

Dependence in Europe's Relations with China

Weighing Perceptions and Reality

Edited by: John Seaman, Francesca Ghiretti, Lucas Erlbacher, Xiaoxue Martin and Miguel Otero-Iglesias



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**European Think-tank Network on China (ETNC)
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- Elcano Royal Institute, Spain
- Mercator Institute for China Studies (MERICS), Germany

Participating Institutions

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- University of Aveiro, Portugal
- Central European Institute of Asian Studies (CEIAS), Slovakia
- Swedish National China Centre, Swedish Institute of International Affairs (UI), Sweden
- Swiss Forum on Foreign Policy (Foraus), Switzerland
- The Royal Institute of International Affairs, Chatham House, United Kingdom



List of authors

Konstantinas ANDRIJAUSKAS, Institute of International Relations and Political Science (IIRPS), Vilnius University

Ugo ARMANINI, Elcano Royal Institute

Bernhard BARTSCH, Mercator Institute for China Studies (MERICS)

Una Aleksandra BĒRZIŅA-ČERENKOVA, Latvian Institute of International Affairs (LIIA)

Viking BOHMAN, Swedish National China Centre

Vincent BRUSSEE, Mercator Institute for China Studies (MERICS)

Lucas ERLBACHER, Austrian Institute for European and Security Policy (AIES)

Mario ESTEBAN, Elcano Royal Institute

Andreas B. FORSBY, Danish Institute for International Studies (DIIS)

Rodolf FÜRST, Institute of International Relations (IIR)

Jyrki KALLIO, Finnish Institute of International Affairs

Tuuli KOIVU, Nordea

Marie KRPATA, French Institute of International Relations (IFRI)

Steven LANGENDONK, Leuven International and European Studies (LINES), KU Leuven

Frida LINDBERG, Swedish National China Centre

Paul LOUÉDIN, French Institute of International Relations (IFRI)

Xiaoxue MARTIN, Clingendael Institute

Iulia Monica OEHLER-ȘINCAI, Romania

Barbara PONGRATZ, Mercator Institute for China Studies (MERICS)

Carlos RODRIGUES, University of Aveiro

Anu RUOKAMO, Finnish Institute of International Affairs

John SEAMAN, French Institute of International Relations (IFRI)

Tim SUMMERS, Chatham House

Justyna SZCZUDLIK, Polish Institute of International Affairs (PISM)

Plamen TONCHEV, Institute of International Economic Relations (IIER)

Branimir VIDMAROVIC, Department for Asian Studies, University of Pula, Croatia

Executive summary

- For the eighth report since its inception in 2014, the European Think-tank Network on China (ETNC) brings together analysis on 18 countries plus the European Union to examine how dependencies on China are presented in European public and policy-level debates, and how the notion shapes policymaking in each case.
- Indeed, the idea that Europe has grown dependent on China has become a common refrain across the continent. The chapters that follow provide substance, and in some cases nuance, to these discussions, contributing a much-needed, “bottom-up” perspective on an intensifying European debate.
- A cross-cutting analysis of the chapters reveals that there is a broad diversity in the content and intensity of public debate and in the policy-level assessment and understanding of dependencies on China across Europe. In some countries, the issue is treated both as a significant concern in the public debate and a significant priority at the policymaking level. For others it is significant at one level but not the other, and in still other countries there is a limited, or even lacking discussion on this topic, both among the general public and in policymaking debates.
- The concept of dependence is in many ways closely associated with Europe’s broader debate on building greater resilience, reinforcing sovereignty and striving for a degree of (open) strategic autonomy. These debates are not associated exclusively, or even primarily with China. In many ways they are representative of a broader internal reflection of how Europe relates to the process of globalization, and how it sees its place in the world.
- In this context, managing relations with the United States, particularly as strategic rivalry between Washington and Beijing becomes ever more prevalent, is one primary concern. Another, more pressing concern for Europeans is dependencies on Russia, particularly considering Moscow’s war in Ukraine.
- Much of the research and analysis done in this report preceded Russia’s invasion of its western neighbor, but the ensuing events are already restructuring how Europeans understand the notion of dependence and vulnerability. As such, Europe’s relations with China will necessarily be impacted, particularly as China positions itself relative to Europe’s shifting geopolitical context.
- A robust body of work is being done by EU institutions to understand Europe’s dependencies and craft policies to address them at the macro level. While written independently, our report makes a qualitative complement to this ongoing work.

- A striking observation from our country-level analysis is that beyond the EU institutions, surprisingly few states have made concerted efforts to assess their dependencies with any degree of depth.
- In only a quarter of countries observed has there been a significant level of public debate coupled with concerted policy-level action to both understand and address issues around dependence.
- Europe’s discussion of its own dependencies on China has evolved through a series of “wake-up calls”, or moments of revelation about national and European relations with China. In particular, the Covid-19 pandemic has been an important watershed in the public debate on dependence, vulnerability and resilience.
- Yet, such dependencies do not affect all countries equally, and many chapters below suggest that the concerns may in some cases be overblown (whether intentionally or unintentionally). More needs to be done at the national level to assess strategic vulnerabilities in a broad sense.
- While some national governments have indeed made the question of managing dependencies and bolstering resilience a priority, there is a strengthening consensus that these issues need to be managed at the European level—a consensus that has not always been clear.
- Still, there should be no illusion that adherence to Brussels’ direction is consistent throughout the twenty-seven member states, nor that all member states who follow that direction apply it in the same manner.
- Europe today is clearly in the midst of searching for a balance between openness and security—between yielding the benefits of interdependence and reducing the vulnerabilities of dependence. This is not a process that is solely about China, but it is nevertheless one that will fundamentally impact relations with it.
- One challenge in assessing “strategic” dependence is that what is identified as strategic depends very much on domestic economic, social and political priorities. It therefore needs to be assessed locally. Guidance from the EU could go a long way in facilitating this reflection, but national ownership is also key.

About the European Think-tank Network on China (ETNC)

The European Think-tank Network on China (ETNC) is a gathering of China experts from various European research institutes. It is devoted to the policy-oriented study of Chinese foreign policy and relations between China and European countries, as well as China and the EU. The ETNC facilitates regular exchanges among participating researchers with a view to deepening understanding within the European policy and research community and the broader public about how Europe, as a complex set of actors, relates with China and how China's development and evolving global role are likely to impact the future of Europe. The network's discussions and analyses take a decidedly 'bottom-up' approach, accounting for the various aspects of bilateral relations between European countries and China, and the points of convergence and divergence among EU member states, in order to examine EU-China relations in a realistic and comprehensive way.

The network was first launched on the initiative of the Elcano Royal Institute and the French Institute of International Relations (Ifri) in Brussels on 6 November 2014. This meeting brought together experts from eleven EU member states, as well as observers from EU institutions. The ETNC members decided to meet in a different European capital every six months and the Mercator Institute for China Studies (MERICS) joined Elcano and Ifri in their efforts to move the project forward. The network now includes members from 20 research institutes in as many countries, and each participates on the basis of equality.

