

CHAPTER 5

CHANGING RELATIONS WITH EUROPE, TAIWAN, AND HONG KONG

SECTION 1: EUROPE-CHINA RELATIONS; CONVERGENCE AND DIVERGENCE IN TRANSATLANTIC COOPERATION

Abstract

Accounting for nearly 25 percent of global gross domestic product (GDP) and 10 percent of the world's population,* Europe has deep economic ties to both China and the United States. Consequently, the continent serves as a locus of geostrategic competition between the United States and China. Europe's approach to China affects the scope and impact of U.S. policies, including those that seek to limit U.S. exposure to and dependence on China, maintain a free and open Indo-Pacific region, and protect the rules-based international order. China views Europe as an important region for supporting its economic rise and other political and geostrategic goals—but also one that is increasingly pushing back against its actions and moving into greater convergence with the United States. China's continued disregard for the rules-based international order, increasingly aggressive economic actions, and support for Russia's unprovoked invasion of Ukraine present direct risks to European economic and security interests. In light of these challenges, the EU and most of its member states are shifting their assessments of China from viewing it primarily as an economic partner to perceiving it increasingly as a multidimensional systemic rival. While these shifts create the potential for greater convergence in U.S. and European approaches to dealing with China, important differences remain. The EU is a collection of 27 member states, and "European" policy toward China is at best viewed as a juxtaposition of EU policy alongside its member states' positions as well as the positions of non-EU European countries. This complexity is a defining feature of European policy, which creates challenges for the United States and

*These statistics are based on the European region, as defined by the UN's regional geoscheme, which had a GDP of \$23.7 trillion accounting for 23.5 percent of global GDP and a population of 735 million accounting for 9.3 percent of global population in 2022. Countries identified as part of this region include: Aland Islands, Albania, Andorra, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Republic of Moldova, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Spain, Svalbard and Jan Mayen Islands, Sweden, Switzerland, Ukraine, the UK, and Vatican City. United Nations Statistics Division, "Methodology," World Bank, "World Development Indicators," 2022.

may constrain its response to China by limiting the space for viable policy cooperation. The diversity in European approaches also presents China opportunities to undermine EU action through selective engagement with member states. At the same time, many of the EU's trade defense and other economic policies fail to adequately address China's practices and also present challenges for the United States. Taiwan is also a topic of growing importance in Europe; however, European governments and publics have yet to reach conclusions about the threat the Chinese government's aggression toward Taiwan may pose to their interests and how they should respond.

Key Findings

- China's policies present a range of economic and security challenges to the EU and European countries. Unbalanced trade and substantial Chinese infrastructure investment on the continent undermine economic security and leave European countries potentially vulnerable to China's economic coercion. China seeks to interfere and stoke division in the EU and its member states' politics through media influence, disinformation campaigns, subversion of EU institutions, coercion of individual member states and policymakers, and the uneven provision of economic incentives. China also undermines European security by providing political and economic support for Russia.
- The EU and individual European states' strategic assessments of China are rapidly shifting from primarily seeing China as a potential policy partner and geographically distant economic competitor to increasingly seeing it as a systemic rival with an active presence in Europe. This shift is bringing European policy approaches into greater convergence with the United States, particularly as it relates to China's growing economic threat via unfair trade practices and strategically motivated investments in sensitive infrastructure and technologies.
- Diversity in views between and within EU countries makes consensus-building slow and may limit the scope, speed, and depth of fundamental change in the EU's collective policy approach to China. This complexity in European approaches may affect the U.S. response to China and limit the space for viable policy cooperation with the EU.
- Europe is an important locus of geostrategic competition between the United States and China. Like the United States, the EU seeks to bolster its economic resilience and reduce dependence on China. While it is developing some economic tools to mitigate China's unfair trade practices and economic coercion, these tools are often voluntary and narrower in scope than corresponding U.S. mechanisms, limiting the effectiveness of transatlantic coordination. Significant disagreements over economic policy between the EU and the United States, including differences over preferential subsidies, also complicate policy coordination on China.
- Russia's invasion of Ukraine has increased European governments' focus on challenges from China. Beijing's support for Russia throughout the war has highlighted the threat China

poses to European countries across a variety of issue areas, including through its use of disinformation and its willingness to provide diplomatic, economic, and military assistance to other hostile, aggressive powers. It also draws attention to the EU's and its member states' vulnerabilities, such as economic dependency on and supply chain risks from China and the potential economic costs of a conflict in the Taiwan Strait.

- China's leadership perceives increasing challenges to its economic, geostrategic, and political goals in Europe, including increasing economic rivalry with the EU and European economies, greater coordination between the EU and the United States, hardening views of Russia among European governments, and the EU and its member states' intensifying focus on a values-based China policy. Chinese leaders have grown more pessimistic about their ability to prevent further convergence between the United States and its European allies, and they have decided to accept some damage to their relations with the EU and European countries to maintain their strategic partnership with Russia.
- Chinese aggression against Taiwan would have serious economic and strategic consequences for the EU and European countries. Although Taiwan is a topic of growing importance in Europe, European governments and publics have not yet reached definitive conclusions about their interests and possible potential responses to a conflict stemming from Chinese aggression toward Taiwan. Despite deepening ties between Taiwan and Europe and statements from both the EU and individual state governments about their support for stability in the Taiwan Strait, a remaining lack of a coherent European policy toward Taiwan weakens the extent to which these positive steps can contribute to deterrence.

Recommendations

The Commission recommends:

- Congress direct the U.S. Department of Defense to work with European partners to protect the movement of U.S. military equipment, supplies, and personnel from Chinese surveillance via China's National Transportation and Logistics Public Information Platform (LOGINK) and any other logistics platform controlled by, affiliated with, or subject to the jurisdiction of the Chinese Communist Party or the Government of the People's Republic of China or any logistics platform that shares data with such a system. Coordination with European partners should include:
 - Identifying ports in NATO countries that currently utilize or intend to utilize LOGINK or similar systems from China or other countries of concern;
 - Assessing the U.S. military's current and past potential exposure to Chinese surveillance via LOGINK or similar systems and the risks to U.S. interests and national security resulting from such exposure;

- Identifying and assessing the feasibility of adopting alternative shipping routes through ports that do not currently utilize or intend to utilize LOGINK or similar systems, including by identifying any risks to U.S. military programs, activities, and movements that would be created by attempting to avoid exposure to such systems; and
- Implementing joint measures to mitigate the identified risks of exposure to LOGINK and similar systems in European ports.
- Congress direct the Administration to engage in discussion with European allies on plans and preparations to impose economic sanctions on China in the event of a confrontation over Taiwan, an escalation in China's support for Russia, or other contingencies. Congress also direct the Administration to consult with Congress on the progress of these discussions.
- Congress direct the U.S. Trade and Development Agency, the Development Finance Corporation, and the National Institute of Standards and Technology (NIST) to report on how they are incorporating promotion of U.S.-supported technical standards into U.S. funded development projects or technical assistance provided abroad.
- Congress direct the Administration to establish a secure electric vehicle (EV) and new energy vehicle (NEV) supply chain by considering legislation that would foster U.S.-EU-UK coordination on:
 - Raising or maintaining tariffs on Chinese EV, NEV, and related inputs and technology; and
 - Promoting supply chain diversification and resilience in the EV and NEV markets.

Introduction

China's leadership perceives the U.S.-EU partnership as a significant challenge to its strategic objectives in Europe and beyond, and it is campaigning to weaken transatlantic ties and intra-European cohesion. Intensifying competition with the United States specifically and the rules-based international order broadly, Russia's unprovoked invasion of Ukraine, and deepening ties between the United States, the EU, and various European countries have significantly changed the dynamics between China and Europe. Simultaneously, China's increasingly aggressive approach to its economic interactions with the EU and many of its member states has prompted pushback and resistance across the region. As a result, China has shifted from viewing the EU as an independent pole to balance against U.S. objectives to viewing it as part of a hostile "Western" bloc with the United States at its helm.

The EU's strategic assessment of China is quickly evolving as well, shifting from one that views Beijing as an economic "competitor" in open and fair international exchange and attempts to engage China as a policy "partner" on shared global issues to seeing China as a "systemic rival" in opposition to democratic norms and values. This shift is bringing the EU into closer alignment with the United

States, but the transition is not yet complete or guaranteed. For the better part of three decades, the EU and its member states elevated trade and investment considerations over security and values-based concerns, believing that engagement would encourage China to open its markets and increase transparency. The EU's hopes for China, however, have failed to materialize. China's industries have moved up the global value-chain while strategic market access barriers have remained. China has intensified the abuse of its citizens' human rights while providing support to authoritarian leaders who threaten EU security. European countries are now moving to protect themselves from China's expanding influence, while the EU is developing a strategy to "de-risk" its most sensitive economic ties to China. Some of the EU's and its member states' responses to China lack depth and coordination, however. The EU's trade defense tools* and other economic policies often have high thresholds for action, require consensus, or are voluntary, and national governments can choose if and how they implement the guidelines. In addition, these policies take years to craft and are often reduced in scope and magnitude through the EU's consensus-building process. So far, this has resulted in a patchwork of slow-moving and limited initiatives.

The United States, the EU, and individual European countries face similar challenges from China, including bilateral trade deficits, a lack of market reciprocity, widespread theft of intellectual property, uncooperative diplomacy, and the Chinese Communist Party (CCP) leadership's pervasive disinformation campaigns. By coordinating a response to China's rising economic and security threat, as well as pursuing joint U.S.-EU development in critical and emerging technologies like artificial intelligence (AI), EU and U.S. policy toward China will be more effective. Latent tensions in U.S.-EU relations and divergence between EU member countries, however, remain an impediment to effectively coordinating to confront China. Beijing's increasingly aggressive actions toward the EU, as well as the EU and European countries' changing views of China, present a window of opportunity for the United States to expand and strengthen the transatlantic partnership.

This section describes China's objectives in and policies toward the EU and European countries, evaluates the EU's and European countries' perceptions of and responses to China, and provides an assessment of the implications of China's relations with the EU and European countries for the United States. First, the section describes China's approach to Europe, outlines how China's goals in the region have evolved, and discusses China's strategies to attain these goals and the challenges they present. Second, the section outlines the EU's and European countries' approaches to China, focusing on the nature, impact, and limitations of European partners' attempts to de-risk their relations with China. Third, the section provides an overview of European countries' approach to the In-

*The EU describes trade defense policy as a means to protect European production from international trade and market distortions. Specific instruments of this policy include antidumping and antisubsidy duties, the antisubsidies regulation, and the antic coercion instrument. Some of the EU's trade defense policies are analogous in nature to U.S. trade remedies, which also include antidumping and countervailing duties. Andy Bounds, "EU Agrees Trade Defense Tools against China," *Financial Times*, March 28, 2023; Eszter Balázs, "New Trade Defense Tool to Protect EU Foreign Subsidies," *European Parliament*, April 25, 2022; European Commission, "Trade Defense.;" United States International Trade Administration, "An Introduction to U.S. Trade Remedies."

do-Pacific region, considering these countries' potential responses to a Taiwan contingency. Fourth, the section discusses the implications of these trends for the United States. This section is based on the Commission's May 2023 fact-finding mission to Europe and its June 2023 hearing titled "Europe, the United States, and Relations with China: Convergence or Divergence?" as well as consultations with experts and open source research and analysis.

China's Approach to Europe

China views Europe not only as an important region for supporting China's economic rise and its political and geostrategic goals but also one fraught with increasing challenges. Andrew Small, senior fellow for the Indo-Pacific Program at the German Marshall Fund, argued in his testimony before the Commission that China "sees [a] combination of Europe's transatlantic ally-oriented security needs, greater anxiety about economic competition, and ... western ideological affinity beginning to converge in ways that are detrimental to its interests."¹ As China has deepened its interaction and integration with the region over the last 20 years, conflicting economic and political interests have become more pronounced.² Over the last few years, China's relations with the EU and individual European countries have become more heavily influenced by relations with the United States and Russia.³ In this environment, China continues to seek economic and political benefits from European countries while discouraging transatlantic cooperation as much as it is able. Meanwhile, China's continued disregard for the rules-based international order, increasingly aggressive economic actions, support for Russia's unjustified war in Ukraine, and other policies present risks to the EU's and European countries' economic and security interests.

China's Major Objectives in Europe

Economically, China seeks to expand trade volume with the EU's single market and its member states' economies as well as to broaden Chinese market access in Europe.⁴ Maintaining and growing access to the EU's market has been particularly important to China as its economy has transitioned into higher-value-added production. China has historically supplied the EU market with inputs and consumer goods, but China's composition of exports to the EU has gradually begun to include higher-value and technologically advanced goods like telecommunications equipment.⁵ In 2000, approximately 23 percent of China's total export value to the EU was generated by high-tech products;* by 2017, this share had increased to 35 percent of total value.† While the total value share of these products has declined slightly since 2017, high-tech goods continue to comprise approximately one-third of China's total export value to the EU.⁶ In fact, in 2022, four of the EU's top five imported goods

*High-tech products were identified using SITC Rev. 4 codes provided by Eurostat, the European Commission's data sharing platform. Products include exports related to aerospace, computer office machines, electronics and telecommunications, pharmaceuticals, scientific instruments, electrical machinery, chemistry, nonelectrical machinery, and armaments. For a full list of products included, please see Annex 5 of Eurostat, "High-Tech Industry and Knowledge-Intensive Services (htec)," January 3, 2020.

†This expansion in share of high-tech goods occurred as China's total export value to Europe increased nine-fold, indicating that Europe's imports of high-tech Chinese goods grew at a faster rate than its imports of Chinese goods overall.

from China were high-tech, including telecommunications equipment, automatic data processing machines, electrical machinery, and electronic components. As China continues to dominate clean technology industries, the EU is likely to be reliant on the export of Chinese products, particularly in electric vehicles (EVs) and other green technologies.⁷ These are two areas in which China tends to excel and where the EU's demand is expected to rise due to the region's "green transition" and the EU's 2035 ban on vehicles with combustion engines that do not run on CO₂-neutral fuel, passed by the European Council in March 2023.⁸

China also seeks to gain access to European technology through targeted acquisitions made in key countries and industries, like German robotics and Dutch semiconductors production equipment.⁹ While Chinese investment flows into the EU have declined from a peak of approximately \$36.9 billion (34.7 billion euro) in 2016 to just \$5.9 billion (5.6 billion euro)* in 2022, the value of Chinese investment into Germany, France, and Hungary has declined less rapidly.[†]¹⁰ Within Germany and France, in particular, Chinese companies have sought to gain access to Europe's most sensitive technologies. In 2016, the nonstate Chinese firm Midea purchased the German robotics firm Kuka. Later that year, China's state-owned Fujian Grand Chip Investment Fund was forced to drop its bid for the German chip equipment manufacturer Aixtron following objections by the Obama Administration.[‡]¹¹ These events catalyzed support for a unified EU approach to foreign investment screening and eventually led to the creation of such a mechanism in 2020.

Although heightened investment screening appears to have contributed to reduced Chinese investment in Europe, in some cases Chinese companies appear to be shifting acquisitions from the United States before European legislatures strengthen screening regimes.¹² In January 2019, the Chinese e-commerce giant Alibaba acquired Data Artisans, a Berlin-based startup that provides distributed systems and large-scale data streaming services for enterprises, for \$103 million (90 million euro). This purchase was made three months before the EU adopted its Foreign Investment Screening Regulation that set minimum requirements for EU member states developing their own foreign direct investment (FDI) screening mechanisms[§] and more than one year before Germany approved an expansion to its investment screening laws.[¶]¹³ More recently, the private firm Nexperia—which is headquartered in the Netherlands

*This section uses the following exchange rates throughout: In 2022, \$1 U.S. dollar = 0.95 euro; In 2019, \$1 U.S. dollar = 0.89 euro; In 2017, \$1 U.S. dollar = 0.89 euro; In 2016, \$1 U.S. dollar = 0.94 euro; In 2012, \$1 U.S. dollar = 0.78 euro.

†Hungary's economy is less than one-tenth the size of the UK, French, and German economies. Nonetheless, it is an attractive location for Chinese investment due to Hungary's deepening economic and political connections to China as well as its support for China in EU policymaking. World Bank, "World Development Indicators - GDP (current US\$)."; Tamá Matura, "Chinese Influence in Hungary," *Center for European Policy Analysis*, August 18, 2022.

‡The deal collapsed after the Obama Administration stopped China's Fujian Grand Chip Investment Fund from purchasing Aixtron's U.S. subsidiary based on an assessment by the Committee on Foreign Investment in the United States (CFIUS).

§The EU's investment screening regulation is voluntary, though strongly encouraged, and EU member states may determine if and how they choose to implement these regulations.

