visiting Beijing on 7 April 2023. As she had underlined in her speech on EU–China relations one week before her visit, how we manage our bilateral relationship with China will be a determining factor for our future economic prosperity and national security.

Official dialogues have also resumed. After a four year suspension, the EU–China Human Rights Dialogue resumed in Brussels on 27 February 2023. Executive Vice President of the European Commission, Frans Timmermans, visited Beijing from July 3rd to 5th and held the fourth High Level Dialogue on Climate and Environment. After the summer of 2023, High Level Dialogues on digital issues, on economy and trade, as well as the Strategic Dialogue between the High Representative of the European Union for Foreign Affairs/Vice President of the European Commission, Josep Borrell, with his Chinese counterpart are forthcoming. In addition, other dialogues on agriculture, circular economy, ocean affairs, energy, water, regional policy and other technical meetings and dialogues are already planned.

At the same time, we should have no illusions that these dialogues are being held in the same environment as before the pandemic. The world has changed enormously since then. For Europe, one of the most momentous changes is related to Russia's illegal and unjustified war of aggression against Ukraine. The EU has taken a number of unprecedented initiatives to support Ukraine in areas that were previously unthinkable. Ever since I began my role as European Union Ambassador to China in September 2022, one of my most urgent tasks has been to explain the profound impact Russia's illegal full-scale invasion of Ukraine has had on the EU as well as globally, but also why this war is so relevant to EU–China relations. For us in Europe, this is a fundamental, even existential, issue. When Russia launched its full-scale invasion against Ukraine in the early hours of 24 February 2022, right at the EU's borders, it reminded us Europeans of some of the worst episodes that unleashed World War II in Europe. This war goes against everything that the European Union—a peace project at its core—stands for.

Russia's illegal aggression has been condemned by over 140 UN member states, but unfortunately not by China. China has not recognised Ukraine's right under the UN Charter for self-defence in the face of such aggression. Instead, China continues to place an abstract concept of Russia's "legitimate security concerns" on par with the principles of the UN Charter. I am sometimes told that the roots of this "conflict" are complex, but the facts about the war are simple. We are faced with an aggressor that has invaded another sovereign country, and a victim whose internationally recognised borders have been assaulted and territories illegally occupied. The aggressor has even organised fake referenda in an attempt to illegally annex those territories! No "legitimate security concerns" can justify this. It is precisely

this kind of aggression that the United Nations was created to prevent, and represents a flagrant violation of the most basic principles of the UN Charter. This is why the European Union is helping Ukraine to defend itself and why we demand the withdrawal of the Russian troops from Ukrainian territory to completely restore its territorial integrity and sovereign independence. There is no doubt that Russia's war against Ukraine directly affects EU–China relations. From the European Union side, we have consistently cited China's particular responsibility, as a permanent member of the United Nations Security Council, to safeguard the principles and values that lie at the heart of the UN Charter. We also ask China to play a constructive role in advancing a just peace, based on upholding the sovereignty and territorial integrity of Ukraine. We closely monitor China's relationship with Russia, in particular vis-à-vis the Russian war machine. Our measures towards Russia, including sanctions, are aimed to limit Russia's capacity to wage this illegal war, and we attach great importance at preventing their circumvention.

Also in China, things are shifting. It is striking how much focus there now is in China on security and control, in an ever-expanding range of areas. China is also changing as an international actor, and we can see how China's extraordinary economic, technological, political and military rise over the last decades has led to new geopolitical adjustments and alignments. There is a growing perception by outside observers that this rise is no longer as "peaceful" as it used to be, especially in the Indo-Pacific region and particularly in the South China Sea. We also have concerns that China is trying to use its economic power and influence to reshape, reinterpret or even rewrite the international order—the same international order, based on effective multilateralism and international law, without which we would not have had the globalisation and development that both China and the European Union have benefitted so greatly from.