The ETNC strives for independent policy research and analysis and, since its inception, is entirely funded by its participating members. The topics considered in ETNC reports are debated and decided upon collectively by its members. The views and analysis provided in each chapter of this report are thus the sole responsibility of the signed author or authors and do not in any way represent the views of all ETNC members, participating institutes, or the institutes with which the authors themselves are affiliated.

The editing of this year's report has been led by the French Institute of International Relations (Ifri), with editorial review provided from the Elcano Royal Institute, the Mercator Institute for China Studies (MERICS), the Netherlands Institute for International Relations 'Clingendael', and the Austrian Institute for European and Security Policy (AIES), with active participation from throughout the ETNC network.

Previous ETNC Reports

- Mapping Europe–China Relations: A bottom–up approach (November 2015)
- Europe and China's New Silk Roads (December 2016)
- Chinese Investment in Europe: A country-level approach (December 2017)
- Political Values in Europe–China Relations (December 2018)
- Europe in the Face of US–China Rivalry (January 2020)
- COVID-19 and Europe–China Relations (April 2020)
- China's Soft Power in Europe: Falling on Hard Times (April 2021)

Please visit www.etnc.info for more information on the ETNC.

Introduction: Europe Debates (or doesn't) its Dependence on China

**JOHN SEAMAN, FRANCESCA GHIRETTI, LUCAS ERLBACHER, XIAOXUE MARTIN
AND MIGUEL OTERO-IGLESIAS**

Russia's invasion of Ukraine has sent shockwaves across Europe that will likely bring about profound changes to the continent. Among its many revelations, the outbreak of war has forced Europe to come face-to-face with its dependencies in strategically important sectors such as natural gas, critical metals, and agriculture. At the same time, this episode has also shown in very clear terms that sanctions and the economic levers of influence that derive from asymmetric economic interdependencies now play a central role in Europe's exercise of power, particularly in response to armed aggression. Perhaps more fundamentally, Russia's invasion of Ukraine seems to demonstrate for many that interdependence is not the bulwark against armed conflict that it was once believed to be. Meanwhile, the exploitation—or weaponization¹—of interdependence is rapidly becoming a normalized practice in international relations.

While the war in Ukraine has dominated the discussion in Europe in early 2022, the shifting views on the benefits and risks of complex economic interdependence have a longer, more storied history. One important character in the history of European debates, particularly in the last five years, is China. In one respect, Europe's conversation about dependence and vulnerability is intricately linked to the process of globalization and how Europeans consider their place in that process. Indeed, Europe is traversing a moment of deep self-reflection on the free-market, efficiency-maximizing, just-in-time brand of liberalism that has characterized the last thirty-plus years of global economic expansion and that has largely dominated policy thinking in Brussels and many European capitals. In another respect, the vulnerabilities Europeans increasingly perceive when considering their dependencies relate to the "return of geopolitics", and in particular the increasing use of economic policy tools—including coercion—to achieve broader political and geopolitical goals, or so-called

1. H. Farrell and A. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion", *International Security*, Vol. 44, No. 1, 2019, pp. 42–79.

“geoeconomics”.² China has emerged as an important, and in many cases an increasingly central player in both areas. Indeed, the idea that Europe has grown dependent on China has become a common refrain across the continent, especially when the trade war between the United States and China started,³ and since the Covid-19 pandemic began.⁴ This report sets out to examine how this notion of dependence relative to China is understood in Europe, and how it influences policy making across the continent.

Much of the research and analysis done in preparing this report took place prior to Russia’s invasion of Ukraine on February 24, 2022. Still, as also evoked in many chapters below, the ensuing events will further structure how Europeans understand the notion of dependence and vulnerability. As such, Europe’s relations with China will necessarily be impacted, particularly as China positions itself relative to Europe’s shifting geopolitical context. The analysis found in this report, therefore, will help to lay some of the groundwork for considering what comes next in the Europe–China relationship.

Our approach: Dependence on China, as seen across Europe

Specifically, the report examines how dependencies on China are presented in European public and policy-level debates. Through eighteen case studies of countries across Europe written by analysts with keen insights into national contexts, it seeks to illuminate if and how this notion shapes policy in each country. As demonstrated in the initial chapter on the European Union, a robust body of work is being done by EU institutions to understand Europe’s dependencies and craft policies to address them at the macro level. But how is dependence on China understood and discussed at the state/member-state level? That is the common question that guides our report.

While there is a broad, rich literature on dependence and interdependence,⁵ we do not establish a clear definition of these concepts from the outset. Instead, the report seeks to examine the ways in which dependence with regard to China is perceived, understood, and communicated in different European states. This bottom-up approach, common to all ETNC reports, allows the reader to piece together a mosaic of different

2. A. Roberts and N. Lamp, *Six Faces of Globalization: Who Wins, Who Loses, and Why it Matters*, Cambridge, MA: Harvard University Press, 2021.

3. M. Leonard *et al.* “Redefining Europe’s Economic Sovereignty”, *Bruegel Policy Contribution*, June 25, 2019, available at: www.bruegel.org.

4. M. Otero-Iglesias, “From Venus to Janus: The EU and International Disorder”, *Elcano Royal Institute Commentay*, October 22, 2020, available at: www.realinstitutoelcano.org.

5. For instance, J. A. Caporaso, “Dependence, Dependency, and Power in the Global System: A Structural and Behavioral Analysis”, *International Organization*, Winter 1978, pp. 13–43; D. W. Drezner, H. Farrell, and A. L. Newman (eds.), *The Uses and Abuses of Weaponized Interdependence*, The Brookings Institution, 2021; or M. J. Zenglein, “Mapping and Recalibrating Europe’s Economic Interdependence with China”, *China Monitor*, MERICS, November 17, 2020, available at: <https://merics.org>.

perspectives on dependence toward China and compare them with one another. We therefore encourage the reader to discover the richness of the analysis within the chapters themselves.

Furthermore, the report does not seek to comprehensively study the extent of Europe's actual dependencies on China in detail, though some chapters do explore whether various narratives on dependence (or the absence of such a narrative) appear to have a basis in reality. Painting a detailed picture of how these manifest at the national or sub-national level is beyond the scope of this report, and seems even to be beyond the scope of many governments, at this stage. The European Commission's work has begun to map out Europe's dependencies, particularly in strategic sectors,⁶ and by exploring the notion of resilience indicators.⁷ While written independently, our report makes a qualitative complement to this ongoing work. The analysis below provides a brief overview of what we as editors have observed from our reading of the chapters that follow on how Europeans perceive the notion of dependence on China.

Varying levels of public debate and (mis)understanding

A first observation from our country-level analysis is that there is a broad diversity in the content and intensity of public debate and in the policy-level assessment and understanding of dependencies on China across Europe. Beyond the EU institutions, surprisingly few states have made concerted efforts to assess their dependencies with any degree of depth. For many, the framing of the policy debate on dependence in a broad sense is being structured and elaborated at the EU level, or results from pressure by the United States, particularly on key issues such as 5G or in the context of Washington's broader approach to strategic competition that emerged in earnest from 2018 onward.