¶The EU's Regulation on Foreign Direct Investment Screening was adopted in March 2019 and entered into force in October 2020. For more information on this mechanism, see the subsection titled "Europe Seeks to Reduce Economic Vulnerability and Increase Economic Resilience" in this text. Jay Modrall, "EU Regulation on Foreign Direct Investment Screening," *Norton Rose Fulbright*, January 2022.

but owned by the nonstate Chinese firm Wingtech—purchased the Dutch semiconductor startup Nowi in November 2022. Shortly following the purchase, the government of the Netherlands announced a retroactive review of the acquisition under a new investment screening law that took effect in June 2023.*¹⁴

From a geostrategic standpoint, China's leaders have long sought to encourage European governments to act in ways that benefit China in its competition with the United States. In his testimony before the Commission, Mr. Small argued that 20 years ago, China sought to encourage Europe's evolution into a neutral pole that could serve as a counterweight to the United States in the international system.¹⁵ This objective was expressed in three high-level policy papers published by China's government in 2003, 2014, and 2018 that highlight the EU's value to China as a partner in promoting the “democratization of international relations” and in furthering the evolution of a “multipolar” system.¹⁶ In the past few years, Chinese diplomats have increasingly encouraged the EU and its member states to interpret their own policy of “strategic autonomy”† to mean distancing themselves from policies that challenge China's interests and refraining from coordination with the United States over such policies.¹⁷ In his April 2023 meeting with French President Emmanuel Macron and President of the European Commission Ursula von der Leyen in Beijing, General Secretary of the CCP Xi Jinping reportedly expressed to his guests China's “hope [that] the European side [would] form a more independent and objective understanding of China,” strongly suggesting they adopt positions further from those of the United States.¹⁸

China's leadership seeks to influence European policies on issues it considers sensitive, such as Taiwan, Hong Kong, Tibet, and human rights concerns more broadly.¹⁹ On Taiwan, for example, China's three policy papers‡ instruct the EU and its member states to “handle Taiwan-related issues with caution” and to avoid engaging in official diplomatic visits, selling weapons or military technology, engaging in military exchanges, or supporting Taiwan's membership in certain international organizations.§²⁰ Additionally, Beijing has not hesitated to impose punishments on European actors, both state

*This law grants the government authority to review and potentially block investments related to critical infrastructure or sensitive technology on national security grounds. Peter Haec, “Netherlands to Probe Chinese Chip Takeover,” *Politico*, June 1, 2023.

†An explanation of the term “strategic autonomy” by the European Parliament states in part: “EU strategic autonomy . . . refers to the capacity of the EU to act autonomously—that is, without being dependent on other countries—in strategically important policy areas. These can range from defense policy to the economy, and the capacity to uphold democratic values.” It goes on to explain that usage of the term has varied since its first introduction in 2013. It has at times been used to refer specifically to the EU's ability to act on defense matters, to the EU's capacity to defend European interests in a hostile geopolitical environment, and to the EU's capacity to mitigate economic dependence on foreign supply chains. By 2021, use of the term had been broadened to encompass essentially all policy domains as well as values. European Parliament, *EU Strategic Autonomy 2013–2023: From Concept to Capacity*, July 8, 2022.

‡The three policy papers were published in 2003, 2013, and 2018. Central People's Government of the People's Republic of China, *China's EU Policy Paper (Full Text)* (中国对欧盟政策文件(全文)), December 2018. Translation; China's Ministry of Foreign Affairs, *China's EU Policy Paper: Deepening China-EU Comprehensive Strategic Partnership Relationship of Mutual Benefit and Win-Win* (中国对欧盟政策文件:深化互利共赢的中欧全面战略伙伴关系), April 2, 2014. Translation; Central People's Government of the People's Republic of China, *China's EU Policy Paper* (中国对欧盟政策文件), 2003. Translation.

§The most recent paper from 2018 even instructs the EU to “clearly oppose any form of ‘Taiwan independence,’ [and] support the great cause of China's peaceful unification.” Central People's Government of the People's Republic of China, *China's EU Policy Paper (Full Text)* (中国对欧盟政策文件(全文)), December 2018. Translation.

and nonstate, for perceived transgressions. In 2010, China cut off official diplomatic ties with Norway over the decision of the independent Nobel Committee to honor Chinese dissident Liu Xiaobo.²¹ In 2016, Chinese Foreign Ministry spokesperson Lu Kang threatened countermeasures against the EU in retaliation for the Dalai Lama speaking at the European Parliament and meeting with its president, Martin Schulz.²² In March 2021, when the EU imposed sanctions on Chinese targets for human rights abuses in Xinjiang, China's government portrayed the action as severely damaging to its interests and retaliated with countersanctions on European parliamentarians, government institutions, and think tanks.²³ Later that year, China launched a campaign of severe economic coercion against Lithuania after the country opened a Taiwanese Representative Office (for more on China's objection to Lithuania's Taiwanese Representative Office and ensuing economic coercion, see the section below on "Europe's Shifting Views on China").²⁴ A 2021 report on China's subnational diplomacy in Europe by the Mercator Institute for China Studies also pointed out that Chinese diplomats "regularly criticize" local government officials in Europe for getting involved on issues such as Taiwan or Tibet.²⁵

China's Divide and Conquer Strategy

China seeks to sow division within Europe along two dimensions: between EU institutions and member states and between EU member states themselves. To this end, China employs four primary tactics. First, it creates alternative regional institutions that compete against the EU's influence and provide China with the ability to forum shop for economic outlets and political supporters. Second, China stokes division between the EU and its members by undermining EU authority while elevating individual states when their perspectives align with China's own. In addition to actively inflaming tension, China capitalizes on ongoing conflict between the EU and its member states by providing countries an alternative to participation with the EU. Finally, China leverages its extensive economic ties to create competing incentives between individual European countries to reduce their capacity and propensity to respond to China through their national policies.

China Creates Competing Regional Fora to Undermine EU Institutions

China is attempting to subvert EU institutions and policies through the creation of competing China-led regional fora. Alternative institutions are a central component of China's global strategy, as Beijing is able to build these venues around its preferences while the presence of the alternative weakens the power of established institutions that do not align with China's aims.²⁶ The creation of the China-Central and Eastern Europe Cooperation (China-CEEC) forum, a China-led framework founded in 2012 for deepening Beijing's economic ties with Central and Eastern European countries, offers a clear example.*²⁷ China established the forum to capital-

*Initially and informally known as the "16+1," the original 16 European participants included 11 EU member states (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) and five non-EU states (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia). The name was adjusted to "17+1" after

ize on Central and Eastern European countries' desire to diversify economic relations outside of the EU following the 2008 global financial crisis and subsequent eurozone crisis.²⁸ Since creating the forum, China has attempted to use it to stoke division between the EU and Central and Eastern European countries by suggesting the region does not fully benefit from engagement with the EU.²⁹ In his keynote speech at the 2021 China-CEEC summit, Xi stated, "China will work with Central and Eastern European countries to help the region share in the benefits of China-EU cooperation as early as possible," implying these countries were not benefiting from EU economic engagements and policies.³⁰ In addition, despite its ostensibly multilateral nature, the forum has operated more like a platform through which China manages its collection of bilateral relationships with Central and Eastern European countries and even benefits from competition between them.³¹ Due to unrealized economic promises and concerns over China's political motivations, Lithuania left the forum in May 2021, six months before China's attempted economic coercion of the country.³² Latvia and Estonia followed suit in 2022, citing economic and political concerns as well as displeasure over China's failure to condemn Russia's invasion of Ukraine.³³ The Czech Republic has also stated it is no longer an active member, though it has not formally exited.³⁴

China Aims to Divide the EU by Stoking and Capitalizing on Conflict between the EU and Member States

China also stokes division between EU member states and institutions to decrease the EU's ability to act collectively and respond to China's increasingly aggressive foreign policy. In written testimony for the Commission, Mr. Small assessed China's objective is for Europe to be "a continent whose aspirations to act collectively could readily be undermined."³⁵ While Beijing claims to have "consistently supported the European integration process," its efforts to foment disunity among EU nations were on full display during President Macron and President von der Leyen's joint visit to Beijing in April 2023. While President Macron was greeted by a lavish reception and given a full schedule of high-level meetings—including a tea session with Xi Jinping in the former Guangdong residence of Xi's father—President von der Leyen was given a significantly lighter schedule and excluded from Xi's state dinner with President Macron.³⁶ Following these meetings, China offered France and the EU few concessions, while China received a considerable benefit: President Macron advising Europe to avoid being a "vassal" to the United States and getting "caught up in crises that are not ours" in reference to a possible Taiwan contingency.³⁷ President Macron also suggested the EU should retain "strategic autonomy" between China and the United States by reducing its reliance on both parties.³⁸ President Macron's statements following the visit conflict with the EU's overall hardening approach to China and undermine the appearance of

Greece joined the group in 2021. The group once again became "16+1" after Lithuania exited in 2021 and then "14+1" after Estonia and Latvia exited in 2022. Milda Seputyte and Ott Tammik, "Baltic States Abandon East European Cooperation with China," *Bloomberg*, August 11, 2022; Andreea Brinză, "How China's 17+1 Became a Zombie Mechanism," *Diplomat*, February 10, 2021.

* France is the only EU country to hold territory in the Indo-Pacific region, which is home to 1.5 million French—and thus EU—citizens. Ambassade de France en Indonésie, au Timor Oriental et Auprès de l'ASEAN, "The Indo-Pacific Region: A Priority for France," January 12, 2022.

EU unity on China, although there is evidence that leaders in some EU countries agree.³⁹ Hungarian Prime Minister Viktor Orbán publicly backed President Macron, stating that “it is necessary to think through whether the American foreign policy interests coincide with the European ones.”⁴⁰ Benjamin Haddad, a Member of the French Parliament, suggests that there is more agreement in private, asserting that “Macron is saying out loud what many European partners quietly believe. Behind closed doors, European leaders genuinely worry about walking in lockstep with Washington into an open conflict with Taiwan.”⁴¹

In addition to stoking division, China also capitalizes on latent tensions by presenting disaffected member states an alternative to EU partnership. China leverages financial distress and political changes within EU countries to its advantage, as seen with Greece and Hungary. Greece has the highest debt burden of any EU country, with its debt-to-GDP ratio at 171 percent compared to the EU average of just 84 percent in 2022.⁴² Greece’s heavy financial obligations stem in part from a series of widely unpopular EU bailouts to the country following the eurozone crisis, which imposed significant austerity measures.⁴³ Sensing opportunity to expand its influence, China launched a campaign of economic persuasion. In 2018, Greece joined the Belt and Road Initiative and in 2019 the China-CEEC.*⁴⁴ In 2021, China’s state-owned shipping firm COSCO increased its stake in Piraeus port from 51 percent to 67 percent.†⁴⁵ In exchange for this economic support, Greece has provided China political support vis-à-vis the EU, including blocking EU attempts to criticize China’s human rights record and resisting EU efforts to ban Chinese 5G provider Huawei.⁴⁶ Similarly, China has leveraged Hungary’s democratic backsliding to its advantage. Prime Minister Viktor Orbán has systematically eroded democracy in Hungary through a variety of autocratic policies and practices, including using public funds as political patronage.⁴⁷ China has supported this autocratic transition by financing Prime Minister Orbán and his allies’ patronage networks. For example, in 2021, Hungary purchased \$181.5 million worth of Sinopharm vaccines from China for \$35.50 per unit, a significantly higher price than the going market rate of \$15.83.⁴⁸ Payment for the vaccines was passed from Hungary to China via an intermediary, Danubia Pharma Kft, a previously unknown firm that received a profit of \$49.5 million for its role.⁴⁹ Although there is no direct evidence, experts at the Prague-based think tank Association for International Affairs believe that Danubia was used a vehicle to siphon public funding for private patronage, a scheme in which China willingly participated.⁵⁰ Like Greece, Hungary has promoted China’s interests in the EU, including blocking an EU statement criticizing China’s treatment of Hong Kong.⁵¹

* Despite being a multilateral forum, the 16 European members of the China-CEEC were not consulted on Greece’s membership bid until after China had nearly finalized negotiations with Greece. This late notification further demonstrates how the forum centered China’s preferences while engaging with the region through bilateral relations rather than through a true multilateral framework. Horia Ciurtin, “The ‘16+1’ Becomes the ‘17+1’: Greece Joins China’s Dwindling Cooperation Framework in Central and Eastern Europe,” *Jamestown Foundation*, May 29, 2019.

† COSCO initially purchased its 51 percent stake in the port in 2016 after it was offered to public sale as part of the privatization efforts mandated under the EU’s bailout. Momoko Kidera, “Sold to China: Greece’s Piraeus Port Town Cools on Belt and Road,” *Nikkei Asia*, December 10, 2021.

China Leans on Its Economic Ties to Create Divides within Individual European Countries

China's extensive economic relations with the EU's largest economies create competing incentives for these countries, reducing their willingness to address China through their national policies and further undermining the EU's approach. Germany is particularly important in this regard, as it is highly influential in the EU and has deep economic ties to China.⁵² Germany has the largest economy in the EU, and in 2022 it was the second-largest EU importer of Chinese goods and the largest EU exporter of goods to China.*⁵³ That same year, German FDI into China attained a record high of \$10.5 billion (10 billion euro) in new investments in the first half of 2022 alone, which exceeds the total annual value of investments in any single year since 2000.†⁵⁴ Germany also received one-third (\$1.9 billion) of all Chinese FDI inflows into Europe that same year.‡⁵⁵ Sensitive to these ties, Germany has taken a more muted approach to China relative to the EU and other member states. In July 2023, Germany released its first China strategy, which recognizes that China aims to make itself "less dependent on other countries, while making international production chains more dependent on China" and that "de-risking is urgently needed."⁵⁶ The German Federal Government, however, will only work to "raise awareness of risks relating to China," and it "expects" companies to primarily lead and manage the de-risking process.⁵⁷ Many large German firms, however, seek to reduce their exposure to political risk by localizing and siloing production in China, a strategy that requires expanded investment. For example, the German chemical firm BASF plans to spend \$10.5 billion (10 billion euro) to increase production at its chemical complex in Guangdong.⁵⁸ By expanding its footprint in China, the firm hopes to generate two-thirds of its future growth there.§⁵⁹ Such a position removes responsibility from the German government to act while undermining the effectiveness of the EU's de-risking approach, given large German firms' willingness to sustain investment in China despite rising political risks and continuing barriers to market participation.⁶⁰

China Perceives Mounting Challenges to Its European Objectives

Chinese leaders perceive a challenge from growing economic competition with the EU as well as growing EU efforts to insulate their economies from China. China's most recent policy paper on China-EU relations from 2018 contains significant new emphasis

*In 2022, Germany imported \$202 billion (192 billion euro) of goods from China, and it exported \$113 billion (107 billion euro) to China. *Reuters*, "China Remains Germany's Main Trading Partner for Seventh Year," February 8, 2023.

†This record is particularly noteworthy due to low rates of international travelers entering China in 2022 as a result of its strict COVID-19 quarantine policies. This means German investors continued funneling money into the Chinese market despite substantial barriers to physically assessing acquisitions, investment targets, and joint ventures.

‡China's FDI flows into the EU were valued at \$6 billion in 2022. Agatha Kratz et al., "Chinese FDI in Europe: 2022 Update," *Rhodium Group*, May 9, 2023, 3, 22.

§In 2022, BASF posted total sales of \$92 billion (87.3 billion euro), with sales to greater China accounting for \$12.2 billion (11.6 billion euro) or approximately 13 percent. For more on European firms' localization and siloing activities in China, see the passage in this section titled "Despite De-Risking, Large and Powerful European Firms Remain Embedded in China." BASF, "BASF Report 2022," February 24, 2023; BASF, "BASF in Greater China 2022."

on a perceived need to constructively manage growing economic frictions between the two powers.⁶¹ This represents a slight escalation from the 2014 version, which contained the first mention of competition between similar Chinese and European industries, and it presents an acute contrast with the 2003 document, which based its positive economic outlook on an assessment that China and the EU had complementary market characteristics.⁶² Recent assessments from key state-affiliated think tanks also signal a potential shifting of official views on China's relations with the EU. Analyses from the China Institutes of Contemporary International Relations (CICIR)* and Chinese Academy of Social Sciences (CASS)† assess that the EU increasingly sees China as both an economic competitor and a technological rival, resulting in greater frictions over reciprocity of market access and fairness of competition.‡⁶³

Chinese leaders view Europe and the United States as increasingly aligned against China.⁶⁴ In a speech in March 2023, Xi Jinping reiterated a view that “Western countries led by the United States have implemented all-around containment, encirclement, and suppression of China,” a characterization that includes many European powers.⁶⁵ Other Chinese sources, including Party-aligned academics and state-funded think tanks, also point to growing alignment between Europeans and the United States as a strategic challenge for China and that relations with Europe are growing increasingly tense as a result.⁶⁶ European states and institutions are implicated within the Chinese government's harsh anti-“Western” and anti-NATO rhetoric, reflected in China's accusations against countries allegedly clinging to a so-called “Cold War mentality” and its criticism of the United States playing “group politics” with “small circles” aimed at China.⁶⁷ Feng Zhongping, head of the Institute of European Studies at CASS, argued in 2022 that intensified strategic competition between the United States and China has driven European countries to increase their focus on China and the Indo-Pacific.⁶⁸ As a result, he assessed, European states now also increasingly seek to coordinate their positions with the United States.§⁶⁹

* CICIR is a leading international relations think tank under the direction of China's primary foreign intelligence-gathering institution, the Ministry of State Security. Experts assess that it has significant influence in informing Party-state leadership opinions on foreign policy issues. Center for Strategic and International Studies, “Contemporary International Relations.”