As the EU and China prepare for our various dialogues, we do so against the backdrop of a changed world. It is clear that we cannot go back in time, no matter how much we would wish to do so. As High Representative/Vice President Borrell so aptly pointed out in his blog in April this year: "*...the world has changed and so has China. The time of the "mondialisation heureuse" is over. The benefits of the economic integration are being re-evaluated through the lens of national security. We have to face the climate emergency, the consequences of the pandemic, and Russia's war of aggression against Ukraine. This war has fuelled shocks on supply chains, and a food and energy crisis. In this context, we believe that China must exercise more responsibility, also for security and peace. It cannot avoid this. If we want an international order where cooperation prevails over confrontation, everyone must fully exercise their responsibilities to ensure respect for international law.*"

At the same time, there is an imperative for the EU and China to work together on facing global challenges. The European Council reaffirmed that the EU will continue to engage with China to tackle global challenges and encouraged China to take more ambitious action on climate change and biodiversity, health and pandemic preparedness, food security, disaster reduction, debt relief and humanitarian assistance.

## EU–China Trade and Investment Relations

From a trade and investment point of view, the challenges facing China and its economic model have continued to grow, whilst problems related to market access/a level playing field remain and, in some sectors, have even worsened. Against increasing geopolitical tensions, there are growing concerns related to critical dependencies and economic coercion.

At the same time, the EU’s economic relationship with China continues to be consequential. In 2022, trade in goods reached EUR 856 billion, or EUR 2.3 billion in two way trade every day. EU Foreign Direct Investment into China amounted to EUR 8.1 billion in 2022, the lowest since 2018 (however, not far from the average of the last four years of EUR 8.5 billion). Most of the investments came from large companies that already have significant operations in China.

Globally, the “Open Strategic Autonomy,” announced in the EU Trade Policy review of 2021, drives EU’s trade and investment approach. It means that whilst we remain open to trade and investment, we need to be able to defend our interests in case other partners do not respect the multilateral rules. Being able to defend ourselves against illegal behaviour is necessary in order to maintain the openness of our economy, instead of resorting to protectionist policies. In a nutshell, we work with others whenever we can, and autonomously whenever we must.

With this background, we have been adopting several instruments that will help us defend our interests when we face trade distortions or unfair competition, such as the International Procurement Instrument (IPI) and the Foreign Subsidies Regulation, or the Anti-Coercion Instrument, on which a political agreement has recently been found. Our existing and new autonomous instruments, which are not country-specific, are to protect the EU’s interests when faced with economic coercion, trade distortions or unfair competition. In addition, the EU has advanced its diversification strategy by diversifying imports and by enhancing the resilience of supply chains.

Whilst we were busy working on our toolbox, two things happened that changed the situation dramatically: COVID and Russia’s aggression against Ukraine.

The pandemic caused disruptions in global supply chains, and the EU discovered that for a handful of critically important products, we depend too heavily on too few suppliers. Furthermore, Russia’s brutal invasion of Ukraine and its consequences also revealed the pitfalls of our energy dependency from Russia. China’s ambiguity about the war and the “no-limits partnership” with Russia also had a profound impact on the way Europe sees China.

Communication and meaningful bilateral engagement remain a necessary and important part of the EU–China relationship. Importantly, engagement works in parallel with our autonomous instruments. We wish to continue to develop our relations in areas where we have a mutual benefit, such as handling global challenges such as WTO reform and climate change. But we equally want to engage China to reset our relationship on the basis of transparency and predictability, setting fair terms and removing irritants to bilateral trade in areas in which there are no security

considerations; in certain cases, there is simply no alternative to China for European business.

Whilst EU channels of communication with China have indeed remained open—for example, through the visit of Commission President Ursula von der Leyen in April—unfortunately, tangible results have mostly not materialised. To safeguard its credibility, it is important that China deliver on its commitments. This applies in particular to economic and trade relations, where the EU and its Member States have long pending requests related to better market access and a level playing field for European companies with investments in China.

There is a clear lack of progress on market access, as witnessed by the EU Chamber’s position paper, which lists as many as 967 market access barriers in China. A growing number of barriers and measures disadvantage European companies, which are getting more cautious about bringing their money and business here because the regulatory environment lacks transparency. This is not good for China. If investment caps, unpredictable treatment and regulatory issues are pushing away investment, capital, goods, experience and skills from the Chinese economy—then businesses on both sides stand to lose.