The countries discussed in this report can be divided into four categories, for the sake of discussion:

- 1. Significant concern, significant priority:** In some countries, the notion of dependence in general, and in relation to China in particular, is both widely discussed in public and internalized to a significant degree at the policy-making level.
- 2. Significant concern, limited priority:** In other cases, the public debate has been active, and in some instances even inflamed and polarized, but has not

6. European Commission, "Strategic Dependencies and Capacities", Staff Working Document, Accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Updating the 2020 New Industrial Strategy: Building a Stronger Single Market for Europe's Recovery, European Commission, May 21, 2021, available at: <https://eur-lex.europa.eu>.

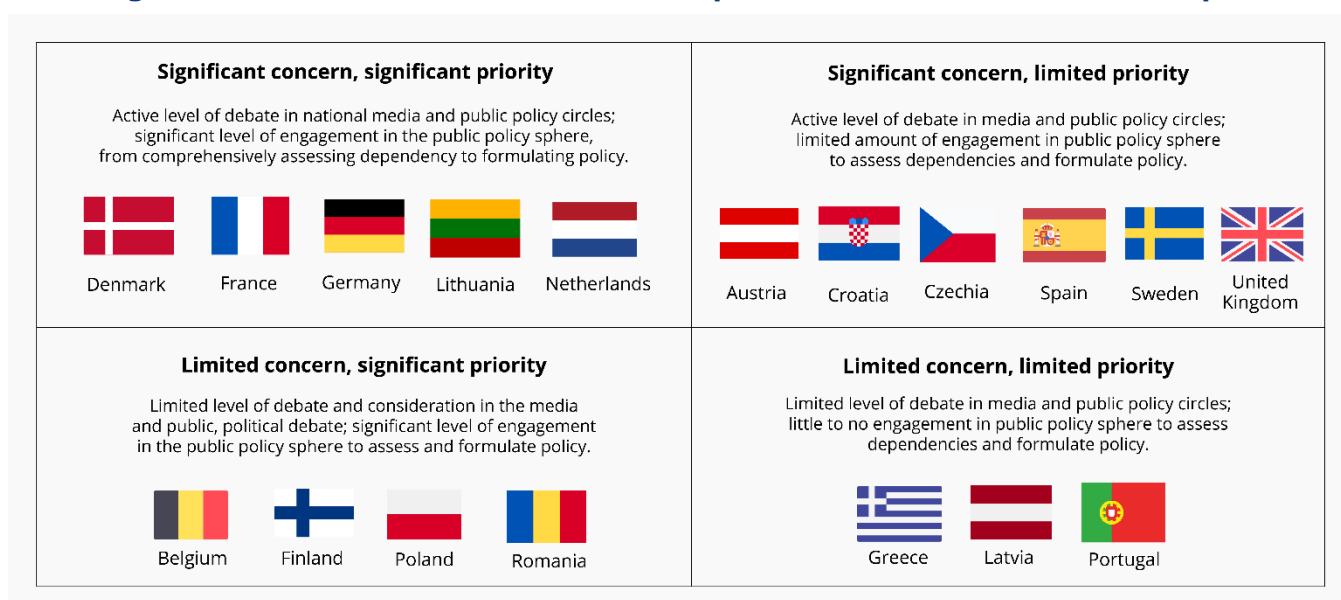
7. EU Science Hub, Joint Research Centre, European Commission, available at: <https://joint-research-centre.ec.europa.eu>.

translated into a significant level of policy engagement on the issue, for various reasons.

3. **Limited concern, significant priority:** In some countries, the level of public discussion of dependence on China is low, but state agencies have nevertheless taken the issue seriously.
4. **Limited concern, limited priority:** In still other instances, the debate is visibly less significant both within the public sphere and within policy circles (whether intentionally or unintentionally), though that does not necessarily mean it is nonexistent.

In many cases, the position may be dynamic, with the issue rising in priority or the debate intensifying over time.

Figure 1. Levels of debate and action on dependence relative to China in Europe



Source: Figure realized by Dimitri Von Büren © Ifri.

Significant concern, significant priority

In only a quarter of countries observed has there been a significant level of public debate coupled with concerted policy-level action to both understand and address issues around dependence.

France, for instance, in the context of its broader reflections on strategic autonomy, has internalized assessments of dependence and vulnerability with a level of coordinated, interagency reflection on the topic—a broad process that does not look at China exclusively.

In the **Netherlands**, one of the largest trading nations in Europe relative to the size of its economy, the issue of dependence is raising concerns as both an economic and a national security issue. The government in The Hague has launched a number

of processes to identify the country's dependencies, though they remain in the early stages and, again, take a broad scope that extends beyond China.

In **Denmark**, meanwhile, legislative measures have tended to focus on questions of security, prompted by concerns about Chinese investments in Greenland and Huawei's position in Denmark's critical digital infrastructure. The Danish national debate was galvanized in particular by revelations of instances of self-censorship on the part of Danish officials during diplomatic visits by Chinese leaders, and Copenhagen has recently introduced different policy measures to address the perceived risks of relying on Beijing in strategically important areas.

In **Germany**, while the notion of dependence has been prevalent in the public policy debate, policy makers in Berlin remain focused on keeping a balance between "addressing short-term concerns and pursuing strategies to reduce economic and political dependencies".

In **Lithuania**, on the other hand, the evaluation of dependence on China has played a central role in the country's foreign policy shift. This has, notably, manifested itself in a preemptive campaign to reduce dependence on China that even preceded China's recent coercive measures against the country and its economic interests.

Limited concern, significant priority

Other countries have taken to policy solutions despite the lack of a broad public debate on the topic of dependence on China. This indicates that policy makers, and to some extent the political elite, have accorded a degree of priority to the issue, despite the lack of public "concern".

In **Finland**, the government has notably warned companies against "becoming over-reliant on the Chinese market" and is particularly keen to avoid dependencies that could compromise technological and security cooperation with the United States.

Romania has also moved in favor of deepening interdependencies with "like-minded" value partners, particularly in the Euro-Atlantic space. Though China is not explicitly mentioned as a point of concern by Bucharest, such logic nevertheless helps to explain moves such as the cancellation of the Cernavodă nuclear power project or the exclusion of Chinese vendors from the 5G market, as concerns around dependence have gained a degree of political traction.

Poland, meanwhile, appears more conflicted. While China's coercive trade actions against Lithuania have raised the bar of policy awareness, dependence on China is generally thought to be low and public debate largely absent. Warsaw now seems to be aiming to balance concerns that arise from pursuing deeper engagement of China with the desire to increase exports and investment, which partly explains why a law enacting a de facto cordoning-off of the 5G market from Chinese vendors has yet to be enacted. Russia's invasion of Ukraine, however, has set off alarm bells for Poland that are increasingly ringing with Chinese undertones.

In **Belgium**, the notion of dependence is gaining limited public attention via concerns about investments and network security. While the regional diversity of elite perspectives constrains the adoption of EU initiatives, concerns about China are facilitating a degree of convergence and there is growing attention in the government and parliament to take initiatives to dependence on China, though it is unlikely to become a major factor in national policy debates.