† CASS operates under the auspices of China's State Council.

‡ Another example of this assessment can be seen in a 2022 article from *World Affairs*, an academic publication that presents international and regional politics through the lens of the Party line. The author, the director of the Center for EU Studies at Shanghai International Studies University, assesses that China's growing economic strength relative to Europe and the narrowing gap between the two sides' technological and industrial development has generated anxiety over China-Europe economic relations, leading to the creation of policy tools specifically aimed at China. Xin Hua, “Sino-European Relations: Awaiting the Next Spring while Riding a Roller Coaster” (中欧关系:在过山车般起伏中等待下一个春天), *World Affairs*, March 1, 2022. Translation; Center for Strategic and International Studies, “Sino-European Relations: Awaiting the Next Spring while Riding a Roller Coaster” (中欧关系:在过山车般起伏中等待下一个春天). Translation.

§ As another example, in August 2022, China's Vice Foreign Minister Deng Li lodged “stern representations” against certain European officials for issuing supportive statements following then Speaker of the House of Representatives Pelosi's visit to Taiwan. A following description of the exchange from China's Ministry of Foreign Affairs displayed palpable anger and frustration at the European policymakers for aligning with the U.S. action rather than condemning it. China's Ministry of Foreign Affairs, *Ministry of Foreign Affairs Lodged Solemn Representations with Relevant European Countries and EU Diplomatic Envoys in China over the Taiwan-Related Statements Issued by the G7 Foreign Ministers and the EU High Representative for Foreign Affairs and Security Policy* (外交部就七国集团外长和欧盟外交与安全政策高级代表发表涉台声明向有关欧洲国家和欧盟驻华使节提出严正交涉), August 5, 2022. Translation.

China's actions and statements throughout Russia's war in Ukraine suggest Beijing is willing to tolerate damage to its relations with Europe in order to sustain its strategic partner, Russia.⁷⁰ China has continued to engage diplomatically with European governments and increased its diplomatic activity in Europe over the course of the war, potentially as a means of limiting the damage to its relations with the EU and other European countries.⁷¹ Nevertheless, Xi has at the same time continued to engage in high profile diplomatic exchanges with Putin, including at a lavish state visit to Moscow a year into the war, which featured a red carpet, a mounted welcome committee, a welcome ceremony with a military band, and a grand banquet at the Kremlin.⁷² EU and European countries have also gained few concessions from Beijing during this time beyond reiteration of past agreements, such as a statement from Xi and German Chancellor Olaf Scholz that they both "jointly oppose the use or threat of use of nuclear weapons."⁷³ Instead, Xi has responded by increasing support for Russia's war.⁷⁴ At the same time, Chinese diplomats have made statements further alienating European audiences,* and European countries in NATO have repeatedly been painted by China's Ministry of Foreign Affairs as responsible for the war in Ukraine.⁷⁵ In his testimony, Mr. Small assessed that these actions should not be seen as "mistakes" on the part of Beijing, as European leaders have been quite clear about how certain positions on the war would harm relations.⁷⁶ Instead, he argues, given the strategic value of China's partnership with Russia, "Beijing has essentially decided to accept some level of collateral damage to its relationships in Europe as the price for deepening and elevating its ties with Moscow."⁷⁷ Xi himself reportedly stated during his March 2023 visit to Moscow that "consolidating and developing long-term good-neighborly and friendly relations with Russia is in keeping with historical logic, is China's strategic choice, and will not change simply due to a temporary incident."⁷⁸

Finally, Chinese observers have expressed concern over a gradual rise in European countries' emphasis on values-based approaches to China policy. As described further below (see section on "Europe's Shifting Views on China"), European governments and publics are increasingly vocal about the Chinese Party-state's human rights abuses. Europe's growing focus on these issues is mirrored by China's increasingly sharp rhetoric concerning China-Europe dialogue over the past 20 years. For example, in its 2003 policy document, China expressed relatively little concern over the differences between China and the EU regarding human rights and other political issues.⁷⁹ By 2014, China elevated the intensity of its charac-

*As in other regions, Chinese representatives have made use of "wolf warrior" diplomacy, a confrontational and assertive brand of diplomacy that calls for Chinese representatives to be aggressive, forceful, and occasionally disruptive in their response to international events. Some of China's most prominent and controversial wolf warrior diplomats have been deployed to Europe, including the Chinese ambassador to France Lu Shaye who—just three weeks after President Macron's trip to Beijing—claimed that former Soviet countries like Ukraine have no "effective status" in international law. When asked if Crimea belongs to Ukraine, Ambassador Lu stated that "it depends how you perceive the problem," further arguing that it was historically Russian territory that was only transferred to Ukraine by the former Soviet leader Nikita Khrushchev. Antonia Zimmermann, "Baltics Blast China Diplomat for Questioning Sovereignty of Ex-Soviet States," *Politico*, April 23, 2023; Kathrin Hille, "Wolf Warrior Diplomats Reveal China's Ambitions," *Financial Times*, May 11, 2020; Ben Westcott and Steven Jiang, "China Is Embracing a New Brand of Foreign Policy. Here's What Wolf Warrior Diplomacy Means," *CNN*, May 29, 2020.

terization of these discussions to “frictions,” and in 2018 it alluded to increasing tensions by exhorting the EU to choose dialogue over “confrontation.”⁸⁰ Mr. Feng at CASS argued in 2022 that a particularly important recent shift in the China-Europe relationship was the EU’s designation of China as a “systemic rival” in 2019, a label he assessed to be “mostly about values... and differences in domestic governance models between the two sides.”⁸¹ Analysis from CI-CIR similarly describes this shift as reflecting a growing perception in Europe that China’s Party system goes against so-called “Western” universal values of freedom, democracy, rule of law, and human rights.⁸²

China’s Challenges to Europe

China’s continued disregard for the rules-based international order and its increasing risk to European economic and physical security presents a series of challenges for Europe and a number of implications for the United States. Primarily, Europe must confront and mitigate the strategic impact of an increasingly aggressive China while balancing its economic dependence on the Chinese market. For its part, the United States may be confronted with consequences from China’s actions through their impact on European markets and security calculations as well as potential spillover effects from European governments’ policy responses to China.

China’s Economic and Political Support for Russia Undermines European Security

China’s provision of economic, logistical, and diplomatic support to Russia enables President Vladimir Putin’s war of aggression in Europe and also undermines European security in other ways. By providing Russia an economic lifeline, China’s trade with Russia is undermining the effectiveness of European and U.S. sanctions and export controls and helping to prolong the war in Ukraine by enabling Russia’s military offensive.⁸³ In 2022, total bilateral goods trade between China and Russia rose by almost 30 percent.⁸⁴ By increasing its imports of Russian crude oil, China helped support and stabilize the Russian state budget by providing revenue to offset Russia’s war spending.⁸⁵ Chinese direct exports of semiconductors to Russia more than doubled in 2022, undermining the effectiveness of export controls by providing Russia with chips needed to help rebuild its dwindling missile stocks.⁸⁶ China also provided significant dual-use logistics support to Russia through an 11-fold increase in export of super-heavy trucks capable of moving military equipment.⁸⁷ Additionally, 70 Chinese exporters are reported to have sold Russia drones, including those for commercial use, that could be used in military operations against Ukrainian forces.⁸⁸ Diplomatically, China has supported Russia by refusing to condemn the invasion and instead echoing Russia’s groundless claims that it acted on the basis of “legitimate” security concerns.⁸⁹ Finally, China has provided rhetorical support for Russia in the information domain by amplifying Russian disinformation and downplaying reports of Rus-

*The U.S. Department of the Treasury estimates that the Russian government’s oil revenue constitutes 23 percent of its budget in 2023. Elizabeth Rosenberg and Eric Van Nostrand, “The Price Cap on Russian Oil: A Progress Report,” *U.S. Department of the Treasury*, May 18, 2023.

sian war crimes.⁹⁰ (For more on the China-Russia relationship and China's support to Russia's war in Ukraine, see Chapter 1, Section 2, "U.S-China Security and Foreign Affairs.")

Unbalanced Trade and Investment with China Undermines Europe's Economic Security

China's trade relationship with Europe undermines European competitiveness through market distortions caused by China's unfair trade practices. These practices include anticompetitive actions like firm subsidies and below-market price distortions, intellectual property theft through malicious cyber activities and forced technology transfers, and protectionism through market access restrictions and nonmarket interventions that bolster and concentrate production within China. Due to these practices, the EU's aggregate trade deficit with China tripled (in euro) from \$151 billion (118 billion euro) in 2012 to just under \$417 billion (396 billion euro) in 2022.⁹¹ This expansion was primarily driven by China's increasing exports to the EU, including in high-value products like green technology, EVs, and telecommunications equipment.⁹² While Europe also sells some high-value goods to China, including machinery and vehicles, which comprise 52 percent of China's imports from Europe, the benefits of this trade accrue unevenly and tend to concentrate within a small set of firms and countries.⁹³ Of the \$242 billion (230 billion euro) in goods the EU exported to China in 2022, 46.4 percent were from Germany, 10.3 percent were from France, and 8.1 percent were from the Netherlands.⁹⁴ The other 24 EU countries contributed the remaining 35 percent.⁹⁵ Moreover, these large economies tend to specialize in high-value and high-tech exports. For example, 80 percent of the EU's car exports were made in Germany.⁹⁶ Excluding exports from these select countries, Europe's export basket to China consists primarily of agricultural commodities and raw materials and looks virtually indistinguishable from China's trade with many low-income countries.⁹⁷

The impact of China's unfair trade practices is becoming apparent as European producers face rising export competition with Chinese producers in high-tech sectors, including in wind turbines and EVs. Chinese wind turbine manufacturers are gaining a significant foothold in European markets, taking market share from European and U.S. manufacturers like Vestas Wind Systems, Siemens Gamesa Renewable Energy, and General Electric.⁹⁸ China already dominates the global market for rechargeable batteries, and it has become the world's top auto exporter at the expense of European carmakers' global market share in terms of total units sold.*⁹⁹ While China still imports more vehicles from Europe than it exports to Europe, the CEOs of the French and Dutch car producers Peugeot and Stellantis have both publicly recognized the competitive threat posed by Chinese EV makers.¹⁰⁰ China's growing success in Europe is due to China's unfair trade practices as well as European policy inducements. Chinese EV producers operate in a highly protected and sub-

*According to data by the International Organization of Motor Vehicle Manufacturers, in 2019 the EU and UK produced 19.5 percent of motor vehicles globally, while China produced 28 percent. By 2022, Europe produced only 16.2 percent, while China's market share rose to 31.8 percent. International Organization of Motor Vehicle Manufacturers, "2022 Statistics."

sided market at home,* encounter low EU tariffs when exporting their cars to the European market, and also reap the benefit of EU subsidies since many EU countries' EV subsidies apply to imports as well as locally produced autos.¹⁰¹ Moreover, the EU's 2035 ban on the sale of new combustion engines that do not run on CO₂-neutral fuels has sharply increased demand for EVs, particularly Chinese EVs, which are highly competitive with European cars due in part to these Chinese and European policies.[†]¹⁰²

China's Infrastructure Investments Increase Europe's Vulnerability to Economic Coercion

China is expanding its coercive capacity over Europe through investments in critical European infrastructure, including logistics networks, ports, and 5G capabilities. Chinese logistics companies are expanding into European transportation networks to capitalize on Europe's booming e-commerce market and move outside of China's slowing domestic economy. Cainiao, an affiliate of the internet giant Alibaba, has significantly increased its EU footprint by expanding air cargo and trucking networks, building a regional hub in Belgium, and establishing a partnership with Germany's DHL.¹⁰³ Additionally, Chinese investments in European ports have increased as China seeks to expand sea trade traffic to accommodate its growing economic power and influence under the Belt and Road Initiative.¹⁰⁴ Two Chinese state-owned enterprises—COSCO and China Merchants Group—maintain sizable shares in four of Europe's top five busiest ports.[‡]¹⁰⁵ Several European ports have also entered into agreements with LOGINK, China's state-run logistics data management system, granting access to international shipping data that China could aggregate for commercial or security advantage.¹⁰⁶ Finally, Chinese telecommunications play a prominent role in several European countries' 5G networks. Countries like Austria, Germany, Italy, Poland, Portugal, and Spain have continued to buy large amounts of Chinese-made 5G equipment despite efforts by the EU and European countries to limit Huawei and ZTE's presence in

*For more information on China's EV subsidy program, see U.S.-China Economic and Security Review Commission, Chapter 2, Section 2, "CCP's Economic and Technological Ambitions: Synthetic Bio, New Mobility, Cloud Computing, and Digital Currency," in *2021 Annual Report to Congress*, November 2021, 165–213.

†In March 2023, following resistance from Bulgaria, Germany, Italy, and Poland, the EU revised the proposed ban to allow for the sale of new vehicles with combustion engines past 2035 as long as the vehicles run on CO₂-neutral e-fuels. E-fuels are created in part by capturing atmospheric CO₂ and hydrogen and using it to make a burnable fuel. While the burning of e-fuel creates some emissions, in the case of CO₂-neutral fuels, the amount of CO₂ released into the atmosphere is equal to the amount removed from the atmosphere in the synthesis process. Not all e-fuels are 100 percent carbon neutral. The final legislation for the 2035 ban was approved by the European Council in late March after a two-week delay in voting, with ongoing efforts to draft rules allowing for the sale of vehicles running on e-fuels. In September, a draft of the rules indicated that the EU would only allow the sale of 100 percent CO₂-neutral e-fuels. That month, Lühmann Gruppe—a German company that sells e-fuels—also announced its intent to pursue legal action against the EU if the rules do not allow for the sale of all e-fuels, including those that are not 100 percent CO₂-neutral. Nik Martin, "German Firm to Sue EU over Ban on Polluting Cars," *Deutsche Welle*, September 23, 2023; Kate Abnett, "EU Set to Demand E-Fuel Cars Have No Climate Impact," *Reuters*, September 22, 2023; Jason Eden, "EU Approves 2035 Ban on Internal Combustion Engines," *Energy Intelligence*, March 28, 2023; Victoria Waldersee and Kate Abnett, "Explainer: What Are E-Fuels, and Can They Help Make Cars CO₂-Free?" *Reuters*, March 22, 2023; Hanne Cokelaere, "Approval of EU's 2035 Combustion Engine Ban Postponed," *Politico*, March 3, 2023.

‡These include the Netherlands' port of Rotterdam, Belgium's port of Antwerp-Bruges, Germany's port of Hamburg, and Spain's port of Valencia. Eurostat, "Top 5 Ports for Volume of Containers—Volume (in TEUs) of Containers Handled in Each Port."

their networks.¹⁰⁷ China's growing investments in European critical infrastructure gives it access to and leverage over Europe's communications networks and supply lines, which leaves Europe vulnerable to attempted economic coercion through pressure on these networks.¹⁰⁸ This indirectly impacts the United States, which also depends on European logistics networks to source and deliver goods from Europe and other trade partners.

Adoption of LOGINK in European Ports Creates Economic and Strategic Risks

To increase China's influence in international logistics, China's Ministry of Transportation is promoting a unified logistics platform formally called the National Transportation and Logistics Public Information Platform and abbreviated as LOGINK (a portmanteau of "logistics" and "link").* The state-sponsored and -supported platform has agreements with at least 24 ports across the world, of which nine are located in Europe.¹⁰⁹ These include the three busiest ports in the EU: Rotterdam, Antwerp-Bruges, and Hamburg.¹¹⁰

LOGINK's expansion in Europe presents several shared security concerns for the EU and United States. State control of the LOGINK platform provides the CCP access to data collected and stored on the platform and could enable the Chinese government to gain insights into shipping information, cargo valuations via customs clearance forms, and destination and routing information, including for military cargo shipped via commercial freight. This undermines EU security as it provides China insight into sensitive information on European consumer and military supply lines, including military support being shipped into the EU for Ukraine's defense.

European ports' adoption of LOGINK also has consequences for the United States and NATO allies, which depend on European ports to ship military equipment throughout the region. For example, in July 2022, the United States used a commercial cargo vessel to transport 2,700 items of military equipment—including light tactical vehicles—through the port of Antwerp-Bruges,† which has had a cooperation agreement with LOGINK since 2017.‡¹¹¹ It is possible that these items, which were provided in fulfillment of U.S. obligations to NATO and in support of Ukrainian defense, were observed by the Chinese government via the LOGINK platform.¹¹² Finally, LOGINK is just one Chinese platform

*LOGINK provides users with a unified platform for logistics data management, shipment tracking, and information exchange needs between enterprises as well as from business to government. China's government is encouraging international ports, freight carriers and forwarders, and other countries and entities to adopt LOGINK by providing it free of charge. For more on LOGINK's background and risks to U.S. interests, see U.S.-China Economic and Security Review Commission, *LOGINK: Risks from China's Promotion of a Global Logistics Management Platform*, September 20, 2022.