Observers are therefore increasingly questioning whether the EU–China engagement can deliver concrete results, especially when political commitment, even at highest level, does not translate into regulatory action at technical level.

For instance, at the 2019 EU–China Summit, work on adherence to international standards and market access were highlighted as main areas of work and the parties resolved to achieve concrete results by the 2020 EU–China Summit. It was agreed to pay particular attention to recognise the animal disease regionalisation principle that would apply in case of animal disease outbreaks (for example, African Swine Fever in pigs or Highly Pathogenic Avian Influenza in poultry). Regionalisation would allow the export of pork and poultry and its products to continue without disruptions and this would lead to the expansion of mutual market access for food and agricultural products in a transparent and predictable manner. However, after the 2019 Summit, no progress was made. The 2022 High Level Economic and Trade Dialogue (HED) again agreed to prioritise progress on a regionalisation approach in particular for African Swine Fever. A technical working group on regionalisation has been set up—yet, as we prepare for the forthcoming High Level Economic Trade and Dialogue, we regret the lack of tangible results. We expect an EU–China agreement on regionalisation, nothing less, as we want our engagement to deliver.

Even in the services sector (financial services and beyond), where there have been a number of measures implemented since 2017 that have eased access on the part of international investors, markets remain firmly under the control of domestic companies in China. Almost all of them are state-owned, with international market shares being in the very low single digits. International investments are directed at small niches of the market with the explicit goal on the part of policy-makers to transfer knowledge and skills in due course and thus help develop the Chinese market and domestic companies.

China’s abrupt end to its COVID-zero policy at the end of 2022 and the reopening may lead to some revival in European FDI in China, as travel by company executives

is again possible. However, geopolitical tensions, China's weakened medium-term growth prospects and general politicisation of trade and economic relations have eroded business confidence. General perspectives do not look good in this respect, as witnessed by the results of the European Chamber's 2023 Business Confidence Survey.

Perhaps more importantly, the Chinese government has for a long time already put into place various measures and policies which have pushed decoupling from the rest of the world. China has used economic coercion to penalise trading partners over political disputes, as witnessed by Lithuania and Australia. The focus on national security and dual circulation, as well as the growing role of the State in the economy, are unlikely to disappear. The Chinese government can enact sudden policy changes that may disrupt supply chains, independently of whether the changes pose problems to third countries or foreign companies.

The end of the pandemic, also in China, now offers the prospect of further realising some of the potential that remained latent in recent years. For China's decision-makers, this year presents an important opportunity to show that China is serious about reform and opening up, that it is serious about addressing the concerns of foreign investors and that it is able to address the imbalances in its trade and investment relationship with its partners.

As President Ursula von der Leyen underscored, the European Union has no interest in decoupling from China. Nevertheless, it needs to de-risk. This approach clearly resonates as well with our international partners, as it was confirmed amongst the leaders of the G7 recently in Hiroshima in May this year, and later on by several others.

In order to reduce our economy's vulnerabilities to external shocks, on 20 June 2023, the European Commission and the High Representative published a Joint Communication on a European Economic Security Strategy. This Joint Communication focuses on minimising risks arising from certain economic flows in the context of increased geopolitical tensions and accelerated technological shifts, whilst preserving maximum levels of economic openness and dynamism.

The Strategy proposes to set up a framework for building a shared understanding of risks to the EU's economic security. It also aims to ensure the most effective and coordinated use of existing instruments to address those risks, be that at the EU, national or business level. In light of evolving risks, the EU also proposes to assess the effectiveness of existing tools and consider new measures that may be needed.

Our strategy rests on the following key pillars: promoting the EU's competitiveness; protecting against risks; and partnering with the broadest possible range of countries to address shared concerns and interests.

The fundamental principles of proportionality and precision continue to guide our work. Our response is to maximise the benefits of openness, whilst minimising vulnerabilities through a concerted EU approach to economic security.