Significant concern, limited priority

In a third grouping of countries, there is a significant level of public debate over dependence on China, but this has not necessarily translated into concerted efforts to assess and address such issues.

The chapter on the **Czech Republic**, for instance, illustrates how dependence on China in some countries is widely taken as a given, and even instrumentalized for political purposes. There has been little to no public effort to verify or comprehensively understand such dependencies, which appear in fact to be rather limited.

Similarly, in the context of the **United Kingdom**, where the debate also differs from that in other countries in the report because it is no longer an EU member state, the concept of strategic dependence on China appears to be also utilized as a justification for a more hawkish foreign policy stance, though the change of policy on Huawei could be read as an indicator of greater priority being attached to the issue.

In the cases of **Austria** and **Spain**, the dependence debate on China is considerably less polarized, in many ways because it is viewed through the prism of the EU. This is largely due to the relatively limited direct dependence on China in these countries. At the policy level, this has led to clear support for measures that augment Europe's strategic autonomy.

In **Sweden**, there has been a significant level of public concern on questions related to reliance on China, including in 5G networks, Geely's ownership of the Volvo and the Chinese state-sponsored boycott against H&M. While the Swedish government acknowledges a general reliance on China in many fields, it typically presents this state as an unavoidable fact rather than as a problem that can be addressed. Although there are no indications that Sweden will abandon its resolute opposition to what may be interpreted as protectionism, its pro-free trade approach is increasingly being coupled with a recognition of the security risks associated with economic flows.

Croatia, meanwhile, has deepened economic relations with China in the past five years, but overall these relations remain limited in scope. Political and business elites do not seem worried about potential direct or indirect dependence. At the same time, the Croatian media have become more critical of China, reflecting a shifting debate at the European and transatlantic level.

Limited concern, limited priority

A final grouping of countries has a visibly limited public debate on the question of dependence with regard to China, while the level of priority given to addressing issues in this area is also seemingly low. Still, this does not mean that attention is not given to the issue in these countries.

Portugal and **Greece** have attracted attention because of major Chinese investments into national infrastructure, but the public debate on dependence remains limited there, as well. Lisbon seems rather intent on maintaining a “good and close relationship with China”, whereas Athens desires to avoid confrontation with Beijing on “sensitive political issues”.

Latvia, similarly, views its dependence-related vulnerabilities as very limited, as hopes of deepening economic relations with China that accompanied the development of cross-regional formats like the 16+1 never materialized. Nevertheless, Riga is keen to avoid any anticipated and unforeseen consequences that may derive from a pronounced “break up” with China in the image of its neighbor, Lithuania.

Europeans are waking up to the notion of dependence on China

While the above categorization suggests that Europeans operate at different speeds, the sense that Europe is dependent on China in various ways has certainly been gaining traction. Europeans have actively and willingly been contributing to the deepening of ties with China for decades, forging increasingly complex interdependencies. What now seems to have changed is the evaluation at various levels of European society—from the general public to policy makers to businesses and industry players—of the associated risks. Here, it is useful to note how Europeans have “woken up” to this question, the types of dependence that are perceived in different countries, and what types of policy prescriptions are flowing from this process.

Compounding wake-up calls

Europe's discussion of its own dependencies on China has evolved through a series of “wake-up calls”, or moments of revelation about national and European relations with China. At the economic and technological level, a wave of Chinese investments into Europe in the mid-2010s (and even before, in the case of investments into Greece and Portugal) served to shape national discussions about the changing nature of relations with China.⁸ Arguably, the most emblematic of these was the acquisition of the German robotics firm Kuka by Midea in 2016. This proved an important turning point not only

8. See previous ETNC report on Chinese investment in Europe, 2017, available at: www.etnc.info.

in Germany because it demonstrated China's broader ambitions for leadership in cutting-edge industries and the shift of Europe-China relations into an era of more direct economic competition. Debates that would follow about 5G further highlight this shift and introduce in particular the idea that Europe could become dependent on Chinese technology providers in the context of a sweeping digital transformation.

In parallel, human rights, governance, and geopolitical concerns have further defined the notion of risk.⁹ The hardening of China's authoritarian political system in recent years has had a marked impact on how China is perceived, as have debates in many countries about Hong Kong, the oppression of Uyghurs and many other human rights concerns. The now well-established US--China rivalry has also induced a geopolitical rethinking in many countries and squarely contributed in a broader turn toward a more "geopolitical Europe", particularly as the weaponization of trade and technology becomes an increasingly defining feature of the strategic competition between Washington and Beijing. Crucially, the dependencies and interdependencies that Europeans have forged with China will be confronted more and more with those developed in relations with the United States, fueling the impetus for Europe to nourish its own resilience.

The Covid-19 pandemic has been an important watershed in the public debate on dependence, vulnerability, and resilience across much of Europe, particularly given the prevalence of perceived dependencies on China for medical equipment.¹⁰ While many of the initial challenges posed by the pandemic proved surmountable, it has served as a catalyst for a broader reflection on Europe's dependencies and vulnerabilities. As the pandemic persists both globally and within Europe and China specifically, a wide range of supply chain issues have emerged and impacted not only businesses, but also the daily lives of Europeans.

Another key moment in European debates on China and dependence has been the dramatic downturn in Lithuania's relations with Beijing, and in particular China's use of informal economic coercion to punish Lithuanian businesses and, importantly, those who include Lithuanian components in their supply chains. For many, the saga has proven to be a wake-up call for how the leveraging of even low levels of perceived dependence on China can have a significant economic—as well as political—impact. Finally, Russia's invasion of Ukraine has brought the debate on dependence to the front and center of the European discussion, and what Europe views as Beijing's tacit support for Moscow has already started to move that discussion toward one that includes China.

9. See for instance previous ETNC reports on political values in Europe-China relations (2018), on the waning of China's soft-power in Europe (2021), and on Europe and the US-China rivalry (2020), available at: www.etnc.info.

10. See our ETNC Special Report on Covid-19 in Europe-China Relations in April 2020, available at: www.etnc.info.

Europe's perceived dependence on China takes many dimensions

The compounding of these various alarm bells, which are often augmented by specific developments in each country, has ultimately shaped a multi-faceted discussion around Europe's dependencies on China. Trade dependencies, and the reliance on Chinese suppliers for critical goods in particular, often predominate the discussion. The European Commission, for instance, has identified 137 product categories in the most sensitive ecosystems—Aerospace & Defence, Digital, Electronics, Energy Intensive Industries, Health and Renewable Energy—in which the EU can be regarded as strategically dependent. This means that, for these product categories, extra-EU import sources provide more than half of the EU's demand, that these foreign import sources are highly concentrated, and that the EU's production cannot cover its extra-EU imports. While these products make up around only 6% of the EU's total import value, roughly 52% of the import value these products come from China.

