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Issue Brief

EU-China Relations amidst Covid Pandemic

Aditya Laxman Jakki

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S*ummary*

Public perception in the European Union (EU) has perceptibly changed against China due to its aggressive aid diplomacy and propaganda efforts during the pandemic. EU member states meanwhile have become vigilant vis-a-vis China's 5G telecom companies and have passed regulations restricting their market access. The EU has also become more vocal on Chinese actions in Hong Kong and the South China Sea, even as the region is working towards a common Indo-Pacific agenda.

Even as the Covid-19 pandemic has caused the worst global economic recession in decades, it has also accelerated some of the pre-existing geopolitical fault lines. The US and China, for instance, were already on an antagonistic path before the pandemic, over issues of trade, human rights violations in Xinjiang, and concerns over Chinese telecom companies like Huawei and ZTE. Similarly, the European Union (EU) and its member states share concerns vis-à-vis China over free-market concerns, aggressive Chinese aid diplomacy, allowing access to Chinese telecom companies in 5G services, the Indo-Pacific, among others. This Brief highlights key aspects of the EU-China contentions, as they played out during the pandemic.

EU-China Strategic Partnership

While the EU established diplomatic ties with China in 1975, both sides entered into a ‘Comprehensive Strategic Partnership’ in 2003.¹ This was after China acceded to the World Trade Organisation (WTO) in December 2001. Trade and investment relations have been the cornerstone of their strategic partnership over the years.

Table 1: EU-China Merchandise Trade Data (in billion Euros/€)

Year	2015	2016	2017	2018	2019
EU Imports	295.9	298.9	322.7	341.8	362
China Imports	145.6	153.4	178.8	188	198.3
Balance	150.4 (in favour of China)	145.5 (in favour of China)	143.9 (in favour of China)	153.9 (in favour of China)	163.7 (in favour of China)

Source: [Directorate-General for Trade](#), European Commission.

Table 2: EU-China Services Trade Data (in billion Euros/€)

	2015	2016	2017	2018
EU Imports	26.6	29.8	29.8	30
China Imports	38	38.6	41.5	46.6
Balance	11.5 (in favour of EU27)	8.8 (in favour of EU27)	11.7 (in favour of EU27)	16.7 (in favour of EU27)

Source: [Directorate-General for Trade](#), European Commission.

¹ [‘EU-China 2020 Strategic Agenda for Cooperation’](#), European External Action Service; [‘EU-China Summit: Joint Press Statement’](#), Embassy of the People's Republic of China in the United Kingdom, October 10, 2003.

Table 3: EU-China Foreign Direct Investment Data (FDI) (in billion Euros/€)

	2015	2016	2017	2018
Stock (total FDI accumulated till reported year) Into EU	40.8	46.7	58.1	59
Stock Out of EU	162	170.3	171.7	175.3
Balance	121.2 (from EU to China)	123.6 (from EU to China)	113.5 (from EU to China)	116.3 (from EU to China)
Flows (FDI only for the reported year) Into EU	8.5	8.8	5.5	5.7
Flows Out of EU	12.3	11.8	10.1	5.5
Balance	3.8 (From EU to China)	3 (From EU to China)	4.6 (From EU to China)	0.2 (From China to EU)

Source: [Directorate-General for Trade](#), European Commission.

In 2019, the merchandise trade between the two countries was about €560.3 billion, with €163.7 billion in favour of China (Table 1). Key EU key exports to China were agriculture products, food and raw materials, and chemicals, while key Chinese exports to the EU were machinery and transport equipment, textiles and clothing. While the merchandise trade deficit saw steady growth since 2015 in favour of China, with regards to services trade, the deficit has grown gradually in favour of the EU (Table 2). The total FDI flows into the EU from China saw a steady decline from €8.5 billion in 2015 to €5.7 billion in 2018 while FDI flows out of the EU into China also declined from €12.1 billion in 2015 to €5.5 billion in 2018 (Table 3).

The nearly two-decades-old strategic partnership, however, has not been confined to trade and investments. The ‘EU-China 2020 Strategic Agenda for Cooperation’, issued in 2013, for instance, highlighted climate change, sustainable development, ocean governance, nuclear non-proliferation, global peace and security, cybersecurity, WTO reform, and human rights dialogue, among others, as potential areas of cooperation.² The EU and China, along with other partners, worked together to achieve significant agreements like the 2015 Iran Nuclear Deal — also known as the Joint Comprehensive Plan of Action (JCPOA), and the Paris Climate Deal. It is

² [‘EU-China 2020 Strategic Agenda for Cooperation’](#), European External Action Service.

noteworthy to note that these two deals were achieved through a multilateral approach, which the EU prefers.