†In the media release regarding the shipment, the U.S. Army described Antwerp-Bruges as "one of the largest and busiest seaports in the world with a long tradition of supporting U.S. Army forces." United States Army, *U.S. Armor Arrives in Europe for Unit Deployment*, July 22, 2022.

‡The LOGINK cooperation agreement was initially signed with the port of Antwerp in 2017. In 2022, the port of Antwerp merged with the port of Zeebrugge and is now called Antwerp-Bruges. U.S.-China Economic and Security Review Commission, *LOGINK: Risks from China's Promotion of a Global Logistics Management Platform*, September 20, 2022; Ship Technology, "Belgium's Antwerp and Zeebrugge Ports to Merge," April 29, 2022.

Adoption of LOGINK in European Ports Creates Economic and Strategic Risks—Continued

that is gaining a foothold in the European logistics market. Other Chinese firms are also expanding in Europe, including Alibaba's logistics arm, Cainiao, which is also developing a warehouse and shipping network in Europe.¹¹³

China's Growing Influence in Technical Standards-Setting Could Undermine European Industries

As part of its efforts to gain a dominant position in key emerging industries, China is increasing its leadership roles and committee participation in international standards-setting bodies at the expense of some EU countries. By acquiring leadership positions in standards-setting organizations, including the prominent International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), China is better positioned to set the technical agenda and shape the standardization process toward its interests, in some cases to the detriment of European industries.* To this end, China's share of leadership positions in the ISO has increased from 6.1 percent in 2011 to 10.4 percent by 2022.¹¹⁴ While its share is still below that of leading EU countries and the United States, China is gaining a relatively greater share of leadership positions over time as some EU countries' and the United States' representation in the organization declines.¹¹⁵ In 2011, of the 737 total ISO technical committee and subcommittee chairs, the United States held 117 Secretariats (16 percent), China held 45 Secretariats (6 percent), and EU countries held 286 Secretariats (39 percent of total).¹¹⁶ By 2022, the number of chairs increased to 759; however, U.S. representation declined to 92 Secretariats (12 percent), while China's representation increased to 79 Secretariats (10 percent).¹¹⁷ Although the EU's aggregated representation remained constant at 294 Secretariats (39 percent), nine EU participants either lost chairs or had not gained chairs at a rate proportional to the expansion of the number of Secretariats.† In addition to expanding its leadership positions, China is also increasing its participation in standards development committees within the ISO and IEC to exploit first-mover advantage by establishing its preferred technical standards in key industries, including rare earths, transaction assurance in e-commerce, and smart grid user interface, among others.‡¹¹⁸

*For information on China's participation in the International Telecommunication Union (ITU), another prominent technical standards organization that tends to have more traction in developed countries, including the United States and the EU, see Chapter 2, Section 1, "Rule by Law: China's Increasingly Global Legal Reach."

†From 2011 to 2022, five EU countries—including Denmark, the Netherlands, Poland, Slovakia, and Spain—lost ISO Secretariats. Three countries—Austria, Finland, and Portugal—had no change in their count of Secretariats. While Germany's number of Secretariats increased by one over this period, this rate of increase is not commensurate with the rate of increase in the total number of ISO Secretariats or with China's rate of increase and thus represents a slight decline in Germany's relative representation in the ISO. International Organization for Standardization, "ISO in Figures 2022," January 2023; International Organization for Standardization, "ISO Annual Report 2011," 2012.

‡For more information on China's strategy for domestic and international standards-setting, see U.S.-China Economic and Security Review Commission, Chapter 1, Section 2, "The China Model: Return of the Middle Kingdom," in *2020 Annual Report to Congress*, December 2020, 80–135.

By joining these bodies, China seeks to make its exporting firms more competitive and induce European dependence by locking European firms into Chinese technical standards. China seeks to promote its own set of technical standards for critical and emerging technologies, such as in 5G, through the adoption and enforcement of Chinese standard-essential patents (SEPs) in international and regional standards-setting bodies. SEPs protect firms that develop novel standards by requiring firms that adopt these standards to pay royalties to the SEP holder. By popularizing Chinese-developed standards in international organizations, China can force foreign companies to pay royalties to Chinese SEP holders and induce dependence on Chinese technology.* This practice presents significant challenges to European firms working in emerging technology fields, like the Swedish telecommunications firm Ericsson, which faces strong and increasing competition in international standards organizations from the Chinese firm Huawei.†¹¹⁹ Moreover, if Chinese standards are not interoperable with European products, then European firms will either need to adjust to Chinese standards or lose market share.¹²⁰ If left unaddressed, U.S. and EU companies both face the potential of becoming dependent on Chinese technology that is incompatible with U.S.- and EU-produced goods. In addition, a lack of coordination between the United States and EU on technical standards vis-à-vis China may lead to fragmentation in standards, thus reducing the pace of shared technological development and limiting the potential for economic growth.

Europe's Evolving Approach to China

Europe's Shifting Views on China

Diverse, evolving, and not yet consolidated, European attitudes toward China vary from regarding Beijing simultaneously as a policy partner and economic competitor to seeing it as a systemic rival, with the latter view becoming more salient in recent years. The European Commission's March 2019 Strategic Outlook first defined China as being "simultaneously ... a partner for cooperation and negotiation, an economic competitor and a systemic rival."¹²¹ The inclusion of the label "systemic rival," even alongside two less confrontational descriptors, is a notable departure from previous EU statements that took a "business first" approach to relations.¹²² Although this three-fold descriptor remains the EU's official position, in light of many challenging developments in EU-China relations over recent years, the EU acknowledges its policies have been increasingly informed by the "systemic rival" element of this framework and that the bloc may even be reexamining this policy position.¹²³ While the

*For more on China's use of standard-essential patents, see Chapter 2, Section 1: "Rule by Law: China's Increasingly Global Legal Reach."

†Due in part to the proliferation of SEPs held by both firms, in August 2023, Ericsson and Huawei renewed a multiyear global patent cross-licensing deal that gives the two companies access to each other's patented, standardized technologies. The deal involves numerous international standards-setting bodies like 3GPP, the primary standards-setting body for telecommunications standards like 5G, as well as ITU and two other major international standards-setting organizations. The agreement replaces a previous deal struck between the two companies in 2016. Dominic Chopping, "Ericsson and Huawei Renew License Deal, Giving Access to Each Other's Patents," *Wall Street Journal*, August 25, 2023; Robert Clark, "Huawei, Ericsson Renew Cross-Licensing Deal," *LightReading*, August 25, 2023.

EU as an institution appears to be hardening its views, several of Europe's largest economies maintain a more favorable attitude.

China as a “Systemic Rival”

Since the 2019 Strategic Outlook, the EU has identified China as not only a “partner” and a “competitor” but also a “systemic rival.”¹²⁴ While the “partner” label reflects the EU’s desire to maintain dialogue with China on global challenges, such as climate change, and the “competitor” label aptly describes increasing frictions between the EU and China in the economic and technological realms, the “systemic rival” label is especially relevant in the political and geopolitical domains.¹²⁵ The 2019 Strategic Outlook describes China more fully as “a systemic rival promoting alternative models of governance,” indicating that China’s authoritarian political model and the implications of that model for the international system lie at the base of the “systemic rival” distinction.¹²⁶ Tim Rühlig, then a research fellow at the Swedish Institute of International Affairs, explained this point in a report in November 2020, assessing that “on political values, China clearly is a ‘systemic rival’” of the EU.*¹²⁷ At the same time, he argued that the term was associated with the European Commission’s push to take a more “geopolitical” approach to its policy on China.¹²⁸

Although the Strategic Outlook presents the three domains separately, some European observers have argued that the EU’s systemic rivalry with China has the potential to influence the other two domains of partnership and competition because of its association with the EU’s fundamental values.¹²⁹ For example, Janka Oertel, director of the Asia Program at the European Council on Foreign Relations, argued in 2020 that “a European China policy that takes systemic rivalry seriously means to clearly define red lines in certain areas and to actively decide against cooperating if it increases dependence and reduces Europe’s strategic sovereignty.”¹³⁰ In his 2020 report, however, Dr. Rühlig assessed that there was not a full consensus among the branches of EU government † on how integrated the three domains should be.¹³¹ He explained that the European Council “contributes to keeping separate the three pillars” by facilitating a “pragmatic” approach to China.¹³² The European Parliament, by contrast, tends to fall on the opposite side of the spectrum, “demanding that the systemic rival-

*In a speech in June 2021, President von der Leyen similarly identified China’s human rights record as the main issue defining the systemic rivalry between the two powers. *Reuters*, “EU Says China Is a Systemic Rival, Human Rights Is Main Issue,” June 15, 2021.

†The EU is governed by a set of institutions that reflect its simultaneous supranational and intergovernmental character. These include the European Council, European Commission, Council of the European Union (also known as the Council of Ministers), and the European Parliament. The European Council is composed of the heads of state or government of the EU’s member states and acts as the strategic guide for EU policy. The European Commission acts as the EU’s executive and upholds the common interest of the EU as a supranational body. It is made up of 27 commissioners, among whom one serves as the commission president. The Council of the European Union, by contrast, represents the interests of the national governments and is composed of different ministers from each member state. The European Parliament represents EU citizens and is composed of directly elected Members of the European Parliament (MEPs) who caucus according to political affiliation rather than nationality. Congressional Research Service, “The European Union: Questions and Answers,” February 6, 2023, 2.

China as a “Systemic Rival”—*Continued*

ry on political values cannot be ignored in other issue areas,”* while the European Commission has similarly “taken office with a view to overcoming policy silos and striving to strategically link issues.”¹³³ The ultimate balance of these differing views in the EU’s China policy, he observed, remains undetermined.†¹³⁴

Europe’s hardening view of China is informed in part by an increasingly values-based approach to relations as well as rising tension from escalating retaliatory sanctions. In March 2021, the EU sanctioned four Chinese officials and one Chinese entity involved in the mass internment of Uyghurs in Xinjiang. China retaliated with countersanctions targeting five Members of the European Parliament, the European Council’s Political and Security Committee, and a number of EU member state Members of Parliament, think tanks, and academics.¹³⁵ In response, the European Parliament voted to freeze a proposed agreement with China that would open bilateral investment and trade by addressing a number of European concerns regarding economic engagement with China, including opening areas of the Chinese economy for European investment, theoretically banning the forced transfer of technology, mandating transparency in subsidies, and requiring state-owned enterprises to not discriminate against foreign firms in procurement and sales, among other provisions.¹³⁶ The Comprehensive Agreement on Investment (CAI) had been in negotiation since 2014, and while an initial deal was reached in December 2020, it was frozen before it could be ratified.¹³⁷ China has since attempted to revive the deal, proposing that Beijing and Brussels simultaneously lift the sanctions it claims caused the deal to derail.‡¹³⁸ Lack of discussion on the CAI during President von der Leyen’s April 2023 trip to Beijing, however, is a strong indication that the deal is unlikely to be revived.¹³⁹

China’s increasingly coercive approach to relations with Europe heightened European awareness of Beijing’s threat to economic security. In 2021, Lithuania opened a Taiwanese Representative Office in Vilnius, the first in any European country to bear the name “Taiwan” rather than “Taipei.”§¹⁴⁰ Beijing retaliated by downgrading

* Member of the European Parliament Reinhard Bütikofer illustrated this view in an interview in 2020 when he said, “The [Strategic Outlook] does not bid good-bye to cooperation with China, even though we are systemic rivals. It ends, however, the dominance of the win-win rhetoric... cooperation and competition with China have to be shaped by understanding what it means that we are systemic rivals.” Katrin Altmeyer, “Between Cooperation and Systemic Rivalry: The EU-China Relations,” *Heinrich Böll Stiftung*, July 24, 2020.

† In their respective 2020 interviews, both Dr. Oertel and MEP Bütikofer agreed that because of the strategic implications of the systemic rivalry, a simple juxtaposition of the three elements side by side was increasingly insufficient, and their integration was also not yet a reality in practice. Katrin Altmeyer, “Between Cooperation and Systemic Rivalry: The EU-China Relations,” *Heinrich Böll Stiftung*, July 24, 2020.

‡ From the European perspective, China’s abuse of human rights in Xinjiang and its retaliatory sanctions on European individuals and entities is what ultimately stalled the CAI. European Parliament, “MEPs Refuse Any Agreement with China Whilst Sanctions Are in Place,” May 20, 2021.

§ Beijing objects to the international use of the name “Taiwan,” considering it inappropriately suggestive of official recognition or independence for the democratic island and a violation of its One China principle. For this reason, it is common for international representation of Taiwan to occur under the name “Taipei” as a concession to avoid backlash from Beijing. Matthew Reynolds and Matthew Goodman, “China’s Economic Coercion: Lessons from Lithuania,” *Center for Strate-*

diplomatic relations with Lithuania and launching a campaign of economic coercion.¹⁴¹ China removed Lithuania from its customs system, effectively blocking all imports of Lithuanian goods and exports to Lithuania.¹⁴² Beijing also threatened several European multinational firms, including the large German auto parts manufacturer Continental, with exclusion from the Chinese market if they did not partake in China's efforts to cut off Lithuania from international trade.¹⁴³ While Continental and the German-Baltic Chamber of Commerce called on Lithuania to seek a "constructive solution" with China, the EU took measures to support Lithuania by filing a complaint with the WTO and developing an EU-wide anticoercion instrument (ACI).¹⁴⁴ European policymakers also strengthened their rhetorical approach to China. In a speech before her departure for Beijing in April 2023, President von der Leyen stated that "the imperative for security and control now trumps the logic of free markets and open trade," adding, "the Chinese Communist Party's clear goal is a systemic change of the international order with China at its center."¹⁴⁵

China's attempts to undermine the EU's response to the COVID-19 pandemic contributed to a significant hardening in European views on China. During the pandemic, authorities in Beijing aroused suspicion in Brussels by continually bypassing and discrediting EU institutions by interacting with countries bilaterally.¹⁴⁶ Beijing particularly sought to take advantage of the dissatisfaction that hard-hit countries like Spain and Italy felt with the EU's pandemic response to boost its own reputation through medical aid.¹⁴⁷ Unlike the EU, which tended to provide slower-moving but higher-quality pandemic aid to states with the greatest need, China's COVID-19 relief strategy focused on the quick sale of medical supplies and vaccines to politically relevant states.¹⁴⁸ China's attempt at dividing Europe was ultimately unsuccessful, as the EU was able to provide a high degree of fiscal support to member states during the pandemic and beyond; however, it did increase European attention to and negative perceptions of China.¹⁴⁹ According to data from the Pew Research Center, in 2016, five of ten surveyed European countries had more than 50 percent of respondents indicating they held an unfavorable view of China.¹⁵⁰ By 2022, all ten countries had more than 50 percent of respondents indicating an unfavorable view, due in large part to China's poor handling of the COVID-19 pandemic.¹⁵¹

China's support for Russia in the Ukraine war has caused a sharp decline in European views of China, further accelerating the ongoing deterioration of relations for many European countries. In the months immediately following Russia's invasion of Ukraine, China's unwillingness to condemn the unprovoked assault on a European state placed great additional strain on its diplomatic interactions

gic and International Studies, May 6, 2022; *EuroNews*, "Lithuania: China Condemns 'Extremely Egregious Act,' as Taiwan Opens Vilnius Office," November 11, 2021.

* For more information on the anticoercion instrument, see the passage in this section titled "Europe Seeks to Reduce Economic Vulnerability and Increase Economic Resilience."

† After the EU enacted a ban on exports of medical equipment to non-EU countries, the president of Serbia—a non-EU country—turned immediately to Beijing and heaped praise upon General Secretary Xi and the CCP in exchange for a large shipment of medical aid. Stuart Lau, "EU Fires Warning Shot at China in Coronavirus Battle of the Narratives," *South China Morning Post*, March 24, 2020.

‡ Surveyed countries included France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, Sweden, and the UK.

with the EU.*¹⁵² Relations were further aggravated by China's attempts to use the war to drive a wedge between Europe and the United States. China's support for Russia and attempts to inflame U.S.-EU relations have precipitated a souring of public attitudes toward China. According to a poll of 13 European countries conducted by the International Republican Institute in August 2022, 34 percent of respondents said their views of China have worsened, with 66 percent citing China's partnership with Russia as the biggest factor.[†]¹⁵³ In addition, Russia's invasion of Ukraine and the subsequent EU sanctions on Russian oil and gas further increased European sensitivity to economic dependency on authoritarian states, including China.[‡] This heightened sensitivity to dependence on authoritarian countries increased Europe's urgency in its attempts to reduce its economic vulnerability to coercion from China, ultimately leading to calls by the European Commission to "de-risk" from China.