Yet, such dependencies do not affect all countries equally, and many of the chapters below suggest that the concerns may in some cases be overblown (whether intentionally or unintentionally). More needs to be done at the national level to assess strategic vulnerabilities in a broad sense, and not just with regard to China. The chapters that follow highlight that the notion of dependence in Europe's various discussions of the topic runs well beyond the concept of strategic goods. The following map provides an overview of just some of the ways in which discussions on China and dependence are framed in different corners of Europe.

Policy approaches increasingly converge at the EU level

While some national governments have indeed made the question of managing dependencies and bolstering resilience a priority, there is a growing consensus that these issues need to be managed at the European level—a consensus that has not always been clear. As explained in the chapter on Austria, for instance, overreliance on the European economy was once seen as a source of vulnerability, particularly in the context of the global financial crisis that began in 2008. At that time, forging deeper relations with China was considered in many countries as an important vector for diversifying economic relationships. How times are changing.

The following chapter on debates and actions at the European Union level shows a record of EU-driven policies that have been adopted by member states, covering a range of issues from the protection of European assets to market competitiveness and leveling the playing field. The EU has also been involved in active efforts to improve the block's resilience by diversifying partnerships, favoring interdependence with "like-minded" partners, and adopting new proactive strategies such as a more robust industrial policy, the Indo-Pacific Strategy, and the Global Gateway.

Yet, there should be no illusion that adherence to Brussels' direction is consistent throughout the twenty-seven member states nor that all member states who follow that direction apply it in the same manner. For example, there are still nine member states who have not developed a national-level mechanism for screening foreign investments from outside of the EU, despite such a mechanism coming into force at the EU level in October 2020. Moreover, those who have adopted such a mechanism choose different thresholds and sectors to which it applies, underlining the fact that not all member states consider the notion of "strategic" in the same way. A piecemeal adoption of the EU's toolbox on 5G is another example. So, while the trend is toward a greater unity of position within the EU, particularly when it comes to China, there is still a long way to go.

Moving the discussion forward

From these reflections, some final considerations to help move the discussion forward are in order. To begin with, interdependence is no longer seen as the positive, stabilizing force that it was once thought to be—a consequence of its increasing weaponization through the use of coercion. As highlighted at the outset, Russia's invasion of Ukraine seems to demonstrate precisely that interdependence is not a bulwark against armed conflict. This should not necessarily be news to Europeans. Still, it does not mean that Europeans should turn to autarky in pursuit of some notion of security. Europe today is clearly in the midst of searching for a balance between openness and security—between yielding the benefits of interdependence and reducing

the vulnerabilities of dependence. This is not a process that is solely about China, but it is nevertheless one that fundamentally impacts the Sino-European relationship.

The European Commission's work to map and understand dependencies and the concept of resilience provide a useful framework, but these discussions about China also need to be brought down to the member-state level, perhaps with a higher degree of local ownership. Some states have moved forward on this reflection with or without a robust public debate. Others have done so to a lesser degree, while still others seem to hardly be concerned. One challenge in assessing "strategic" dependence is that what is identified as strategic depends very much on domestic economic, social and political priorities. It therefore needs to be assessed locally. Guidance from the EU could go a long way in facilitating this reflection, but national ownership is also key. After all, regardless of how dependencies are assessed, uncontrolled and not fully understood dependencies are quickly showing that they can have a major negative impact on the lives of European citizens.

Finally, we remind readers that the analysis above, including the categorizations of countries, has been made by the editors of this report. The chapters below offer a rich set of analyses and local contexts that readers are invited to discover, enjoy, and assess for themselves.

EU: China, a major driver in the push for greater resilience and autonomy

MARIE KRPATA

FRENCH INSTITUTE OF INTERNATIONAL RELATIONS (IFRI)

Summary

Against the backdrop of China's emergence as a global economic powerhouse and its increasing assertiveness on the world stage, the impact of tense Sino-American relations and the Covid-19 crisis have spurred a debate about EU trade-, investment, and supply-chain-related dependencies. This debate has shed light on the vulnerability of the EU's technological and industrial base and raised awareness of potential risks related to China's geopolitical aspirations. In this context, the EU has developed strategies, policies, and instruments to reduce dependencies on third powers, including China, while also upholding market liberalism, human rights, and a rules-based world order. With the return of power politics, the EU needs to be clear-eyed about the tradeoffs it faces. If it wishes to embody a distinct position in the face of a growing US-China rivalry, it will have to boost its competitiveness, take measures to combat market and trade asymmetries, and proactively promote its values and interests abroad.

Introduction

The coronavirus crisis has spurred much debate about the weakness of the EU's manufacturing base and supply chains, and the consequent overreliance on China for essential goods. This, in turn, has led the EU to assess the need to reduce its dependencies on China, following the overall goal of 1) strengthening the resilience of the single market, 2) supporting Europe's open strategic autonomy by addressing strategic dependencies, and 3) accelerating the twin transitions to a green and digital economy.¹

1. "Internal Market, Industry, Entrepreneurship and SMEs, European Industrial Strategy", European Commission, May 2021, available at: <https://ec.europa.eu>.

The EU's vulnerabilities have not proven to be the sole topic of concern, as growing Chinese assertiveness on the world stage unfolded amid the coronavirus crisis, thereby inflating Sino-American tensions.

On the economic side, China's share in the world's gross domestic product has risen from 4% in the early 2000s to 16% in 2020,² turning the country into the EU's largest trade partner (EUR 587 billion in 2020). Despite an overall positive balance in its trade with the world, the EU has a considerable trade deficit with China (EUR 181 billion in 2020).³ Now more than twenty years after China's accession to the World Trade Organization (WTO), there is growing acknowledgment that China has greatly benefited from globalization,⁴ while the associated assumption of the country's political liberalization seems to have failed.⁵

The year 2021 was marked by a deepening of tensions in the China–EU relationship. The Comprehensive Agreement on Investment (CAI) that aims at rebalancing trade and investment relations between China and the EU is currently blocked in the European Parliament following China's sanctions against the EU, whose targets include officials, members of parliament, and civil society.⁶ "Popular boycotts" against European companies following their refusal to buy cotton harvested in the Xinjiang region have further increased tensions. Moreover, a sharp escalation in tensions between China and Lithuania, in particular China's use of coercive economic measures, has served to further complicate EU–China relations and to highlight in very clear terms the vulnerabilities inherent in sophisticated economic exchanges. Now, Russia's invasion of Ukraine on February 24, 2022, has opened a new chapter in Europe's history. The EU is consequently focused on reducing dependencies on Russia, and China's positioning in this conflict will have a major impact on the future of EU–China relations.

2. "Viral Slowdown – How China's Coronavirus Epidemic Could Hurt the World Economy", *The Economist*, February 15, 2020, available at: www.economist.com.

3. "European Union, Trade in Goods with China", European Commission, Directorate-General for Trade, June 2, 2021, available at: <https://webgate.ec.europa.eu>.

4. With regard to exports: China has run a trade surplus since 1995. It became the world's largest exporter of goods in 2009, and the largest trading nation in goods in 2013. Its share of global goods trade increased from 1.9% in 2000 to 11.4% in 2017. As far as manufacturing output is concerned, in 2003 to 2007, China's share of global manufacturing output was only 12%. In 2013 to 2017, that share jumped to 33%. See "China and the World – Inside the Dynamics of a Changing Relationship", McKinsey Global Institute, July 2019, available at: www.mckinsey.com.