Growing discord within the partnership

Economic issues

Despite working closely for almost two decades, there is a growing divide between the two sides lately, spanning economic as well as political issues. The EU has in the recent past described China as ‘an economic competitor’ and a ‘systemic rival’.³ The EU has long expressed concerns vis-a-vis China over its non-transparent economic policies, fair market access for EU investments in China, dumping of goods (exporting goods way below market prices in the importing nation) by Chinese exporters, market distortions caused by the state subsidies and lack of protection offered to intellectual property rights of European products.⁴

With the growing might of the Chinese economy, concerns over these issues have risen proportionately. China’s attempts to lure economically vulnerable countries from Eastern and Southern Europe to their flagship infrastructure projects have caused further tensions. For instance, when Italy joined the Belt and Road Initiative (BRI) in 2019, West European countries expressed concern, given its worrying fiscal and debt situation that has the potential to impact the fundamentals of the whole Eurozone.⁵

The pandemic disrupted sustainable supply chains, which have led to increased calls for their diversification. The EU has been alarmed over shortages of several raw materials, including rare-earth metals, and excessive dependence on China for such materials critical for the EU’s ambitious renewable energy targets.⁶ The French-German deal in May 2020, which was reached to guide the EU through the economic and health crises due to the pandemic, highlighted the need for diversifying supply chains.⁷

The two countries, without naming China, have also called for strengthening screening mechanisms relating to investments in key strategic sectors. Given the worries that foreign companies, especially state-owned Chinese ones, might take advantage of the pandemic-induced economic difficulties to take over vulnerable European companies, the EU and some of its member states, such as France,

³ [‘EU-China relations’](#), European External Action Service, June 2020.

⁴ [‘Joint Communication to the European Parliament and the Council: Elements for a new EU strategy on China’](#), European External Action Service, June 22, 2016.

⁵ [‘Italy joins China's New Silk Road project’](#), BBC, March 23, 2019.

⁶ Michael Peel and Henry Sanderson, [‘EU sounds alarm on critical raw materials shortages’](#), *Financial Times*, August 31, 2020.

⁷ [‘A French-German Initiative for the European Recovery from the Coronavirus Crisis’](#), *Bundesregierung*, May 18, 2020.

Germany, Spain and Italy, have taken measures restricting non-EU investments in key strategic sectors, including healthcare. Such measures have also been taken by other major economies like the US, the UK, and India.⁸

In June 2020, China lost a four-year-long legal battle against the EU at WTO over gaining Market Economy Status (MES), which would mean Beijing will continue to be at a disadvantage on trade disputes.⁹

The EU is contemplating legislative proposals against market distortions caused due to subsidies by foreign governments. To this effect, the European Commission has called for a public consultation on the White Paper it adopted in June 2020.¹⁰ The White Paper highlighted three aspects of foreign subsidies-led distortions in the EU — general EU market (across the economic union), company acquisitions (targeting specific companies that are strategically crucial in their respective sectors), and procedures related to procurement for public projects.¹¹

After several rounds of negotiations, in a development that could ease their economic concerns, the EU and China reached a Comprehensive Agreement on Investment (CAI), on December 30, 2020.¹² The EU secured commitments from China on issues relating to the use of forced labour, greater market access for EU investors, transparency relating to subsidies, among others. The CAI has to be ratified by EU member states and the EU Parliament.

Chinese aid diplomacy and European perceptions

China has actively engaged with individual member states during the pandemic by offering PPE kits, masks, ventilators etc. Beijing has used its aggressive aid diplomacy as a propaganda tool, including to shrug off criticisms about the origins of the coronavirus.¹³ While it looked like Beijing was winning the propaganda narrative in the EU initially, the public opinion towards China has worsened eventually.¹⁴

⁸ Jeremy Kahn, '[The coronavirus pandemic's latest victim: Foreign investors](#)', *Fortune*, April 15, 2020; '[Government amends the extant FDI policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic](#)', Press Information Bureau, April 18, 2020.

⁹ Bryce Baschuk, '[China Loses Landmark WTO Dispute against EU](#)', *Bloomberg Quint*, June 16, 2020.