NATO Moves to Address Challenges from China

NATO views China as a "challenge" to the interests of the Alliance and is taking incremental but steady steps to address it within the framework of the transatlantic organization. In 2022, NATO made the first revision in 12 years to its guiding policy document, the Strategic Concept, and incorporated China into the document for the first time.[§]¹⁵⁴ The revised Strategic Concept declares that China's "stated ambitions and coercive policies challenge [NATO's] interests, security, and values" and describes China's use of a broad range of political, economic, and military tools to increase its power and global reach.¹⁵⁵ The document declares that China's hybrid and cyber operations, confrontational rhetoric, and disinformation "target Allies and harm Alliance security."¹⁵⁶ It states that China seeks to control key technological and industrial sectors, critical infrastructure, strategic materials, and supply chains.¹⁵⁷ It further warns that China uses its economic leverage to "create strategic dependencies and enhance its influence."¹⁵⁸ The document also calls attention to China and Russia's "mutually reinforcing attempts to undercut the rules-based international order" as well as China's own subversive actions in the space, cyber, and maritime domains.¹⁵⁹ Finally, it expresses

* Following a summit with Xi in April 2023, the EU High Representative for Foreign Affairs Josep Borrell described the meeting as a "dialogue of the deaf" in which China's representatives refused to engage substantively in discussion on the Ukraine war. Philip Glamann, "EU's Top Envoy Calls Summit with China's Xi a 'Deaf Dialog,'" *Bloomberg*, April 5, 2022.

† Surveyed countries include: Austria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. International Republican Institute, "IRI Poll Across 13 European Countries Shows Concerns with China-Russia Partnership, a Desire for Action against Human Rights Abuses, Economic Anxiety," January 18, 2023.

‡ In 2021, gas burning generated 15.3 percent of German electricity, and Russian gas accounted for 32 percent of Germany's total gas supply. In addition, 34 percent of Germany's crude oil was imported from Russia that year. Vera Eckert and Kate Abnett, "Factbox: How Dependent Is Germany on Russian Gas?" *Reuters*, March 8, 2022.

§ NATO formally acknowledged that China's "growing influence and international policies" posed "challenges" to NATO for the first time in a summit communiqué—known as the "London Declaration"—in 2019. Nevertheless, the incorporation of this language into the Strategic Concept marks its integration into a much higher-level strategic guiding document. Garret Martin and James Goldgeier, "NATO, China, and the Vilnius Summit," *War on the Rocks*, July 7, 2023; North Atlantic Treaty Organization, "London Declaration," July 1, 2022; Paul Belkin, "NATO: Key Issues for the 117th Congress," *Congressional Research Service*, June 3, 2021, 5–6.

NATO Moves to Address Challenges from China— *Continued*

concern about China's rapid and nontransparent expansion of its nuclear capabilities.¹⁶⁰

The July 2023 NATO summit in Vilnius, Lithuania, issued a communiqué that reinforced the Strategic Concept's provisions on China, with modest proposals for implementation.¹⁶¹ Not only did the communiqué reemphasize every point mentioned in the Strategic Concept, it also offered greater detail on NATO's specific concerns regarding China's relationship with Russia and China's expanding nuclear capabilities.¹⁶² On Russia, it explicitly called upon China to "act responsibly" and "refrain from providing any lethal aid."¹⁶³ Additionally, the Vilnius communiqué added a new reference to NATO addressing systemic challenges from China in cooperation with the EU, suggesting that Allies and European policymakers are placing increasing value on coordination of China policy between these two key international groups.*¹⁶⁴

Alongside growing attention on China, NATO is expanding its attention on the larger Indo-Pacific, though full consensus about the degree of involvement the Alliance should have beyond the North Atlantic remains elusive. NATO incorporated the concept of the Indo-Pacific into the updated Strategic Concept in 2022, noting that "developments in that region can directly affect Euro-Atlantic security."¹⁶⁵ The Alliance has also taken tangible steps to increase coordination with like-minded partners in the Indo-Pacific, particularly Australia, Japan, South Korea, and New Zealand.†¹⁶⁶ These have included inviting representatives of the four countries to participate in certain ministerial-level meetings since December 2020 and to attend NATO summits in 2022 and 2023.¹⁶⁷ In January and February 2023, NATO Secretary General Jens Stoltenberg visited Seoul and Tokyo, where he stated, "What happens in Europe matters to the Indo-Pacific... and what happens here in Asia matters to NATO."¹⁶⁸ In May, NATO and Japanese officials both acknowledged ongoing discussions during Secretary General Stoltenberg's January visit about opening a NATO liaison office in Tokyo and a Japanese mission to NATO, independent of Japan's embassy in Brussels.¹⁶⁹ By June, however, President Macron had voiced opposition, arguing NATO should not expand its reach beyond the North Atlantic and signaling that the required consent of all 31 NATO members might not be possible.¹⁷⁰ At the Vilnius summit in July 2023, the communiqué advanced plans for coordination with Indo-Pacific partners

*Some NATO states, particularly France, are less comfortable with the idea of NATO, a transatlantic alliance, serving as a forum for greater activities expanding in the Indo-Pacific region, preferring the EU for this purpose. Greater coordination between NATO and the EU, hinted at in the Vilnius communiqué, could potentially mitigate disagreement on such issues. North Atlantic Treaty Organization, "Vilnius Summit Communiqué," July 11, 2023; Janka Oertel, oral testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 216.

†These four countries have been informally known as the "Asia Pacific Four" (AP4) and more recently, the "Indo-Pacific Four" (IP4). Mirna Galic, "What's behind NATO's Tightening Ties with Its Indo-Pacific Partners?" *United States Institute of Peace*, July 6, 2023; Mirna Galic, "Despite Ukraine Focus, Asia-Pacific to Play Prominent Role at NATO Summit," *United States Institute of Peace*, June 27, 2022.

NATO Moves to Address Challenges from China— *Continued*

by explicitly identifying “shared security challenges” for further cooperation, including cyber defense, technology, and combating hybrid threats.¹⁷¹ NATO also announced an agreement on a new partnership program with Japan, which will entail deeper cooperation in 16 areas aimed at increasing dialogue, resilience, and military interoperability, though the once-planned NATO liaison office in Tokyo was not mentioned.¹⁷²

Europe Is Developing Its Strategy to “De-Risk” Relations with China

Europe Seeks to Reduce Economic Vulnerability and Increase Economic Resilience

Like the United States, the EU seeks to build economic resilience by limiting its exposure to and dependence on China. Over the past five years, as China’s economic statecraft toward the EU has intensified and European views of China have shifted, the EU has developed a set of economic tools to mitigate the impact of China’s coercive and unfair trade practices. In general, the EU’s measures seek to limit foreign firms’ access to critical aspects of the European economy, neutralize the competitive advantage foreign firms derive from distortive trade practices and a lack of market reciprocity, and coordinate an EU response to economic coercion against any member country. Some of these policies—like inbound investment screening—converge with the United States’ evolving economic approach to China, while others—like AI regulations—currently diverge from the U.S. approach.

- *Inflowing foreign investment screening mechanisms:* Similar in nature to the Committee on Foreign Investment in the United States (CFIUS), in October 2020 the EU issued a foreign investment screening framework to review the security implications of inflowing investment in critical sectors like infrastructure, nuclear technologies, semiconductors, and defense, among others.¹⁷³ Unlike CFIUS, the EU’s mechanism is voluntary and allows member states to determine if and how they implement the policy.¹⁷⁴ As of August 2023, 21 of the EU’s 27 member states currently have an investment screening mechanism in place, and due in part to these mechanisms, China’s investment into the EU has fallen to an eight-year low.¹⁷⁵ The varied nature of screening mechanisms across countries and their relatively lax implementation in some countries leaves room for China to secure sizable investments in critical sectors. For example, despite Portugal having an investment screening protocol in place since 2014, Beijing’s state-owned China Communications Construction Company (CCCC) was able to purchase a 30 percent stake in the Portuguese infrastructure conglomerate Mota-Engil.¹⁷⁶ The CCCC now has a role in infrastructure development projects across Europe, Latin America, and Africa through its stake in Mota-Engil.

- *International procurement instrument*: In August 2022, the EU created a mechanism—the international procurement instrument (IPI)—to penalize bidders on EU contracts if European firms do not have reciprocal access to the bidder’s market.¹⁷⁷ The IPI measures apply to tenders worth at least 15 million euros for works and concessions and 5 million euros for goods and services.¹⁷⁸ The IPI was designed in part to give Europe greater leverage in market access negotiations with emerging markets generally and China specifically.¹⁷⁹ Chinese firms have secured several prominent and high-value contracts through the EU’s open and transparent bidding process, while EU firms remain unable to compete fairly in China’s procurement market.*¹⁸⁰
- *Foreign subsidies regulation*: In January 2023, the Foreign Subsidies Regulation (FSR) went into force, giving the EU the ability to penalize foreign firms operating in the European market that receive distortive financial contributions from their home governments. The language describing “distortive” contributions is vague and may potentially include direct subsidies, tax breaks, and even the provision of electricity from a public utility.¹⁸¹ Firms that benefit from foreign subsidies may be barred from winning public contracts and may face redressive measures, including an acquisition ban, divestments of assets, or a reduction in capacity or market presence.¹⁸² Although the policy was developed specifically in response to Chinese state-owned enterprises operating in Europe, its expansive definition leaves open the possibility of it applying to private firms, including those from the United States.¹⁸³ In October 2023, the European Commission launched an antisubsidy investigation into EVs coming from China, with President von der Leyen arguing that prices for Chinese EVs are made “artificially low by huge state subsidies.”†¹⁸⁴
- *Anticoercion instrument*: In March 2023, the EU reached a provisional political agreement on a market-wide ACI.‡¹⁸⁵ The ACI allows for the application of trade restrictions on countries attempting economic coercion based on a majority vote of EU member states, including increased duties, import or export licenses, and public procurement restrictions.¹⁸⁶ China’s coercive actions against Lithuania in 2021 provided the final push for Europe to begin the development of a formal trade-defense

*China does not currently provide reciprocal access to foreign bidders in its government procurement contracts. China has been in negotiations to join the WTO’s Government Procurement Agreement (GPA) since 2007. The GPA aims to open government procurement markets to foreign competition in a reciprocal manner, and the agreement currently includes all 27 EU member states. As part of its bid to join, China has offered six separate market access proposals to the GPA, all of which have been denied for not providing sufficient access to foreign bidders. China’s latest offer was submitted in 2019 and a final determination has not been provided. Significant points of issue remain in the latest proposal, including an assertion that China “may require” the incorporation of technology transfer and domestic content offsets in foreign procurement bids, which are prohibited by the GPA. Jean Heilman Grier, “WTO Procurement Committee Resumes Business,” *Perspectives on Trade*, May 24, 2023; Jean Heilman Grier, “14th Year: Whither China’s GPA Accession?” *Perspectives on Trade*, April 27, 2021; World Trade Organization, “China Submits Revised Offer for Joining Government Procurement Pact,” October 23, 2019.

†For more on the EU’s antisubsidy investigation into China’s EV industry, see Chapter 1, Section 1, “U.S.-China Bilateral and China’s External Economic and Trade Relations.”

‡The negotiated ACI text will be endorsed at a final meeting, after which the agreement must be approved by the European Parliament and Council before it can enter into force.

mechanism, although the ACI has yet to be fully approved and enter into force.¹⁸⁷

- *Outbound investment controls:* Paralleling developments in the United States, the EU is currently considering an outbound investment review mechanism for European companies operating in high-tech industries, including AI, quantum computing, and biotechnology.¹⁸⁸ The EU legislation would likely focus on mitigating the leakage of sensitive and dual-use technologies to third parties, such as China.¹⁸⁹ The EU has yet to propose any legislation on potential investment controls, and questions remain regarding the EU's ability to enact such a policy. Controlling outbound investment in sensitive technologies is often framed as a national security issue. The EU cannot create binding legislation on matters of national security, however, and member states retain the right to choose if and how they implement EU security measures.¹⁹⁰ This limits the potential impact of any such legislation.
- *Artificial Intelligence Act:* The EU and China are developing their own regulations on AI, with each working toward different goals. The EU aims to establish safeguards for the application of AI by categorizing uses based on perceived risk. Uses classified as “limited risk” must comply with minimal transparency requirements, while uses classified as posing an “unacceptable risk”—like social scoring and real-time facial recognition—may be banned.¹⁹¹ The European Parliament passed a draft of the AI Act in June 2023, but according to current projections, the act is not expected to fully enter into force until early 2025, causing regulations to be at least two years behind the current state of the technology.¹⁹² At the same time, China is quickly moving to regulate this technology. The CCP released a set of draft rules in April that would force chatbots to follow strict censorship policies and force algorithms to follow certain regulations on search and share functions.¹⁹³ Both the EU's and China's centralized approaches to AI regulations differ from the United States' decentralized approach. To date, the U.S. Federal Government has not produced comprehensive legislation on AI, although its use and development is addressed through several narrowly targeted pieces of legislation.¹⁹⁴ Setting regulations quickly and early matters for the future of AI development, as initial regulations have the potential to set the parameters for what are and are not acceptable uses of the technology.

The EU seeks to promote and expand on some of these efforts as part of its recent strategy to “de-risk” its economic relations with China. Prior to her trip to Beijing in April 2023, President von der Leyen delivered a speech on EU-China relations and highlighted the need for Europe to maintain ties while also economically de-risking relations.¹⁹⁵ Conceptually, de-risking involves limiting economic vulnerability to factors stemming from China's control over critical aspects of global economic exchanges through diversification.¹⁹⁶ While de-risking is often characterized as an alternative to decoupling, the two share the same fundamental goal of reducing exposure to risk from China.¹⁹⁷ The added value of de-risking is primarily in its

rheterical appeal. Relative to decoupling, an early term introduced by the United States that is often interpreted by European leaders to mean a complete cessation of relations with China,* de-risking can be presented as the more prudent and measured approach.† In addition, countries can diplomatically frame policies like investment screening as an attempt to build resilience and reduce risk rather than an attempt to limit economic ties to China. Perhaps due to this diplomatic appeal, de-risking has gained traction internationally, and the leaders of the G7 issued a joint communiqué to economically “de-risk” without “decoupling” from China following a summit in Tokyo in May 2023.¹⁹⁸

What de-risking looks like in practice is still in development, but initial implementation coincides with U.S. policy to limit China’s access to sensitive technology and reduce supply chain dependencies. In her April speech, President von der Leyen indicated restrictions on trade in highly sensitive and dual-use technologies and improved investment screening procedures—including the creation of an out-bound investment screening mechanism—are being considered or are currently in development.¹⁹⁹ The EU has also stated intent to reduce critical supply chain dependencies, including through the recently proposed European Critical Raw Materials Act.²⁰⁰ Like the United States, Europe is highly dependent on China for critical raw materials, including minerals needed to produce cutting-edge green technology and batteries. The efforts outlined by President von der Leyen converge with standing and recently enacted U.S. policy. In August 2023, the Biden Administration issued an executive order directing the U.S. Department of the Treasury to establish a program reviewing U.S. investments into national critical sectors in “countries of concern,” which currently only covers China.²⁰¹ This program would include targeted investment prohibitions as well as mandatory notifications for investments in quantum technology, semiconductors, and AI.‡²⁰² In addition, both the Biden and Trump Administrations signed executive orders and passed legislation to fund research on and domestic production of rare earth metals in order to reduce U.S. dependence on China.²⁰³

Although U.S.-EU cooperation on de-risking from China remains limited in scope, joint efforts have delivered some narrow but positive developments. In June 2021, the United States and EU established the Trade and Technology Council (TTC) in an effort to deepen ties and expand cooperation.²⁰⁴ While the TTC predates discussions on de-risking, the council has become an important transatlantic forum for coordinating democratic approaches to trade, technology, and security. The TTC hosts ten working groups chaired by relevant U.S.

* In her speech outlining the EU’s intent to de-risk from China, delivered before her April 2023 trip to Beijing, President von der Leyen stated, “I believe it is neither viable—nor in Europe’s interest—to decouple from China. Our relations are not black or white—and our response cannot be either. This is why we need to focus on de-risk—not de-couple.” Germany’s recent China strategy also stated, “The Federal Government is not seeking to engage in any decoupling with China. We want to preserve our close economic ties with the country.” Germany Federal Foreign Office, *Strategy on China of the Government of the Federal Republic of Germany*, July 2023, 25; European Commission, *Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre*, March 30, 2023.

† For more information on the differences between de-risking and decoupling, see Chapter 1, Section 1, “U.S.-China Bilateral and China’s External Economic and Trade Relations.”