The EU's Economic Security Strategy ultimately sets out a framework that could make each level and actor in the EU stronger and ensure that they can use their respective instruments more effectively. Any approach that the EU takes is rooted

in the rules-based international system, and any economic security action is in line with EU's international obligations, including the WTO rules.

In the context of EU–China trade and investment relations, it is important to repeatedly underscore that the intention behind de-risking is not by any means to stop trade and investment or to limit China's technological development. The EU intends to stay open for trade and investment but is also adamant on diversifying its sources of supply. Our positioning factors in the evolution of China's own policy response to the use of autonomous tools and unilateral actions, as well as its evolving economic interests.

## **Climate, Biodiversity and Environment**

When looking at EU–China engagement on climate, biodiversity and environment, China's contribution is key for achieving the Paris Agreement goals. With big economic power comes a great responsibility for the related emissions, too. China has seen tremendous economic growth in the past few decades. Its per capita emissions now exceed the EU's by a third. This is another reason why ambitious emission reductions in China are vital. China made remarkable progress in renewable energy already and may even surpass its own objectives. There is value in under promising and over delivering, but setting ambitious targets is important too: it inspires others to follow suit.

Throughout our dialogue with China on the environment and climate, we have been exploring avenues for collaboration in areas such as methane reduction, climate adaptation strategies, the circular economy, pollution control, biodiversity conservation, as well as combatting deforestation and wildlife trafficking. These have been the key issues that were addressed in the successful last edition, in-person for the first time in four years, of the High Level Climate and Environmental Dialogue that was held in Beijing at the beginning of July 2023 by Vice-Premier Ding and Executive European Commission Vice President Timmermans.

A major topic of EU–China discussion on climate is the Carbon Border Adjustment Mechanism (CBAM). It is important to underline that the EU's CBAM initiative is not at all a protectionist trade measure. It is exclusively a climate measure, the only aim of which is to avoid that Europe's strong efforts to reduce its own emissions do not lead to emissions being just moved ("carbon leakage") to other parts of the world. China is actually in a favourable situation as it already has in place an emissions trading system that, if extended to other important emitting economic sectors, would result in a CBAM exemption of Chinese exports to the EU.

## The Need for Dialogue

De-risking not only refers to aspects of economics and trade, but also to the need for an open and frank exchange between the EU and China. This is why we have set up several high-level dialogues—such as the one on economics and trade, on digital issues, environment and climate, as well as the Strategic Dialogue. We also have consultations in other areas, such as human rights, security and defense, and a number of sectoral dialogues. The EU is committed to a summit—but a summit with concrete deliverables.

The EU will never shy away from raising issues of concern. These are typically “systemic” issues like the respect for human rights as enshrined in international law and their universality and indivisibility, which are being challenged and reinterpreted by China. The EU remains firmly committed to the promotion of respect for human rights and fundamental freedoms. We continue to be seriously concerned about the human rights situation in China and particularly in regions like Xinjiang or Tibet, as well as about the recent developments in Hong Kong. However, we welcome the resumption of the bilateral Dialogue on Human Rights earlier this year.

As we look to the future of EU–China relations, the challenge before us is to embark in a constructive and constant dialogue to make our partnerships work to solve global issues, to create a level playing field for our companies to invest and trade with China and to manage our differences, all of it using dialogue as the instrument. This will serve the interests of the EU, China and the world. It is a sign of the maturity of our relations that we can engage in dialogue even on matters where we disagree, and my assumption is that both sides are aware of the responsibility we both have to manage our relations responsibly and for the greater good.





**Ambassador Jorge Toledo Albiñana** is a career diplomat from Spain. After taking his Degree in Law and entering the Diplomatic School in Spain, he joined the Spanish Foreign Service in 1989. Since then, except for three years in Senegal, where he was Ambassador of Spain from 2008 to 2011, his career has been devoted mostly to European Union Affairs. Amongst others, he was Spanish Secretary of State for the EU and European Affairs. In Asia, he has been posted to India and Japan before arriving to China in September 2022 as the Ambassador of the European Union. Ambassador Toledo strongly believes in the European integration and that only together can EU Member States have a meaningful relation and dialogue with a strong world power as China. He is married and has two children.

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