5. T. Riecke and D. Heide, "20 Jahre in der WTO – Wie China vom Hoffnungsträger zur Bedrohung wurde", *Handelsblatt*, December 10, 2021, available at: www.handelsblatt.com.

6. "Chinese Counter-Sanctions on EU Targets", European Parliament, May 19, 2021, available at: <https://epthinktank.eu>.

Calls for the EU to take a more assertive stance have been around for some time now. The EU aims at becoming more “geopolitical” and aspires to “speak the language of power”. “Strategic autonomy”⁷ is both a goal and a means to achieve this ambition. The EU endeavors to develop a distinct political positioning in a context of polarized international relations and an increased Sino-American rivalry, without being necessarily forced to take sides. However, the understanding of this concept differs across the EU, making its concrete application difficult. Nevertheless, the EU’s explicit consideration of China as a “systemic rival”⁸ since 2019 certainly suggests that it is not “equidistant” between the US and China.

This chapter will explore the various perspectives on how EU dependencies on China are understood, before analyzing how they are being addressed through EU policies. The chapter will finish with a series of reflections and recommendations.

Six perspectives on dependence and vulnerability

In the following analysis, European dependence on China will be explored through six perspectives on vulnerability at the EU level: 1) import-related vulnerabilities, 2) supply-chain-related vulnerabilities, 3) market-access-related vulnerabilities, 4) competitiveness-related vulnerabilities, 5) security-related vulnerabilities, and 6) vulnerabilities relating to China’s geopolitical aspirations. Before delving into this discussion, it is important to note that the pendulum swings both ways. For instance, while China’s foreign direct investments (FDI) in the EU are marginal⁹ and mainly cover brownfield investments, the share of EU greenfield investments in China is much bigger, creating jobs, generating fiscal revenue, and providing China with high-value know-how. Also, China counts on the EU market to export its production surplus while also relying on European companies settled in China to maintain its role as the world champion on exports¹⁰ and to rapidly catch up on technological innovation. Moreover, China still relies on imports for some critical components.¹¹ It is hence more accurate to talk of *interdependence* rather than of mere *dependence*. Still, this should not, and has not stopped the EU from reflecting upon its vulnerabilities.

7. Definition of “open strategic autonomy”: “The ability to shape the new system of global economic governance and develop mutually beneficial bilateral relations, while protecting the EU from unfair and abusive practices, including to diversify and solidify global supply chains to enhance resilience to future crises”. In: “Staff Working Document – Strategic Dependencies and Capacities”, European Commission, May 5, 2021, available at: <https://eur-lex.europa.eu>.

8. “EU-China – A Strategic Outlook”, European Commission and HR/VP contribution to the European Council, March 12, 2019, available at: <https://ec.europa.eu>.

9. M. J. Zenglein, “Mapping and Recalibrating Europe’s Economic Interdependence with China”, MERICS, November 18, 2020, available at: <https://merics.org>.

10. More than 40% of China’s exports come from foreign-owned enterprises or joint ventures. “China and the World – Inside the Dynamics of a Changing Relationship”, *op. cit.*, Exhibit 42.

11. “China and the World: Inside the Dynamics of a Changing Relationship”, *op. cit.*, p. 8.

Import-related vulnerabilities

In 2020, China was the EU's main trade partner, and today numerous European sectors rely on supplies from China.

As the European Commission points out in its *2020 Update of the EU's New Industrial Strategy*, this has led to acute dependencies on imports from China in some areas.¹² Dependence is defined here as the import of goods from outside the EU for which import sources are highly concentrated and for which there is a low level of substitutability from production within the EU. Out of the 137 products where the EU is identified as dependent on non-EU producers, 34 (representing only 0.6% of extra-EU import value in goods) could be considered as potentially more vulnerable given their low potential for further diversification or substitution. China is the EU's main foreign source for these products, accounting for 52% of their value.¹³

While in aggregate terms this dependence may appear exceedingly small, some of these products are nevertheless highly important. Dependencies on China, in particular, have been identified in the domains of active pharmaceutical ingredients, as well as products related to the EU's green and digital transition (for instance lithium-ion batteries) and a number of critical raw materials needed to produce the high-tech value-added products of today and tomorrow.¹⁴

Supply-chain-related vulnerabilities

The *Update* helps assess vulnerabilities caused by supply chain disruptions, which have been particularly relevant during the coronavirus crisis. The problem certainly runs beyond the pandemic, as the overall geopolitical context, with the prospect of a potential decoupling of the US and Chinese economies and its consequences on the EU, increases the need for more resilient supply chains. Lithuania, discussed elsewhere in this report, is an example of a European state facing coercion from Chinese authorities by means of supply chain disruptions. While this is an example of the weaponization of trade directed toward *a single* country, the EU as a whole is becoming a collateral victim due to European companies' reliance on production chains encompassing Lithuania.¹⁵

12. "Staff Working Document – Strategic Dependencies and Capacities", *op. cit.*

13. *Ibid.*

14. "Critical Raw Materials", European Commission, available at: <https://ec.europa.eu>.

15. A quantitative estimation of the value and share of Lithuanian inputs in other EU countries' exports to China is provided here: J. Matthes and M. Fritsch, "Auswirkungen der Sanktionen Chinas gegen Litauen auf die EU", IW-Kurzbericht, Deutsches Institut für Wirtschaft, January 28, 2022, available at: www.iwkoeln.de.

Beyond access restrictions to the Chinese market and their impact on European supply chains, China's central role as a global manufacturing hub also means that policies put in place or other disruptions occurring in China have a significant ripple effect on Europe and the European economy.

Market-access-related vulnerabilities

Because of its sheer size, the Chinese market has become the object of desire of many Western companies. The growing middle class with increased purchasing power attracts many of them at a time when demand in the West has run out of steam in many domains. Gradually, the rest of the world's exposure to China's economy is rising—with Chinese manufacturers' increased role in global value chains in the provision of raw materials such as rare earths and the final assembly of electrical circuits and components. In the meantime, China's exposure to the world is declining. This reflects the reality of an economy that is still relatively closed compared to other developed economies, as well as its ambition to move into higher-value-added activities. China's *Made in China 2025* plan sets targets to increase local players' market share. At the same time, Western companies are lured by the growth opportunities that China may present.

The major driver of China's economic growth is domestic consumption. In 2017, Chinese consumers accounted for more than 40% of the world's sales of electric vehicles (EVs) and 30% of global car sales. In terms of growth, China accounted for 50% of global growth in auto sales between 2010 and 2017.¹⁶ A glimpse into the German automotive sector shows the importance of the Chinese market. The biggest car manufacturer worldwide, Volkswagen (VW), sells 40% of its cars to China and produces 38% of its cars in China.¹⁷ VW has agreed to a joint venture with the Chinese carmaker First Automotive Works (FAW), which includes technology transfer in exchange for market access. In many respects, China intends to localize its production and to promote national champions following the logic of "digest and innovate", which may lead to the eviction of foreign actors unless they are able to maintain their differentiation from their Chinese counterparts.