‡ For more information on the executive order, see Chapter 1, Section 1, “U.S.-China Bilateral and China’s External Economic and Trade Relations.”

agencies and European Commission services that work on topics related to de-risking, such as securing supply chains.* Although China is not explicitly mentioned in the TTC's outlined mission, addressing China's increasing influence is a point of focus for the council. Toward that end, the TTC has produced tangible policy developments, including plans to operationalize a joint early warning mechanism for disruptions in semiconductor supply chains and the development of a joint AI Roadmap.²⁰⁵ In addition to EU-level efforts on a broad set of issues, individual European countries have also partnered with the United States to confront China's growing challenge. For example, in March 2023, the Netherlands joined the United States in restricting the exports of semiconductor technology to China.²⁰⁶

Europe's De-Risking Tools are Limited in Scope but Broad in Reach

Many of the EU's trade defense and other economic tools fail to adequately address China's practices due to the policies' voluntary application or high levels of support required for the policy to operate. Some of these initiatives, like the inbound investment screening mechanism, are voluntary and allow national governments to choose if and how they implement the guidelines. Policies that are not voluntary often require a high degree of member state support or evidence to become operational, like the ACI and IPI. Uneven application and high thresholds for operation present China with the opportunity to maneuver around EU measures by operating just under thresholds for government response or working through countries with less restrictive regulations. For example, the Chinese state-owned firm COSCO originally sought to purchase a 35 percent stake in Hamburg port but eventually reduced its request to a 24.9 percent stake—just below the 25 percent threshold to trigger a federal review of the investment.[†]²⁰⁷ Similarly, Chinese telecom firm Huawei has increased its partnerships with and investments in Hungary as countries across Europe have implemented EU guidelines to reduce or eliminate the presence of Chinese equipment in their 5G networks.²⁰⁸ Unlike other EU member states, Hungary does not have any restrictions on the use of Huawei equipment, and the government has expanded its political and economic ties with China over the past decade as part of the its “Eastern Opening”‡

*Working groups include: tech standards, climate and green tech, secure supply chains, information and communications technology and services (ICTS) security and competitiveness, data governance and tech platform regulation, misuse of technology threatening security and human rights, export controls, investment screening, promoting small and medium-sized enterprises' access to and use of digital technologies, and global trade challenges. United States Trade Representative, *U.S.-E.U. Trade and Technology Council (TTC)*.

†Chancellor of Germany Olaf Scholz initially approved the 24.9 percent bid in October 2022 but was met with substantial pushback from within the governing coalition after a news investigation revealed that the Scholz chancellery had tried to push the deal through despite concerns from six federal ministries. Despite these concerns, the German government fully approved the COSCO purchase in May 2023. Hans von der Burchard, “Germany Doubles Down on China Port Deal despite New Security Concerns,” *Politico*, May 10, 2023; *Norddeutscher Rundfunk*, “Port of Hamburg: Chancellery Apparently Wants to Enforce China Business” (Hamburger Hafen: Kanzleramt will China-Geschäft offenbar durchsetzen), October 20, 2022. Translation.

‡Prime Minister Orbán introduced the Eastern Opening policy as a way to reduce Hungary's dependence on European countries following the economic upheaval of the 2008 global financial crisis and subsequent eurozone crisis and a way to build economic ties with the authoritarian countries of Russia and China. Paweł Paszák, “Hungary's 'Opening to the East' Hasn't Delivered,” *Center for European Policy Analysis*, July 12, 2023.

policy and turn toward authoritarianism following the reelection of Viktor Orbán as prime minister in 2010.²⁰⁹

In addition, the EU's defensive economic tools are often limited in scale and scope due to the EU's arduous consensus-building process. In negotiations on the ACI, EU members reduced the effectiveness of the instrument by purposefully "watering down the executive power of the [European] Commission" to enact the measure by requiring a qualified majority vote from the European Council.²¹⁰ While this dilution of power increases the instrument's appeal among member states, it also creates an opening for intra-European division and the possibility for China to manipulate this division to its advantage.²¹¹ Moreover, the ACI has been in discussion since 2018 and has yet to be formally adopted; it is not expected to enter into force until autumn of 2023 at the earliest.²¹² The EU's slow-moving and satisficing policy process undermines its ability to respond effectively to rapidly developing threats from China.

Although often developed with China in mind, the EU purposefully writes "country neutral" policies that can be applied to other countries, including the United States, and may undermine U.S.-EU cooperation on China. This neutrality benefits the EU in several ways, including by making their policies WTO compliant, avoiding pushback from targeted countries, and giving the EU versatility to apply policy to a broad set of actors. Discussion on the ACI initially began as a potential response to U.S. tariffs imposed on imported European steel in 2018. More recently, when discussing the impacts of the EU's foreign subsidies regulation, Executive Vice President of the European Commission Margrethe Vestager stated that "it is conceivable that subsidies that are given in the United States [through the Inflation Reduction Act (IRA)] will be relevant to notify in the EU."²¹³ In this context, country neutrality can be interpreted as both a diplomatic choice to avoid singling out China as well as a subtle warning to the United States to reconsider policies with which the EU disagrees, such as the IRA. Moreover, country neutrality gives the EU the option of equally applying these policies to the United States.* Finally, the broad applicability of the EU's policies reduces trust and the potential space for U.S.-EU cooperation on China.

Diversity in Views across the EU Complicates Achieving Concerted, Effective China Policy

Diversity of attitudes between and even within individual European countries' perceptions of China enhances discussion but undermines consensus, resulting in policy with limited scope and impact. By geography, Baltic countries—informed by their experiences under the Soviet Union and proximity to Russia—tend to hold more hawkish views and desire closer coordination with the United States, par-

*The EU's Digital Services Act (DSA) and Digital Markets Act (DMA) are two "country neutral" policies currently in development that have the potential to harm U.S. firms operating in the EU by targeting and limiting their use of data. The DSA and DMA seek to regulate the way companies use data and manage online intermediary services, like social media and search engines, as well as online platforms that act as market "gatekeepers," like app stores. Although these policies may be applied to firms from any country, they are written in a way to specifically target several large U.S. firms while avoiding EU firms. William Schwartz, "The EU's Digital Services Act Confronts Silicon Valley," *Wilson Center*, February 15, 2023; Colin Wall and Eugenia Lostri, "The European Union's Digital Markets Act: A Primer," *Center for Strategic and International Studies*, February 8, 2022; Meredith Broadbent, "Implications of the Digital Markets Act for Transatlantic Cooperation," *Center for International and Strategic Studies*, September 15, 2021.

ticularly in addressing security issues related to China.²¹⁴ Southern European states tend to be more open to engagement with China, as China was able to exploit these countries' dissatisfaction with the EU's and Germany's handling of the eurozone crisis in 2009 to expand its economic ties with the region.²¹⁵ China has found that it had less appeal in the region following the COVID-19 pandemic, however, as southern European states that were disaffected during the eurozone crisis were given greater fiscal space by the EU during and beyond the pandemic.²¹⁶ In between these extremes sit several of the EU's largest economies, including France, Germany, and the Netherlands. These countries' views and approaches are driven in large part by their business communities, which harbor complex and competing interests arising from firms' various levels of connectivity with the Chinese market. Finally, several EU and non-EU European countries with declining democratic institutions and motivated by economic opportunism—including Hungary and Serbia—view China as a viable partner and useful card to play when negotiating with the EU and member states.²¹⁷ This variety of perspectives both enhances and undermines European policy discussions about China.

Despite De-Risking, Large and Powerful European Firms Remain Embedded in China

China is a major market for Europe, and the region engages with China at a level that is often commensurate with or even surpasses the United States. In 2022, China was the top supplier for both the U.S. and EU markets, comprising 16.5 percent of imports to the United States and 20 percent of imports to the EU. That same year, EU goods comprised only 10.5 percent of China's imports, while U.S. goods comprised just 6.5 percent of China's imports.²¹⁸ Similarly, while aggregated reciprocal FDI flows have hit a recent low, a small set of large European countries and their largest multinationals dominate the European investment landscape in China.²¹⁹ German, Dutch, and French firms comprised at least 70 percent of annual EU investment inflows into China from 2017 to 2021, with most funding flowing to one of five sectors: autos, food processing, pharma/biotech, chemicals, and consumer products manufacturing.²²⁰ In 2021, 46 percent of European investment transactions in China were generated by Germany.²²¹ France is similarly well invested, with some 1,100 French companies holding \$28.1 billion (25 billion euro) in FDI stock in China as of 2017.²²² Moreover, these two countries comprised half of the eurozone's GDP in 2022, giving them extraordinary weight in decision-making on China policy within the EU as well.²²³

France and Germany's substantial economic ties to China increase the cost of de-risking relations, making these countries less willing to pursue meaningful action to counteract China's growing challenge. From 2018 to 2021, ten European companies comprised nearly 80 percent of European FDI into China.²²⁴ Among these investors, Germany's three big automakers (Volkswagen, BMW, and Daimler) and the chemicals group BASF accounted for 34 percent of total European investment flows.²²⁵ In terms of exports, autos are particularly important to Germany; in 2022, passenger vehicles comprised 18 percent of Germany's exports to China, while vehicles and car parts comprised 15.6 percent of Germany's exports to the

world.²²⁶ Luxury consumer fashion play a similarly important role in France. In 2022, over 10 percent of French exports to China were in handbags, apparel, or footwear.²²⁷ Moreover, despite muted gains in other segments of the Chinese economy, China's luxury spending saw a relatively strong rebound following the end of Zero-COVID. The French fashion group LVMH, which owns brands like Louis Vuitton and Dior, posted an 18 percent increase in 2023 first-quarter revenue relative to a year prior for its largest division—fashion and leather goods—which is attributed in part to rebounding Chinese spending.²²⁸ LVMH does not provide disaggregated revenue statements for its operations in China, but regional figures suggest the group's China operations are performing well. Of the \$83.5 billion (79.2 billion euro) of revenue it earned in 2022, approximately 30 percent (\$25.1 billion) came from sales in Asia, with the exclusion of Japan.²²⁹ By comparison, the United States accounted for 27 percent (\$22.5 billion) of revenue, while Europe accounted for 23 percent (\$19.2 billion).²³⁰ To capitalize on growth potential, the German automaker and French luxury industries are expanding operations in China despite calls for de-risking by European leaders. Following a visit by Chinese Premier Li Qiang to Munich in June 2023, BMW CEO Oliver Zipes mirrored CCP rhetoric in saying strong ties with China are a “win-win” for the auto industry.²³¹ Similarly, LVMH Financial Director Jean-Jacques Guiony asserted that “the Chinese clientele is much more important than it was in 2019.”²³² In recognition of this importance, LVMH Chairman Bernard Arnault visited China in June 2023, where he stated he was “optimistic about the Chinese market.”²³³

Despite rising risks, European multinational companies remain invested in China to benefit from the promise of its growing consumer market and its research and development (R&D) ecosystem, especially as Europe's market growth stagnates. Despite its long-term challenges in encouraging and expanding domestic consumption, China's consumer market has grown significantly, with household expenditure nearly tripling from \$2.6 trillion in 2011 to \$6.8 trillion by 2021.²³⁴ By comparison, the EU's household expenditure rose from \$8.7 trillion to \$8.8 trillion over the same period.²³⁵ The current size and future growth potential of China's domestic market is large enough to draw in Europe's largest companies, even if the majority of Chinese consumers are not fully engaged. In addition to revenue, European firms invested in China report benefiting from China's rapidly developing R&D ecosystem. According to a survey of European firms conducted by the Mercator Institute for China Studies and the European Chamber of Commerce in China, two-thirds of respondents reported finding value in China's fast-paced commercial application of R&D results.²³⁶ China's dynamic R&D environment is a substantial draw for European companies, and many that remain invested in China report plans to expand their R&D activities and further integrate them with global strategies to capitalize on China's competitive talent pool, speed of commercialization of new tech, and “potential of combining European hardware excellence with Chinese software expertise.”²³⁷

European multinationals may further frustrate the EU's attempt to economically de-risk through investment restrictions by siloing

production in China—a type of firm-level political de-risking. Siloing occurs when a firm sections off productive activities and sales in a given market by developing a supply chain and distribution strategy that is unique to the market and that minimizes contact between operations in the siloed economy and other economies. European and U.S. firms are increasingly siloing production in China as a way to reduce exposure to political risks, including the potential of import tariffs, outbound investment screening, new regulations, and other economic sanctions.²³⁸ For example, following the economic turmoil of the COVID-19 pandemic, BMW invested substantial sums to insulate and isolate its production in China. In February 2022, BMW increased its ownership share in the joint venture it had with Brilliance China Automotive Holdings from 50 percent to 75 percent. Four months later, BMW-Brilliance opened a \$2.2 billion vehicle assembly plant in Shenyang, China, specializing in the production of EVs.²³⁹ To support its China-based EV production, BMW invested \$1.4 billion to expand its EV battery plant, also located in Shenyang.²⁴⁰ At the same time, the firm announced plans to manufacture its *Neue Klasse* EVs in China for the Chinese market using electric batteries produced in the newly expanded Shenyang plant by 2026.²⁴¹ These investments increased BMW's reach into the Chinese market while decreasing its dependency on external suppliers and its exposure to tariffs.† This siloing increases European firms' entrenchment in the Chinese market, reducing the effectiveness of economic sanctions and trade restrictions while also reducing Europe's ability to effectively de-risk from China.

Europe's Approach to Taiwan

Taiwan is a topic of growing importance in Europe; however, European governments and publics have not yet reached definitive conclusions about their interests and possible potential responses to Chinese aggression toward Taiwan, an indecision that undermines a unified U.S. and allied approach to deterrence. Recent discourse on Taiwan in Europe demonstrates increasing attention to Taiwan as a strategic issue but is still lacking consensus on specific policy positions, including on the implications of a war over Taiwan.²⁴² Gudrun Wacker, senior fellow at the German Institute for International Security Affairs, explained that even the presence of a strong “pro-Taiwan caucus” equivalent in many European parliaments has not yet translated into serious policy attention.²⁴³ The EU and European states could bolster deterrence, however, by more clearly articulating the punishments, including economic costs, they would impose on China if it attacks the self-governed island, demonstrating their

* Currently, EU automakers make cars in Europe and China for sale in both Europe and China. Of the 846,000 cars BMW delivered to Chinese customers in 2021, approximately 150,000 to 200,000 were made in Europe, while the rest were produced in China at BMW's Shenyang facility. BMW also produces cars in China for sale in Europe, including its all-electric iX3. At the same time, Chinese automakers also make cars in China for sale in both China and Europe. On July 2023, the state-owned SAIC Motor announced its intent to build its first EV car factory in Europe in response to rising European demand. Annabelle Liang, “Chinese Owner of Iconic MG Car Brand to Build Europe Plant,” *BBC*, July 6, 2023; Dan Mihalascu, “China's Exports of Electric Vehicles to Europe Reach Record Levels,” *InsideEVs*, January 4, 2023; Jens Kastner, “BMW and Audi Suspend Shipments by Train to China,” *Nikkei Asia*, April 26, 2022.

† Both China and EU member states impose tariffs on imported vehicles, Nick Gibbs, “EU Should Impose Higher Tariffs on Chinese Automakers, Carlos Tavares Says,” *Automotive News Europe*, October 19, 2022; *Export.Gov*, “China—Automotive Industry,” July 30, 2019.

commitment to Taiwan's security through deeper exchanges and explicit expressions of public support for Taiwan and increasing contributions to Taiwan's defense via expanded arms transfers.*

Signs of Increasing European Concern for Taiwan

European states and the EU are expanding their ties to Taiwan and formalizing their public positions on Taiwan's security, though these actions still fall short of clear statements regarding European countries' potential response to a war. These activities include a growing volume of unofficial diplomatic visits, increased economic integration and dialogue, and, in some cases, modest contributions to Taiwan's defense capabilities. Concurrently, both individual European states and the EU are increasing rhetorical support for Taiwan and expanding their presence in the Indo-Pacific.