¹⁰ David Meyer, '[As Chinese state-backed firms eye overseas acquisitions, Europe considers new ways to block them](#)', *Fortune*, June 17, 2020; '[Commission adopts White Paper on foreign subsidies in the Single Market](#)', *European Commission*, June 17, 2020.

¹¹ '[Commission adopts White Paper on foreign subsidies in the Single Market](#)', *European Commission*.

¹² '[EU and China reach agreement in principle on investment](#)', *European Commission*, December 30, 2020.

¹³ Christian Lequesne and Earl Wang, '[Covid-19: Lessons from China's public diplomacy in the EU](#)', *The Conversation*, June 25, 2020.

¹⁴ Matthew Karnitschnig, '[China is winning the coronavirus propaganda war](#)', *Politico*, March 18, 2020.

A poll released by European Council on Foreign Relations (ECFR) in June 2020 revealed that compared to the pre-pandemic period, opinion of around 48 per cent EU respondents concerning China had worsened, while it stayed the same for 40 per cent.¹⁵ Over 11,000 respondents from nine EU member states — Germany, France, Italy, Spain, Denmark, Sweden, Portugal, Poland, and Bulgaria, participated in the ECFR poll. Even in Italy, where 25 per cent of the respondents replied that China was their biggest ally during the pandemic, for 37 per cent respondents, their opinion on China worsened.

A study by the German Marshall Fund (GMF) in June 2020 reported that around 58 per cent respondents from France and 61 per cent respondents from Germany had expressed cumulatively ‘very negative’ or ‘generally negative’ sentiment towards China’s rising influence; this was around 10 percentage points higher compared to the GMF’s previous poll in January 2020, pertaining to negative sentiments on Chinese influence.¹⁶

Concerns on 5G Tech and Chinese companies

Despite consistent US pressure on the EU to restrict market access of Chinese telecom companies, in January 2020, instead of an outright ban, the European Commission recommended mitigating prospective security risks by following measures like vendor diversification and exclusion of high-risk foreign 5G suppliers from key telecom assets.¹⁷ In Germany, the ruling political party, the Christian Democratic Union (CDU), backed a position paper recommending measures on similar lines as the EU, even as a significant group within the party was vying for an outright ban on Huawei.¹⁸ Germany is working on a new IT security bill which would make restrict Huawei's access to key German telecom infrastructure.¹⁹ France is working towards phase-wise non-renewal of licences to Huawei for 5G tech supply, which would amount to a de-facto ban of Huawei.²⁰

Further, a series of US administrative decisions against Huawei and ZTE, including measures on export controls and licensing restrictions on semiconductors involving the US technology, has made obtaining Chinese 5G technology expensive. It is to be noted that affordability was one of the key attractions of obtaining Huawei/5G tech

¹⁵ Ivan Krastev and Mark Leonard, [‘Europe’s pandemic politics: How the virus has changed the public’s worldview’](#), *ECFR*, June 24, 2020.

¹⁶ [‘Relations with China: Transatlantic Trends 2020’](#), *GMF*, June 30, 2020.

¹⁷ [‘Secure 5G networks: Commission endorses EU toolbox and sets out next steps’](#), *European Commission*, January 29, 2020.

¹⁸ Guy Chazan, [‘Germany’s CDU stops short of Huawei ban in 5G rollout’](#), *Financial Times*, February 12, 2020; Patrick Donahue, [‘Merkel Resists Full Ban on Huawei, Making Germany an Outlier’](#), *Bloomberg Quint*, September 23, 2020.

¹⁹ To Hoppe and Moritz Koch, [‘High hurdles for Huawei: “The procedure is equivalent to an exclusion”](#) (translated), *Handelsblatt*, September 20, 2020.

²⁰ [‘A Timeline on China-Related Tech Developments: The Backlash to Huawei’s Global 5G Expansion’](#), *Carnegie Endowment for International Peace*, July 22, 2020.

earlier. This has certainly made prospects of EU telecom companies going for local suppliers like Nokia and Ericsson, brighter. Even Italy and East European countries like Bulgaria and the Czech Republic are also following the same path in restricting Huawei/ZTE in their respective countries.²¹

Geo-political concerns

Hong Kong

It took the EU quite a while to raise issues concerning Beijing's aggressiveness in Hong Kong and the South China Sea, even though the writing has been on the wall for quite some time now. France, Germany and Finland are some of the EU member states that have joined the US, Britain, Australia, New Zealand, and Canada in suspending extradition treaties with Hong Kong as Beijing approved the new national security legislation giving itself more power concerning internal security oversight in Hong Kong.²²