Another prominent example is the rail industry. CRRC, the Chinese national champion in rolling stock, has received extensive subsidies and state aid to catch up with its Western counterparts, which have been progressively evicted from the Chinese market after having conferred their know-how in the early 2000s. Today, CRRC is the world's biggest producer in rolling stock. In the case of high-speed rail, Chinese players account for more than 90% of the domestic market.¹⁸ For CRRC, China is a protected market representing a springboard for internationalization. At the same time, the

16. "China and the World – Inside the Dynamics of a Changing Relationship", *op. cit.*

17. M. Krpata, "The Automotive Industry: The Achilles' Heel of German Economy?" *Études de l'Ifri*, Ifri, March 2021, available at: www.ifri.org.

18. "China and the World – Inside the Dynamics of a Changing Relationship", *op. cit.*

European rail industry association UNIFE has complained that Chinese market accessibility was 17% from 2017 to 2019, compared to the European market's accessibility rate of 79%.¹⁹

Efforts to level the playing field between China and the EU in terms of market access were foreseen in the CAI,²⁰ which Germany was particularly keen on finalizing under its Presidency of the Council of the European Union. Further developments have however hindered a coming into force of the CAI.

Competitiveness-related vulnerabilities

The *EU's New Industrial Strategy Update* concludes that the EU has been gradually losing leadership in many technologies, such as artificial intelligence (AI), lithium-ion batteries,²¹ and semiconductors, which are also at the center of the Sino-American race for technological leadership. In multiple areas, China is now no longer a mere rising power in technology but an American peer, sometimes even surpassing the US.²²

Huawei's dominant position in 5G technologies enables it to shape international technical standards in this domain, for instance. More globally, the EU is concerned about other world regions taking the lead in setting standards in sensitive areas such as lithium batteries or facial recognition, providing them with a competitive edge to the detriment of the EU.²³

One key challenge to European competitiveness stems from the absence of a level playing field and growing market asymmetries.

- Concerns have been raised regarding Chinese investments or takeovers in the European single market. These are problematic when they occur in sensitive or strategically important sectors; and/or when these investors benefited from Chinese public financing, which would be treated as state aid if applying to European actors. The results of such distortion of competition may be detrimental to the EU's technological and industrial base. Chinese dumping practices and state subsidies have for instance led to the depletion of the

19. In N. Cory, "Heading Off Track: The Impact of China's Mercantilist Policies on Global High-Speed Rail Innovation", Information Technology & Innovation Foundation (ITIF), April 26, 2021, available at: <https://itif.org>.

20. "Commission Publishes Market Access Offers of the EU-China Investment Agreement", European Commission, March 12, 2021, available at: <https://trade.ec.europa.eu>.

21. S. Bobba, S. Carrara *et al.*, "Critical Raw Materials for Strategic Technologies and Sectors in the EU – A Foresight Study", European Commission, Figure 8: Li-ion batteries: An Overview of Supply Risks, Bottlenecks and Key Players Along the Supply Chain, p. 20, available at: <https://ec.europa.eu>.

22. J. Cohen and R. Fontaine, "Uniting the Techno-Democracies: How to Build Digital Cooperation", *Foreign Affairs*, November/December 2020, available at: www.foreignaffairs.com.

23. "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – An EU Strategy on Standardisation Setting Global Standards in Support of a Resilient, Green and Digital EU Single Market", European Commission, February 2, 2022, available at: <https://eur-lex.europa.eu>.

photovoltaic and steel industries in the EU, where the EU had been a frontrunner.^{24, 25}

- There is a link between competitiveness and market access. The fact that access to the Chinese market may be granted to European companies in exchange for joint venture agreements with Chinese companies foreseeing technology transfer is a particular challenge. To reiterate the case of high-speed rail mentioned above as an illustration, Western companies that greatly contributed to increasing China's know-how in high-speed train technology in the early 2000s have gradually found their access to public contracts in China to be more restricted. "CRRC has the largest share of the global high-speed rail market due to its dominance of the Chinese market", while its Western counterparts "have lost relative and absolute market share as a result of mostly missing out on the large and fast-growing Chinese market".²⁶ CRRC is benefiting from a conducive Chinese industrial policy that furthers its national champions and allows market concentration, which helps them produce at a large scale and consequently become de facto standard-setters. This is especially the case in domains in which China aims to become a major global protagonist, such as modern rail transport equipment.²⁷

Decisions taken by European companies to increasingly offshore their production and R&D activities to China may be both detrimental to the "*Standort Europa*" and short-sighted. Indeed, the putting into practice of China's "Dual Circulation Strategy", which aims at bolstering self-reliance and indigenous innovation, may result in a progressive pushing-out of Western companies from the Chinese market.²⁸ Nevertheless, the annual survey launched by the European Chamber of Commerce in China in 2021 revealed that although 46% of the surveyed companies expect the number of obstacles to increase in terms of market access, European companies are, now more than ever, committed to the Chinese market.²⁹

24. The issue of steel was particularly addressed by the former President of the European Commission Jean-Claude Juncker. See "State of the Union 2016 by Jean-Claude Juncker, President of the European Commission", European Commission, September 14, 2016, available at: <https://op.europa.eu>.

25. "Commission Staff Working Document EU Strategic Dependencies and Capacities: Second Stage of In-Depth Reviews", Council of the European Union, February 23, 2022, pp. 39–47, available at: <https://presidence-francaise.consilium.europa.eu>.

26. N. Cory, "Heading Off Track: The Impact of China's Mercantilist Policies on Global High-Speed Rail Innovation", *op. cit.*

27. S. Kennedy, "Made in China 2025", Center for Strategic & International Studies, June 1, 2015, available at: www.csis.org.

28. A. G. Herrero, "What Is Behind China's Dual Circulation Strategy", China Leadership Monitor, September 1, 2021, available at: www.prcleader.org.

29. "European Business in China – Business Confidence Survey 2021", European Chamber of Commerce in China in cooperation with Roland Berger, June 8, 2021, available at: www.eurochamber.com.cn.

Security-related vulnerabilities

Another vulnerability relates to security. Here again, 5G—and Huawei in particular—plays a prominent role, illustrating the concerns about relying on Chinese firms and technology for critical digital infrastructure. Many Western democracies are questioning Huawei’s place in their national infrastructures, citing concerns about access to data, cybersecurity, data privacy, and democratic values, but also concerns relating to upholding European autonomy in key technologies for strategic sectors such as the defense industry, telecommunications infrastructure, AI, and IoT.

While the US administration considered Huawei a security threat and transitioned away from its equipment, EU member states have taken up positions that range from a de facto exclusion of the Chinese vendor to far more ambiguous policies.³⁰

In this overall context, the EU was faced with increasing pressures from both the US and China, as well as concrete repercussions in the form of secondary sanctions affecting European players. These evolutions stressed the necessity of European digital sovereignty and strategic autonomy in the realm of critical technologies.