Taiwan Increasingly Features as a Strategic Issue for Europe

Taiwan is rising in prominence as an issue of strategic concern for Europe. In her testimony before the Commission, Dr. Oertel assessed that although Taiwan did not previously rank as a key strategic topic for EU member states, this has changed dramatically in the last couple of years.²⁴⁴ Veerle Nouwens, Shangri-La Dialogue senior fellow for Indo-Pacific Defense and Strategy at the International Institute for Strategic Studies, argued in testimony before the Commission that European countries have become "increasingly aware" of the global disruption that would result from a conflict in the Indo-Pacific, "particularly around flashpoints such as Taiwan."²⁴⁵ Ivan Kanapathy, senior associate Freeman Chair in China Studies at the Center for Strategic and International Studies, assessed that U.S. diplomatic efforts have helped awaken European allies to the serious consequences a Taiwan contingency would have for the world economy in light of the island's key role in global electronics supply chains.²⁴⁶ Russia's war in Ukraine has also had a serious catalyzing effect on this process, increasing attention to the potential for dangerous escalation in the Taiwan Strait and to the interlinkages between European and Indo-Pacific security.²⁴⁷

Increasing Integration and Exchanges

Exchanges and linkages between European countries and Taiwan are increasing in the political and economic realms.²⁴⁸ European countries have increasingly demonstrated willingness to broaden unofficial engagement within the confines of their own One China

*"Deterrence" refers to the practice of discouraging an opponent from taking an unwanted action, such as military aggression. Deterrence relies on credible threats that create fear in the mind of the opponent that it will either suffer unacceptable retaliation or be unable to achieve its objectives should it undertake the unwanted action. These approaches are known as "deterrence by punishment" and "deterrence by denial," respectively. States practicing deterrence often employ threats of military force, but they can also leverage nonmilitary tools of statecraft such as economic sanctions or diplomatic exclusion to deter aggression against themselves or third parties. Successful deterrence in the Taiwan Strait requires China to recognize that another party has the capabilities and the will to carry out a threat to intervene in response to a Chinese attack on Taiwan. China must also believe that there are actions that could lead to a response from the other party and that costs will be imposed on China if it takes those actions. For more on deterrence in the Taiwan Strait, see U.S.-China Economic and Security Review Commission, Chapter 4, "A Dangerous Period for Cross-Strait Deterrence: Chinese Military Capabilities and Decision-Making for a War over Taiwan," in *2021 Annual Report to Congress*, November 2021, 390.

policies* by dispatching officials to visit Taiwan or otherwise hosting visiting Taiwan officials.²⁴⁹ In the ten months immediately following then Speaker of the House of Representatives Nancy Pelosi's August 2022 visit to Taiwan, more than a dozen European countries sent officials to visit the island.²⁵⁰ A March 2023 Czech delegation to Taiwan headed by Speaker of the Czech Chamber of Deputies Markéta Pekarová Adamová had at least 150 members and also included head of the counterintelligence Security Information Service, director of the National Cyber and Information Security Agency, and other high-level security officials.²⁵¹ (For more on the exchange of visits between Europe and Taiwan in 2023, see Chapter 5, Section 2, "Taiwan.")

EU institutions have elevated the importance of economic ties with Taiwan, supported by growing interest among European capitals.†²⁵² In its 2021 Indo-Pacific Strategy, the European Commission identified Taiwan as a like-minded partner for cooperation in resilient supply chains, semiconductor technology, and data protection, among other shared interests, and assessed that the use of force in the Taiwan Strait has the potential to impact European security and prosperity.²⁵³ In June 2022, the European Commission upgraded its trade and investment dialogues with Taiwan, which had been ongoing at the technical level for over 20 years, to the ministerial and director-general level for the first time in recognition of the benefit from higher-level coordination.²⁵⁴ Since the upgrade, the two sides have used the meeting to discuss issues such as supply chains, semiconductors, export controls, investment screening, research and innovation, offshore wind energy, agriculture, digital trade facilitation measures, and alignment of sanctions against Russia.²⁵⁵

Rhetorical Support for Taiwan's Security

Governments of some European states as well as the EU have recently expressed clearer concern for Taiwan's security in their public statements, although these statements fall short of communicating any specific policy response in the event of aggression (see "Formal Planning and Coordination Appear Limited" below). In response to the PLA's large-scale military exercises around Taiwan

* European governments, including the EU, EU member states, and the UK, recognize the government of the People's Republic of China as the legal government of China, yet they also reserve the right to conduct unofficial relations with Taiwan. Under the auspices of their own One China policies, these governments maintain close cooperation with Taiwan on issues such as trade, investment, human rights, connectivity and digital issues, people-to-people ties, green energy, labor, disaster management, and innovation. Veerle Nouwens, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 10; Elyse Fors Garzon, "France Stresses Adherence to One-China Policy," *Plenglish*, April 14, 2023; Jason Hovet and Jan Lopatka, "Czech PM: No Change to One-China Policy—Online Interview," *Zawaya*, January 31, 2023; Mission of the People's Republic of China to the European Union, *Questions and Answers Concerning the Taiwan Question (2): What Is the One-China Principle? What Is the Basis of the One-China Principle*, August 15, 2023; European External Action Service, *The European Union and Taiwan*, July 26, 2021.

† Recent examples of increasing cooperation between Taiwan and individual EU member states include ongoing talks over Taiwan semiconductor company TSMC potentially opening a factory in Germany and the raft of investment measures from Taiwan in Central and Eastern European countries, particularly Lithuania. Rhyannon Bartlett-Imdegawa, "Taiwan-Backed Fund Invests in Central, Eastern as Ties Warm," *Nikkei Asia*, June 24, 2023; Ivan Kanapathy, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 5; Reuters, "TSMC Still in Talks on Possible German Plant, No Decision before August at Earliest -Exec.," May 23, 2023; *Taiwan Today*, "Taiwan, Lithuania Make Great Strides in Economic Cooperation," January 19, 2023.

following then Speaker Pelosi's visit to Taiwan in August 2022, the EU High Representative joined the foreign ministers of the G7—which also includes France, Germany, Italy, and the UK—in issuing a joint statement reaffirming their “shared commitment” to peace and stability across the Taiwan Strait.²⁵⁶ In the statement, the leaders called upon Beijing “not to unilaterally change the status quo in the region by force” and pushed back against China's use of routine visits by foreign dignitaries as a pretext for aggression.²⁵⁷ On January 18, 2023, the European Parliament passed a resolution on the implementation of the EU's common security and defense policy that included an expression of “grave concern” over activities such as China's rapid military buildup, military pressure tactics, and cyber and disinformation campaigns aimed at Taiwan.²⁵⁸ During her trip to China in April 2023, German Foreign Minister Annalena Baerbock warned the Chinese leadership directly that “a unilateral and violent change in the status quo would not be acceptable.”²⁵⁹ In a speech to the European Parliament on April 18, President von der Leyen emphasized that the EU “stand[s] strongly against any unilateral change of the status quo [in the Taiwan Strait], in particular by the use of force,” representing a much firmer position than the EU has taken in the past.*²⁶⁰

Supporting Taiwan's Self-Defense

Several European states have taken new steps to support Taiwan's military modernization through the sale of arms and weapons technology, although these ad hoc transfers remain limited in their potential contribution to Taiwan's self-defense. In 2020, France approved the sale of additional equipment to upgrade the missile interference system on a frigate previously sold to Taiwan, despite diplomatic displeasure from Beijing.²⁶¹ In 2022, the UK approved a substantial increase † in exports of submarine components and technology to Taiwan.²⁶² These contributions to the development of Taiwan's indigenous submarine program and the defense of its surface fleet, however, are unlikely to significantly improve Taiwan's resistance to a PLA attack due to their inconsistency with an asymmetric defense strategy.‡²⁶³ Reports around the Czech delegation visiting Taiwan in March 2023 revealed that the two parties were nearing agreement on the sale of 155 mm self-propelled howitzers,

*Josep Borrell stated in an opinion article in April 2023 that Taiwan concerns Europe “economically, commercially, and technologically” and called upon European navies to “patrol the Taiwan Strait” to demonstrate European commitment to freedom of navigation. Ivan Kanapathy, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 5; Veerle Nouwens, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 10; Josep Borrell, “TRIBUNE: Josep Borrell, Head of European Diplomacy: ‘A Cold Look at China’” (TRIBUNE. Josep Borrell, chef de la diplomatie européenne : « Un regard froid sur la Chine »), *Journal du Dimanche*, April 22, 2023. Translation.

†Over the first nine months of 2022, the UK government authorized 25 submarine-related export licenses to Taiwan with an approximate total value of \$201 million, more than the previous six years combined. Andrew Maccaskill and Elizabeth Piper, “Exclusive: UK Approves Increased Submarine-Related Exports to Taiwan, Risking Angering China,” *Reuters*, March 13, 2023.

‡In fact, as Kharis Templeman, research fellow at the Hoover Institution at Stanford University, argued in his testimony before the Commission in 2021, continued procurement of traditional platforms limits the resources available for the purchase of asymmetric systems by threatening to dominate much of Taiwan's procurement budget for years to come. Kharis A. Templeman, written testimony for the U.S.-China Economic and Security Review Commission, *Hearing on Deterring PRC Aggression toward Taiwan*, February 18, 2021, 7.

which some view as inconsistent with an asymmetric defense strategy, as well as between 200 and 400 large semitrailer trucks to transport Taiwan missiles.²⁶⁴ The two sides also plan to work together on the development of military drones alongside other cooperation and exchange efforts in the military, cybersecurity, and counterdisinformation domains.²⁶⁵ European governments have the opportunity to contribute more to Taiwan's self-defense through further military sales, particularly of weapons consistent with an asymmetric defense strategy.* As Ms. Nouwens argued in her testimony for the Commission, European states could also support Taiwan by helping build up stockpiles of critical nonmilitary supplies such as food and medicine on the island, which could be of critical importance in the event of a PLA blockade.†²⁶⁶

Strengthening Europe's Indo-Pacific Presence

European governments' increasing attention to Taiwan is occurring alongside their growing focus on the Indo-Pacific region. In her testimony before the Commission, Ms. Nouwens assessed that European governments have "recognized that the global economic and geostrategic center of gravity has shifted to the Indo-Pacific, bringing with it economic opportunities as well as concerns."²⁶⁷ This growing strategic geoeconomic interest in the region has spurred several governments, including the EU, to adopt Indo-Pacific strategies or similar guiding documents in recent years.‡²⁶⁸ Ms. Nouwens argues that although European governments also consider issues such as climate change, transnational crime, and global health to

*Mr. Kanapathy assessed in his testimony for the Commission that European countries that have sold arms to Taiwan in the past few years have faced little, if any, economic retaliation from Beijing beyond diplomatic demarche. Ivan Kanapathy, oral testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023.

†Taiwan's geography makes its trade-dependent economy highly vulnerable to a naval and air blockade. Recent estimates from Taiwan's government ministries place the estimated life of the island's food stores at one to six months and the estimated life of its oil reserves at 158 days, although these stockpiles could last longer than official estimates if Taiwan authorities rationed their distribution. For more on Taiwan's ability to endure a blockade by the PLA, see U.S.-China Economic and Security Review Commission, Chapter 4, "A Dangerous Period for Cross-Strait Deterrence: Chinese Military Capabilities and Decision-Making for a War over Taiwan," in *2021 Annual Report to Congress*, November 2021, 410.

‡France outlined a formal Indo-Pacific Strategy in 2018, making it the first member of the EU to do so and the only one to do so before 2020. France's Ministry of Armed Forces published documents on the topic in 2018 and 2019, and its Ministry of Europe and Foreign Affairs followed suit in 2019. Germany's cabinet approved Policy Guidelines for the Indo-Pacific in September of 2020, and the current government released a Progress Update on those guidelines in 2022. The government of the Netherlands released a document entitled Indo-Pacific: Guidelines for Strengthening Dutch and EU Cooperation with Partners in Asia in 2020. Led largely by the aforementioned three countries, in February 2021, the European Commission released its first EU Strategy for Cooperation in the Indo-Pacific. In April 2021, the Council of the European Union released further Conclusions on the strategy. The Czech Republic released its strategy, entitled The Czech Republic's Strategy for Cooperation with The Indo-Pacific: Closer than We Think, in October 2022. The Lithuanian government released its strategy on July 5, 2023, entitled Lithuania's Indo-Pacific Strategy - For a Secure, Resilient and Prosperous Future. Czech Republic's Ministry of Foreign Affairs, *The Czech Republic's Strategy for Cooperation with the Indo-Pacific*, October 2022; Lithuania's Ministry of Foreign Affairs, *Lithuania's Cooperation with the Indo-Pacific*, July 5, 2023; Germany's Federal Foreign Office, *Stronger Engagement in the Indo-Pacific Region*, September 14, 2022; Pierre Morcos, "France's Shifting Relations with China," *War on the Rocks*, January 4, 2022; Gudrun Wacker, "The Indo-Pacific Concepts of France, Germany and the Netherlands in Comparison: Implications and Challenges for the EU," *European University Institute*, May 2021, 1, 3; Council of the European Union, *Indo-Pacific: Council Adopts Conclusions on EU Strategy for Cooperation*, April 19, 2021; European External Action Service, *EU Strategy for Cooperation in the Indo-Pacific*, April 19, 2021; Government of the Netherlands, *Indo-Pacific: Guidelines for Strengthening Dutch and EU Cooperation with Partners in Asia*, November 13, 2020, 1; France's Ministry of Armed Forces, *France and Security in the Indo-Pacific*, 2019, 1; France's Ministry of Europe and Foreign Affairs, *The Indo-Pacific Region: A Priority for France*, 1, 3.

impact stability in the Indo-Pacific, concern over China's economic and military assertiveness and the risk of China establishing a "sphere of influence" in the region is a significant driving factor of Europe's shifting attention to the Indo-Pacific.²⁶⁹

European states' modest security presence in the Indo-Pacific region also helps send a message of support for regional peace and stability. Although France and the UK are responsible for a large share of European military activity in the Indo-Pacific, other European states such as Germany and the Netherlands have also sent forces to participate in deployments to the region.²⁷⁰

- **France:** The French military has a permanent presence in the Indo-Pacific* and conducts routine deployments throughout the region, including multiple transits of the Taiwan Strait.²⁷¹ France sent a frigate through the Taiwan Strait in 2019.²⁷² In 2021, a French signals intelligence ship transited the Strait in a freedom of navigation demonstration that France's Minister of Armed Forces suggested was also meant to support the status quo in the Taiwan Strait.[†]²⁷³ A French warship again patrolled the Taiwan Strait in April 2023, this time during ongoing People's Liberation Army (PLA) exercises around the island.²⁷⁴
- **UK:** The UK military maintains significant power projection capabilities in the Indo-Pacific‡ as well.§²⁷⁵ For example, in 2021 the UK aircraft carrier *Queen Elizabeth* spent more than six months deployed to the Indo-Pacific.²⁷⁶ A UK survey vessel sailed through the Taiwan Strait in 2019, and in 2021 a UK frigate deployed as part of the aircraft carrier strike group transited the Strait en route to Vietnam.²⁷⁷
- **Germany:** In November 2021, the German Navy committed to sending vessels to the Indo-Pacific every two years to expand cooperation with like-minded states advocating for freedom of

*France is a self-described "resident power of the Indo-Pacific" because of its territories, its military bases, and the permanent presence of its military forces in the region. According to France's Ministry of Armed Forces, there are over 7,000 French military personnel stationed in the Indo-Pacific, including 4,100 in the Indian Ocean region and 2,900 in the Pacific. France's Ministry of Armed Forces, *France and Security in the Indo-Pacific*, 2019, 2, 6.

†Observers also interpreted the transit as a signal of France's intentions to strengthen cooperation with regional partners like Japan and of its enduring commitment to the region. Xavier Vavasour, "French SIGINT Ship Dupuy De Lôme Makes Rare Taiwan Strait Transit," *Naval News*, October 13, 2021.

‡The UK maintains military facilities in East Africa, the Gulf, and Southeast Asia and has two offshore patrol vessels stationed in the Indo-Pacific performing missions related to disaster relief and sanctions enforcement. Veerle Nouwens, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 9; UK Ministry of Defense, *Tamar and Spey Underline UK's Renewed Commitment to the Indo-Pacific*, May 16, 2022.

§The UK also has other security partnerships in the region. For example, AUKUS is a security partnership established between the United States, the UK, and Australia in September 2021. As part of ongoing efforts to balance against China's growing power in the region, the United States and the UK agreed to provide nuclear-powered submarines to Australia. The deal resulted in Australia terminating its existing contract for conventional submarines from France. France viewed the lack of prior consultation on the substance of the agreement a breach of trust, leading to a period of diplomatic strife between France and its English-speaking allies. The United States and France began the process of mending relations that October. Philippe Ricard, "Over AUKUS Deal, France Took Its Time to Process the Affront," *Le Monde*, March 14, 2023; Célia Belin, "AUKUS: A Cautionary Tale for French-American Relations," *War on the Rocks*, December 13, 2021; Sylvie Corbet and Zeke Miller, "Biden Tells Macron US 'Clumsy' in Australia Submarine Deal," *AP News*, October 29, 2021; Tory Shepherd, "Australia Tore up French Submarine Contract 'For Convenience' Naval Group Says," *Guardian*, September 29, 2021; Charles A. Kupchan, "Europe's Response to the U.S.-UK-Australia Submarine Deal: What to Know," *Council on Foreign Relations*, September 22, 2021.

navigation and a rules-based international order.²⁷⁸ In August 2022, Germany deployed six Eurofighters and several support aircraft* to the Indo-Pacific for the first time in what the chief of the German Air Force described as “the largest and most challenging deployment the German Air Force has ever seen.”²⁷⁹

Limitations of Europe’s Approach to Taiwan

Despite momentum, a lack of clarity about Europe’s commitment to Taiwan complicates any joint effort by the United States and its allies to deter Chinese aggression toward Taiwan. Differences persist between European governments, and according to some assessments, the European public seems unwilling to support substantial involvement in a Taiwan conflict. Officials from the EU and individual member states also do not appear to have yet engaged in in-depth scenario planning on their role in deterring or reacting to a potential crisis—including the imposition of sanctions—and to the extent that they have, they are hesitant to discuss such efforts publicly.