The EU as a bloc announced measures relating to restrictions on export of technologies and equipment that may be used for 'internal repression, the interception of internal communications or cyber-surveillance'.²³ Germany on its part stated that it is going to treat Hong Kong in the same way as mainland China, in addition to banning exports of sensitive dual-use goods and certain military equipment.²⁴

Indo-Pacific

Key European nations have publicly enunciated their vision for the Indo-Pacific region. While the French were the first to outline their Indo-Pacific vision in 2018, Germany released its Indo-Pacific policy on September 1, 2020,²⁵ which was also the final day of the Chinese Foreign Minister Wang Yi's trip to Europe. Wang's trip was mired in controversy when German Foreign Minister Heiko Maas rebuked him for

²¹ Giuseppe Fonte and Elvira Pollina, '[Italy vetoes 5G deal between Fastweb and China's Huawei: sources](#)', *Reuters*, October 23, 2020; Gautam Chikermane, '[As Bulgaria, Kosovo, North Macedonia block Chinese equipment in their 5G networks, all eyes on India](#)', *ORF*, October 26, 2020; Gautam Chikermane, '[Czech Republic's CETIN does what the government couldn't: reject Huawei](#)', *ORF*, October 21, 2020.

²² '[Hong Kong suspends extradition agreements with France and Germany](#)', *France24*, August 12, 2020; Alekski Teivainen, '[Finland suspends extraditions to Hong Kong, prompting response from Beijing](#)', *Helsinki Times*, October 20, 2020; Ben Westcott, '[US suspends extradition treaty with Hong Kong due to concerns over city's eroding autonomy](#)', *CNN*, August 20, 2020.

²³ '[Council Conclusions on Hong Kong](#)', *Council of the European Union*, July 24, 2020.

²⁴ '[EU restricts exports to Hong Kong over China security law](#)', *DW*, July 28, 2020.

²⁵ '[Discours à Garden Island, base navale de Sydney](#)', *Elysee*, May 3, 2018; '[The Indo-Pacific region: a priority for France](#)', *France Diplomacy*; '["Germany-Europe-Asia: Shaping the 21st century together": The German Government adopts policy guidelines on the Indo-Pacific region](#)', *Federal Foreign Office*, September 1, 2020.

the latter's threat against Czech politician, Miloš Vystrčil, for visiting Taiwan.²⁶ Further, France announced a standalone Ambassador for the Indo-Pacific, outlining the country's seriousness towards the region.²⁷

Given its direct stakes in the region, France echoes the American approach towards the Indo-Pacific, by highlighting the challenges of balance of power and Chinese coercion in the region.²⁸ Both France and Germany emphasise rule of law, freedom of navigation and overflight, rules-based order, in sync with the agendas of the other Indo-Pacific stakeholders. France, Germany, along with the Netherlands, are also pushing for a common EU Indo-Pacific strategy.²⁹

Conclusion

Despite several grievances, the EU was relatively passive in its approach towards China, prior to the pandemic. However, the situation started to change due to the worsening public perception amidst aggressive Chinese aid diplomacy and propaganda efforts. EU member states have become vigilant vis-a-vis Beijing's 5G tech companies and have passed regulations restricting their market access. The EU has also become more vocal on Chinese actions in Hong Kong and the South China Sea, even as the region is working towards a common Indo-Pacific agenda.

²⁶ Matthew Karnitschnig, '[German foreign minister warns China against making threats \(sort of\)](#)', *Politico*, September 1, 2020.

²⁷ Eryk Bagshaw, '[France escalates China push, appoints ambassador for Indo-Pacific](#)', *The Sydney Morning Herald*, October 12, 2020.

²⁸ '[Discours à Garden Island, base navale de Sydney](#)'; Frederic Grare, '[France, the Other Indo-Pacific Power](#)', *Carnegie Endowment for International Peace*, October 21, 2020.

²⁹ Mathieu Duchâtel and Garima Mohan, '[Franco-German Divergences in the Indo-Pacific: The Risk of Strategic Dilution](#)', *Institut Montaigne*, October 30, 2020.

About the Authors

Aditya Laxman Jakki is Research Intern at the Manohar Parrikar Institute for Defence Studies and Analyses, New Delhi.

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