

# Derisking EU–China Relations

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## Summary

The EU is assembling its new approaches to economic security, which include reassessing its relations with an increasingly hostile China, building relations with its partners in the Indo-Pacific, and mitigating for any strategic shock that might stem from a possible conflict between China and a democratic coalition led by the US. In this context, the new European Commission needs to quickly deploy a series of interconnected policy initiatives and measures to ensure that the EU can protect its economic stability and security interests in the light of China's aggression.

**Keywords** China – De-risking – Taiwan – Indo-Pacific – Economic security – Export controls – EU – European Commission – European External Action Service – Taiwan Strait – International law

## Introduction

Since 2019 the EU has been using a three-pronged strategic approach to China: it has been viewed simultaneously as a partner, an economic competitor and a systemic rival. However, in the past two years, the Chinese government has decided to increase its hostility towards EU interests. China is pursuing an 'unlimited partnership' with Russia, which is perpetrating war crimes against Ukraine while enjoying significant material, political, informational and diplomatic support from China. China has been steadily increasing its disruptive actions against Taiwan and the Philippines, showing a lack of respect for international maritime law and the stability of maritime trade routes in East Asia, core EU interests. Chinese economic coercion and technological espionage against the EU member states have increased in recent years, despite the continuous efforts of the Union's diplomats and extensive EU–China trade. Similar to the EU's diplomatic efforts with regard to Russia between 2014 and 2022, the EU's appeasement and engagement policy towards China has failed. It is therefore time for a new paradigm in strategic-level EU–China relations.

The aim of the EU's de-risking policy is to ensure that China cannot coerce or damage the EU in a way that would prevent the Union from pursuing its own autonomous interests, such as stable regional trade in and with the East Asian region. Given its economic and technological interdependencies with East Asian countries such as Japan, South Korea and Taiwan, the EU has the ultimate reason to deter China from taking hostile or even military actions in East Asia: it could trigger an economic disaster for Europe.<sup>1</sup> The EU must therefore be free to make sovereign decisions, including on the development of possible sectoral sanctions packages and communicating its readiness to deploy these to the leadership of Chinese Communist Party should the Chinese breach the international law of the sea in East Asia. To be able to deliver such deterrents, the EU first needs to rapidly decrease its strategic economic and technological dependencies on the Chinese Communist Party by ensuring a robust institutional setup in economic security, and implementing internal and external policies. Below I have outlined several policy recommendations.<sup>2</sup>

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<sup>1</sup> Kiel Institute for the World Economy, 'Cost of Decoupling From China for German Economy Severe but Not Devastating' (14 December 2023).

<sup>2</sup> These policy recommendations are based on an ongoing European Values Center for Security Policy and Wilfried Martens Centre for European Studies research project that has been running since autumn 2023 and which is scheduled to be published in a separate report in 2024.

## Institutionalising EU economic security policy

Every major policy area needs a solid and robust institutional structure within the EU institutions so that there is enough internal capacity, capability and access to leadership, funding and staffing to ensure there is sufficient political weight behind the Union's agenda. The following steps should be taken by the new European Commission to enable it to respond to geostrategic competition with a geo-economic focus.

- *Project 1.* The new European Commission should establish an economic security portfolio that is the responsibility of one Commissioner, likely under the guidance of the vice-president for trade or economic issues.
- *Project 2.* A fully fledged internal Commission think tank should be established that horizontally covers all key strategic policy areas in the EU relationship with China. It should build on the pilot version of the Inspire, Debate, Engage and Accelerate Action (IDEA) Fellowships under the guidance of the president of the Commission, and be expanded to cover the wider Indo-Pacific. The think tank should have at least 10 full-time specialists organising monthly online check-ins for the wider European expert community to ensure a continuous flow of information and knowledge.
- *Project 3.* The Commission should set up a formal standardised platform for EU companies that seek to understand the risks of volatile and politically unreliable foreign markets. Such a platform should provide a private safe space in which EU companies and business associations can receive select intelligence and lessons from specialists in order to make their trade decisions in the most informed way.

## The development of an economic security policy toolkit

Once the above-mentioned solid institutional framework has been established by the new European Commission, substantive policy initiatives can be added to the agenda. The new college of commissioners should develop an internal policy toolkit to address the economic security interests of the EU. As some initiatives will reach across multiple portfolios, the Commission's leadership will need to coordinate and enable cooperation. As the initiatives are not likely to be welcomed by some of the EU member states, and primarily by some of their companies, the Commission needs to acknowledge that this issue is fully political, and not just technical or purely regulatory.

- *Project 1.* Internally, the Commission should prepare a trade defence escalation toolkit containing detailed economic, security and political analyses, and discuss it with the member states. It should involve possible scenarios for the deployment of the EU Anti-Coercion Instrument.
- *Project 2.* The Commission should conduct an annual assessment of the strategic dependencies of the EU and its member states' economies on its adversaries and competitors.<sup>3</sup> This would answer the main policy question: how is the EU open to blackmail from specific non-friendly states?. The Commission should also conduct simulations of crisis scenarios.
- *Project 3.* The Commission should declare specific sectors 'strategically relevant to European interests' and dedicate specific action plans to providing them with enhanced protection. These sectors should be selected on the basis of European strategic need and their strategic vulnerability to external (non-EU) players.

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<sup>3</sup> For assessment methodologies, see J. Teer, D. Ellison and A. de Ruijter, *The Cost of Conflict: Economic Implications of a Taiwan Military Crisis for the Netherlands and the EU*, The Hague Centre for Strategic Studies (28 March 2024).