Limited Articulation of Common European Interests

Mixed public messages from European officials over Europe’s interests and likely responses in a Taiwan contingency weaken deterrence by demonstrating that Europe is not yet prepared to act in a unified way. In his commentary to the media in April emphasizing the importance of Europe maintaining strategic autonomy, President Macron expressed strong uncertainty both about whether it would be in Europe’s interests to push for further movement on Taiwan and about its capability of getting involved in the case of a crisis.†²⁸⁰ Some members of the European Parliament have criticized President Macron’s comments, deeming it “naïve” to say that Taiwan does not concern Europe, and other officials have emphasized that his position does not reflect that of the EU.²⁸¹ President Macron later clarified that there had been no change to French or European policy on Taiwan, telling reporters, “The position of France and the Europeans on Taiwan is the same. We are for the status quo, and this policy is constant.”²⁸²

European publics display a degree of interest in the idea of remaining “neutral” in a conflict over Taiwan.‡²⁸³ This sentiment is

*The fighter aircraft were supported by four German transport aircraft as well as three multirole tanker transport aircraft to provide air-to-air refueling. North Atlantic Treaty Alliance, “Germany Deploys Eurofighter and Transport Aircraft to the Indo-Pacific for the First Time,” August 16, 2022.

†On Europe’s interests in a Taiwan scenario, President Macron reportedly stated, “Do we [Europeans] have an interest in speeding up on the subject of Taiwan? No. The worst of things would be to think that we Europeans must be followers on this subject and adapt ourselves to an American rhythm and a Chinese overreaction.” He added that it would be “a trap for Europe” to get caught up in crises “that are not ours.” On Europe’s capabilities, he said, “Europeans cannot resolve the crisis in Ukraine; how can we credibly say on Taiwan, ‘watch out, if you do something wrong we will be there’? If you really want to increase tensions that’s the way to do it.” Jennifer Rankin, “Macron Sparks Anger by Saying Europe Should Not Be ‘Vassal’ in US-China Clash,” *Guardian*, April 10, 2023; Jamil Anderlini and Clea Caulcutt, “Europe Must Resist Pressure to Become ‘America’s Followers,’ Says Macron,” *Politico*, April 9, 2023.

‡According to recent polling by leading European think tank the European Council on Foreign Relations (ECFR), the European public displays some hesitancy to support the United States in a conflict with China over Taiwan. As Dr. Oertel explained in her testimony for the Commission, “The ECFR polling shows that a majority of European respondents (62 percent on average) polled in all of the respective countries would be in favor of a neutral stance rather than supporting the United States, which only 23 percent would on average be advocating for.” Janka Oertel, written testimony

likely supported both by a lack of public awareness about how severely a Taiwan conflict would impact European interests and by a failure by European policymakers to make clear that neutrality is neither viable nor desirable for European interests.²⁸⁴ Ms. Nouwens assessed that this lack of policy discussion around Europe's existing presence in the Indo-Pacific has contributed to widespread belief among the public that "Europe has no place in any sort of response over Taiwan."²⁸⁵ Ms. Nouwens argues that although the United States has labeled the Indo-Pacific its priority theater, European states still feel its significance less keenly due to distance and the pressure of the ongoing war against Ukraine on the European continent.²⁸⁶

Formal Planning and Coordination Appear Limited

Although some European governments are beginning to engage in initial discussions internally and with the United States about unspecified coordinated action to deter or respond to aggression by Beijing, these discussions appear limited.²⁸⁷ Dr. Oertel explains that officials in European capitals are currently not comfortable participating in "public scenario-planning."²⁸⁸ According to testimony from Ms. Nouwens, conversations about "what a Taiwan contingency might look like and what actions European capitals... could envision taking as a response to a unilateral change across the Taiwan Strait are underway" between the United States and the EU as well as the United States and the UK,* but they remain at a "nascent" stage and are occurring in private.²⁸⁹ Thus far, the most advanced indicator is reports from 2022 that the United States and the EU had begun initial talks about preparation for possible policy responses in the event of a conflict over Taiwan, although the outcome of these conversations remains unclear.†²⁹⁰ In January 2023, the European Parliament passed a resolution calling upon "all competent EU institutions to urgently draw up a scenario-based strategy for tackling security challenges in Taiwan," indicating growing attention to the issue in Brussels but also a lack of substantive planning to date.²⁹¹

European Consideration of Sanctions on China

Coordinated sanctions similar to those imposed on Russia would likely play a key role in a joint U.S.-European response to aggression by Beijing and, if appropriately communicated ahead of time, could also be valuable as a deterrent.²⁹² According to the European Commission, sanctions‡ are a critical tool allowing the

for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 7.

*In May 2022, the United States held high-level talks with the UK on how the two countries could cooperate more closely to reduce the chances of war over Taiwan. *Financial Times* reporting described the dialogue as the first time the United States and the UK had explicitly discussed "conflict contingency plans" for a Taiwan scenario, noting that they were intended to complement the more advanced talks the United States has held with Japan and Australia. Demetri Sevastopulo and Kathrin Hille, "US Holds High-Level Talks with UK over China Threat to Taiwan," *Financial Times*, May 1, 2022.

†In those conversations, the U.S. Department of State reportedly shared research with the European Commission and other European government officials that estimated global economic losses in the event of a blockade of the island at \$2.5 trillion. Kathrin Hille and Demetri Sevastopulo, "US Warns Europe a Conflict over Taiwan Could Cause Global Economic Shock," *Financial Times*, November 11, 2022.

‡There are three types of sanctions regimes in place in the EU, including (1) UN sanctions, which are transposed directly into EU law; (2) stricter or additional measures imposed to rein-

European Consideration of Sanctions on China— *Continued*

EU to “intervene where necessary to prevent conflict or respond to emerging or current crises.”²⁹³ The European External Action Service, EU’s diplomatic arm, recognizes sanctions as one of the EU’s tools to promote the objectives of its Common Foreign and Security Policy, including “safe-guarding the EU’s values, its fundamental interests and security”; “consolidating and supporting democracy, the rule of law, human rights and the principles of international law”; and “preserving peace, preventing conflicts and strengthening international security,” all three of which have potential relevance in the event of aggression against Taiwan.²⁹⁴ The EU has implemented sanctions on China in the past on human rights grounds.^{*295} It has demonstrated great unity in enacting sanctions on Russia in response to the invasion of Ukraine and even recently imposed sanctions on Chinese entities for their support of the war.^{†296}

Nevertheless, the lack of consistent, public commitment that thus far characterizes the discussion of European involvement in a Taiwan scenario writ large also applies to the specific question of the EU’s‡ willingness to impose sanctions on China. In July 2022, the EU’s new ambassador to China commented to the media, “In the event of a military invasion [of Taiwan] we have made it very clear that the EU, with the [United States] and its allies, will impose similar or even greater measures than those we have now taken against Russia.”²⁹⁷ A senior European Parliament source reportedly expressed confusion at these remarks, however, stating that to his knowledge “there hasn’t been any systematic discussion of sanctions” within the EU.²⁹⁸ According to testimony from Dr. Oertel, while approaches to defensive measures to im-

force UN sanctions; and (3) fully autonomous sanctions regimes. The EU currently maintains over 30 EU autonomous and UN transposed sanctions regimes. European External Action Service, *European Union Sanctions*, October 7, 2021.

* On December 7, 2020, the European Council adopted a decision establishing a global human rights sanctions regime, allowing the EU to target individuals, entities, and bodies responsible for, involved in, or associated with serious human rights violations and abuses worldwide. On March 22, 2021, the EU imposed sanctions on individuals and entities associated with human rights abuses in Xinjiang as part of the first package of listings under this regime. European Council, *EU Imposes Further Sanctions over Serious Violations of Human Rights around the World*, March 22, 2021; European Union, “L 99 I: Legislation,” *Official Journal of the European Union* 64 (March 22, 2021). <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2021:0991:FULL&from=EN>.

† In May 2023, the European Commission proposed sanctions on Chinese companies accused of bypassing trade restrictions and selling equipment to Russia that could be used to support the invasion of Ukraine. After the necessary approval by all 27 member states, some of these Chinese companies were formally added to the EU’s list of “entities ... directly supporting Russia’s military industrial complex in its war of aggression against Ukraine” as part of the EU’s 11th package of sanctions in response to the war. Takashi Tsuji, “EU Takes Aim at Chinese Companies in New Russia Sanctions,” *Nikkei Asia*, June 24, 2023; European Commission, *EU Adopts 11th Package of Sanctions against Russia for its Continued Illegal War against Ukraine*, June 23, 2023; Gabriela Baczyńska, “EU Takes Aim at Chinese Firms in Proposed New Russia Sanctions—Sources,” *Reuters*, May 8, 2023; *Reuters*, “EU Plans to Slap Sanctions on Chinese Firms Aiding Russia’s War Machine—FT,” May 8, 2023; Andy Bounds, “Brussels Plans Sanctions on Chinese Companies Aiding Russia’s War Machine,” *Financial Times*, May 7, 2023.

‡ Although the EU is a particularly consequential European actor with regard to sanctions imposition, other actors would also likely play a role. For example, in July 2022, the head of the Swiss organization that imposes economic sanctions stated that in the event of an invasion of Taiwan, she expected that Switzerland, a neutral state without membership in the EU, would nevertheless join the EU in enacting sanctions against Beijing. David Hutt, “Should Europe Discuss Sanctioning China Now?” *Internationale Politik Quarterly*, October 10, 2022.

**European Consideration of Sanctions on China—
Continued**

prove economic security between the EU and the United States may be converging, there remains “greater hesitance among the EU and its member states than on the [U.S.] side to devise more offensive or pro-active measures including the use of sanctions and entity listings.”²⁹⁹ She assessed that European policymakers still view the imposition of sanctions on China in the event of Chinese arms sales to Russia more as something the United States may request of them rather than as something European interests themselves may require.³⁰⁰ She also assessed that “the [advance] creation of a concrete list of sanctions” to be imposed upon China is not currently viewed in European capitals as “the most sensible option.”³⁰¹ Policymakers from individual member states, particularly Germany, are likely concerned that although it may be desirable to sanction China over a Taiwan invasion, the economic fallout from doing so would be unworkable on top of the existing economic pain from sanctions from Russia.³⁰² Because decisions to adopt, amend, lift, or review sanctions are made by the European Council, binding EU sanctions on China can only be brought about through unanimous consent of the 27 member states.*³⁰³

A final complicating factor is uncertainty over the specific details of a potential crisis over Taiwan. Ms. Nouwens pointed out in her testimony that compared to an outright invasion or blockade, Europe’s likely response is less clear if a conflict is perceived to have been sparked through actions by Taiwan or the United States, by China’s gray zone activities, or as the result of a miscalculation.³⁰⁴ A recent study by the Atlantic Council focused on the G7 nations specifically raised a similar concern, noting that “a key barrier to coordinating sanctions among G7 partners and with Taiwan arises from the difficulties in agreeing on what Chinese acts of aggression should trigger economic countermeasures.”³⁰⁵ While some actions, such as an invasion of the island, might be seen by all parties to have crossed red lines, actions below the invasion threshold, such as a blockade, or escalation of the gray zone coercion measures, such as cyberattacks or intrusions into Taiwan’s air defense identification zone, may not cross red lines for some countries, making agreement on a coordinated approach more challenging.³⁰⁶ Especially in light of the hesitancy of European governments to commit to actions or discuss contingency plans publicly, the wide range of potential scenarios adds a significant level of uncertainty about Europe’s likely response to a conflict over Taiwan.

*The EU joined the United States in imposing an arms embargo on China after the 1989 Tiananmen Square massacre; however, the embargo was not legally binding on the member states. European Parliament, *Parliamentary Question—E-001066/2023(ASW): Answer Given by High Representative/Vice President Borrell I Fontelles on Behalf of the European Commission*, May 12, 2023; European Parliament, *Parliamentary Question—E-001066/2023: Member States’ Non-Compliance with the EU Arms Embargo against China*, March 29, 2030; Congressional Research Service, “European Union’s Arms Embargo on China: Implications and Options for U.S. Policy,” January 26, 2006.

Potential Contributions from European Militaries in a Taiwan Conflict

Although European contributions in the event of a deterrence failure would likely be primarily nonmilitary, there are still several activities in which military forces from European countries could support Taiwan's defense.³⁰⁷ Those European countries with a permanent military presence in the Indo-Pacific or the capability to project meaningful military power to the region could potentially participate in certain operations or provide assistance to U.S. forces in the region.³⁰⁸ European military forces could participate in noncombatant activities such as the evacuation of non-combatants from Taiwan.³⁰⁹ European forces in the Indian Ocean region, the Gulf, or the broader Indo-Pacific region could also help maintain sea lines of communication and maritime chokepoints, assist with supply chain logistics, or provide intelligence, surveillance, and reconnaissance support.³¹⁰ European governments and militaries can assist in defending against cyberattacks from China.³¹¹ Finally, European militaries and governments could support the ongoing defense of Taiwan by continuing to provide clear, unified public messaging and by combating Chinese or third-party disinformation.^{†312}

Implications for the United States

As one of the wealthiest regions in the world with deep economic ties to both China and the United States, Europe's approach to China impacts the effectiveness of U.S. policy, specifically policies that seek to limit U.S. exposure to and dependence on China. Growing European concerns about China present opportunities for more effective and coordinated U.S.-European responses to China's growing challenges. Deep and effective collaboration would be particularly beneficial in addressing China's control over critical mineral supply chains; limiting China's access to dual-use technologies, including advanced semiconductors; and securing critical infrastructure like 5G networks from Chinese investment. Joint U.S.-Europe effort could reduce the cost of policy implementation while increasing its effectiveness by reinforcing efforts on common goals and allowing for burden sharing where comparative advantages differ.

In addition to pursuing coordinated actions in areas of high convergence, the United States and Europe are presented with the opportunity to jointly formulate policy in emerging and rapidly developing areas, including AI and technical standards-setting. Chi-

* Ms. Nouwens assessed in her testimony before the Commission that although there is not likely to be an expectation from the United States that European states play a significant role militarily, "should a military presence be nearby, there may likely be a request from the US to engage European assets in a specific way. For close defense partners like the UK, this will not necessarily be an unanticipated scenario." Veerle Nouwens, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on Europe, the United States, and Relations with China: Convergence or Divergence?* June 15, 2023, 12.

† The EU could likely contribute to many of these efforts, even without a military. According to a senior EU official attending the second annual EU Indo-Pacific Ministerial Forum on May 13, 2023, the EU is not only seeking to develop its maritime domain awareness in the region, but it is also developing new instruments to tackle both "significant cyber threats" and "foreign information manipulation" in the region. Vivienne Machi, "European Forces Flex Their Indo-Pacific Reach," *Defense News*, June 11, 2023.

na is quickly developing an AI regulatory regime that caters to its specific political objectives while appealing to other authoritarian governments through the incorporation of censorship tools and regulation of search and share algorithms. This granular government control over AI development and function undermines U.S., European, and even developing countries' interests by allowing China to insert its political preferences and authoritarian values into emerging and cross-border technologies, thus impacting how users around the world engage with the technology now and in the future. These regulations also create an adaptable foundation that can be easily adopted by third parties, further enabling authoritarian regimes and expanding and legitimizing China's approach to governance. In addition, China's increasing adoption of leadership roles in standards-setting organizations traditionally led by the United States and Europe creates risks to economic competitiveness and supply chain resilience for both the United States and the EU and may foster global technological fragmentation. Transatlantic cooperation via fora like the TTC or new multilateral mechanisms can mitigate the risks posed by China's growing participation in AI policy development and technical standards-setting organizations.

Although Europe's views of China have begun to converge with the United States, in recent years there remain significant points of departure in critical areas that could undermine U.S. and European interests, particularly in terms of recognizing, deterring, and potentially responding to the heightened potential for war over Taiwan. Despite the massive global economic fallout that would result from a conflict in the Taiwan Strait, European decision-makers and publics are not yet unified in feeling the same sense of urgency or responsibility toward deterring aggressive and destabilizing action by China against Taiwan. Although several European governments have taken key steps toward providing Taiwan with military equipment and technology, these developments may be insufficient to deter China and thus far represent only limited contributions to Taiwan's self-defense capabilities. Moreover, Russia's invasion of Ukraine forces Europe to make tradeoffs between providing support for a realized and ongoing threat within its own region and deterring an unrealized potential threat of a similar conflict in Asia. Stronger communication of Europe's interest in maintaining stability in the Taiwan Strait and clearer commitments to act on those interests alongside the United States and Indo-Pacific partners could strengthen deterrence and inform future contingency planning. Continued leadership by the United States in the Indo-Pacific and on regional security concerns, particularly when divergence between European governments presents a significant obstacle to productive cooperation, could also provide a stabilizing and deterrent effect.

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