## Global networking of EU economic security policies

As the EU is and wants to remain a global trade leader, economic security is not only a domestic matter for the EU internal market. Therefore, building a resilient global network of like-minded democracies and rapidly decreasing the EU's dependencies on its competitors should be the strategic political priorities. The EU should quickly prioritise 'teaming up' with those non-EU democracies which form the core of the global coalition to defend the rule of law and fair-trade practices. The new European Commission will have to spend much of its energy and political capital on persuading certain EU member states to drop some of their objections to EU trade deals with selected like-minded partners, otherwise the EU has no real chance of being the global fair-trade norm-setter.

- *Project 1.* The Commission should proactively search for potential positive trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
- *Project 2.* The EU–China Comprehensive Agreement on Investment should be officially cancelled as, if it were to enter into force, it would deepen European strategic dependencies on the Chinese Communist Party, which is becoming increasingly hostile.
- *Project 3.* Establish a specialist team focused on sharing lessons in economic security policies with selected allies and like-minded partners in order to assist countries facing systematic Chinese economic coercion. The Commission should host an annual EU Economic Security Week.

## Conclusion

It can be expected that the upcoming five-year term of the new European Commission will experience massive global turmoil as a result of the ongoing Russian military aggression in Ukraine and the increasing political and economic aggressiveness of China globally. The first Von de Leyen Commission was correct in declaring that it would have to focus on geopolitical issues, including setting up new economic security policies. The full-scale Russian invasion of Ukraine in 2022 forced the Commission to work unexpectedly rapidly. Today, we can clearly say that the European Commission is much stronger in terms of political will, bureaucratic capabilities and capacities. The new college of commissioners, who took on their roles in the middle of 2024, will face the political burden of dealing with (1) the increasing geostrategic aggressiveness of China against the EU, specific EU member states and selected business sectors; (2) the increasing divisions between some of the member states over how to approach the economic security agenda and the unstable geopolitical environment; and (3) the possible massive implications of the outcome of the November 2024 US presidential elections on these issues. In a nutshell, the new president of the European Commission and his or her commissioners will have to quickly develop deeply thought-through contingency plans and a robust institutional setup so that substantive economic security policies and measures can be tailored and implemented quickly, as required by the geo-economic climate.

At present, if China escalates either its political or economic coercive or blackmail policies against the EU, the Union as a whole will be caught without the ability to respond with proper defensive measures. Currently, the Commission has at its disposal the solid trade defence expertise and capabilities of the Directorate-General for Trade, but these should be considered more as tactical tools deployable as individual parts of an overall grand strategy—one which is still missing. That the EU does not have a full economic security strategy (comparable to Japan's, for example) stems from the fact that EU member states, and primarily some of their large businesses, have diverging views and interests. Therefore, a full strategy similar to the set of tools deployed by the EU against Russia in response to its aggression against Ukraine is still missing.

The geopolitical role of the Commission, together with that of the new president of the European Council, will be primarily internal—to facilitate the building of a general consensus among EU member states and large business interests. These parties need to achieve a common operational understanding of the threat coming from the Chinese government and agree on a set of expected scenarios for short- and mid-term geostrategic developments. Without such a full-picture view of, and agreement on the EU's overall objectives, the Commission only has the ability to take relatively tactical and de facto technical measures in matters of economic security such as protecting advanced technologies from Chinese espionage.

As its top priority, the new European Commission needs to obtain agreement from the European Council and the majority of the new Members of the European Parliament on these key questions: how can we, as the EU, our member state governments and national businesses, respond to a world in which the Chinese dictatorship is becoming increasingly hostile and aggressive? And, given that we know that dependencies on dictators do not help us but make us hostages, how do we prepare for any form of conflict with the Chinese government in a way that ensures that we can deter structural escalation by Beijing, which would cause political and economic catastrophe in Europe?

	Programme 1	Programme 2	Programme 3
	Setting up a robust institutional structure to respond to geostrategic competition with a geo-economic focus	Developing an internal policy toolkit for addressing the economic security interests of the EU	Building a resilient global network of like-minded democracies and rapidly decreasing EU dependencies on competitors
Project 1	Establish an economic security portfolio in the Commission that is the responsibility of a single commissioner, likely under the guidance of the vice-president for trade or economic issues.	Prepare a trade defence escalation toolkit within the Commission, which includes detailed economic, security and political analyses, and discuss it with the EU member states. It should include possible scenarios for the deployment of the EU Anti-Coercion Instrument.	Proactively search for potential positive trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
Project 2	Establish a fully fledged internal Commission think tank that horizontally covers all key strategic policy areas in the EU's relationship with China. This should build on the pilot version of the IDEA China Fellowships under the guidance of the president of the Commission, and be expanded to cover the wider Indo-Pacific. It should have at least 10 full-time specialists organising monthly online check-ins for the wider European expert community to ensure a continuous flow of information and knowledge.	Conduct an annual assessment of the strategic dependencies of the EU and its member economies on its adversaries and competitors. This would answer the main policy question, 'How is the EU open to blackmail from specific non-friendly states?' The Commission should also conduct simulations of crisis scenarios.	Officially cancel the EU–China Comprehensive Agreement on Investment, as if it were to enter into force it would deepen European strategic dependencies on the Chinese Communist Party, which is becoming increasingly hostile.
Project 3	Set up a formal standardised platform for EU companies that seek to understand the risks of volatile and politically unreliable foreign markets. Such a platform should provide a private safe space where EU companies and business associations can receive select intelligence and lessons from specialists in order to make their trade decisions in the most informed way.	Declare specific sectors 'strategically relevant for European interests' and dedicate specific action plans to providing them with enhanced protection. The sectors should be selected on the basis of European strategic need and their strategic vulnerability to external (non-EU) players.	Establish a specialist team focused on sharing lessons in economic security policies with selected allies and like-minded partners in order to assist countries facing systematic Chinese economic coercion. The Commission should host an annual EU Economic Security Week.

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