Vulnerabilities relating to China’s geopolitical aspirations

China’s assertiveness on the world scene is not only economic and technological in nature; China also aims to shape the world order.³¹

On the diplomatic level, China’s heading of international organizations and agencies reflects its growing role and global involvement and reveals the topics of interest to a country aiming to assume global leadership by 2049.³² Its questioning of universal notions such as “human rights” also evidences its goal to shape the international order in ways more suited to its interests.³³

China’s increasing presence and activism in international standard-setting forums, including a growing leadership role in technical committees, is raising concerns that standardization is becoming increasingly politicized and may lead to technological

30. T. Barker and K. Sahin, “Europe’s Capacity to Act in the Global Tech Race”, Figure 19, DGAP, April 2021, available at: <https://dgap.org>.

31. N. Rolland, “China’s Vision for a New World Order”, NBR, January 27, 2020, available at: www.nbr.org.

32. R. Doshi, *The Long Game: China’s Grand Strategy to Displace American Order*, Oxford: Oxford University Press, 2021.

33. S. Tiezzi, “Can China Change the Definition of Human Rights?”, *The Diplomat*, February 23, 2021, available at: <https://thediplomat.com>.

solutions that could be “incompatible with the EU’s values, policies, and regulatory framework”.^{34, 35}

China’s Belt and Road Initiative (BRI), officially launched in 2013, is a prominent vector of Chinese geopolitical influence around the globe and in many corners of Europe. While the BRI’s record in Europe has been mixed, it has nevertheless raised questions about China’s geopolitical ambitions and the impact on the EU’s unity as a political bloc. Indeed, the prospects of increased connectivity triggering additional revenues at a time when the EU was struggling with the aftermath of the global financial crisis led to a strengthening of ties between China and many countries in Europe.³⁶ The story of the Chinese investment in the port of Piraeus, touted by Beijing as a very successful BRI project, seemed to justify a narrative of deepening of relations. In 2018, as France sought a common approach to China and welcomed Xi Jinping to Paris alongside then-German Chancellor Angela Merkel and Commission President Jean-Claude Juncker, Italy inked an MoU with China on the BRI in the hopes of deepening trade and investment ties. As critical voices, notably in Asia and the US, warn that increased interdependence may bear the risk of the weaponization of these interdependencies and the coercion of partners, concerns about debt traps—whether founded or unfounded—have also emerged in discussions with European policymakers (even if more discreetly and less categorically).³⁷ This is particularly the case with regard to potential future EU members in the Western Balkans.³⁸ More broadly, the European Court of Auditors has identified a number of potential risks for the EU resulting from the Chinese state-driven investment strategy (including the BRI), as illustrated in the table below.³⁹

34. “Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – An EU Strategy on Standardisation Setting Global Standards in Support of a Resilient, Green and Digital EU Single Market”, *op. cit.*

35. T. Rühlig, “The Shape of Things to Come: The Race to Control Technical Standardisation”, December 2, 2021, available at: www.europeanchamber.com.cn.

36. Immediately after the 2012-2013 eurozone crisis, Chinese investors bought a string of strategic European assets on the cheap, e.g., the port of Piraeus (Greece) and the energy network (Portugal).

37. G. G. Grieger, “Towards a New EU Policy Approach to China – 21st EU-China Summit”, European Parliamentary Research Service, Members’ Research Service, April 2019, available at: www.europarl.europa.eu.

38. On the case of Montenegro: M. Sošić, “Montenegro’s Road Ahead: Infrastructure between EU and China”, *Clingendael Spectator*, April 14, 2021, available at: <https://spectator.clingendael.org>; V. Shopov, “Decade of Patience: How China Became a Power in the Western Balkans”, European Council on Foreign Relations, February 2, 2021, available at: <https://ecfr.eu>. On the Balkans more generally: J.-B. Chastand, “La Serbie, sas d’entrée vers l’Europe pour Pékin”, *Le Monde*, March 19, 2021, available at: www.lemonde.fr. On clauses used by China in debt contracts with foreign governments: A. Gelpern, S. Horn *et al.*, “How China Lends a Rare Look into 100 Debt Contracts with Foreign Governments”, Kiel Institute for the World Economy, Peterson Institute for International Economics, Aiddata, Center for Global Development, March 2021, available at: www.cqdev.org. For a counterpoint to the concept of debt-trap diplomacy: D. Brautigam and M. Rithmire, “The Chinese ‘Debt Trap’ Is a Myth”, *The Atlantic*, February 6, 2021, available at: www.theatlantic.com.

39. “The EU’s Response to China’s State-Driven Investment Strategy”, European Court of Auditors, 2020, Luxembourg, available at: www.eca.europa.eu.

Figure 1. EU risks from China’s investment strategy (European Court of Auditors)

| Type | # | Risk Overview |
|-----------|------|---|
| Political | R.1 | Chinese investments in sensitive/strategic assets in Europe may affect security/public order |
| | R.2 | Individual Member States concluding Memoranda of Understanding (MoUs) on BRI cooperation may undermine EU unity |
| | R.3 | BRI projects may weaken Member States’ strategic national infrastructure ownership, with geopolitical implications |
| | R.4 | Chinese investments expand cross-border connectivity infrastructure which is exploited by transnational organized crime/trafficking |
| Economic | R.5 | Lack of reciprocity in EU-China relationship due to unfair economic advantage of Chinese companies |
| | R.6 | Lack of coordination between infrastructure programmes of the EU and China, which may generate gaps in connectivity infrastructure, or investment projects which compete with or duplicate others (*) |
| | R.7 | Chinese SOEs financing unmanageable debts in EU and third countries, resulting in default with the loss of strategic collateral |
| | R.8 | EU long-term competitiveness damaged from forced technology transfer to China |
| | R.9 | EU importing goods from China priced below production costs |
| | R.10 | EU economy impacted by negative shocks to its supply chains with key Chinese suppliers |
| Social | R.11 | Workers labour/social rights not respected by Chinese companies engaged in foreign investments |
| Tech | R.12 | BRI is not sufficiently compliant with EU data security rules, leaving EU vulnerable to cyber-attacks |
| | R.13 | Chinese transport infrastructure does not adhere to EU/international standards, loss of positive effects |
| Legal | R.14 | Chinese investments do not comply with EU financial regulations, e.g. money laundering |
| | R.15 | Infrastructure projects in EU are irregularly awarded to Chinese bids that are artificially low |
| | R.16 | Calculation of EU own resources affected by fraud on customs duty and VAT in Chinese imports |
| Enviro | R.17 | Chinese companies do not comply with EU/international environmental or governance standards fostering sustainability |
| | R.18 | Public health being affected by increased interconnectedness in a globalised world (including Chinese transport routes along the BRI) expediting the transmission of disease |

Source: "The EU’s response to China’s state-driven investment strategy", European Court of Auditors, 2020, Luxembourg.

Strategies, policies, and instruments to address EU dependence on China

The EU has increasingly become aware of its vulnerabilities toward third actors—China being one of them. Consequently, the EU has developed strategies, policies, and instruments to address these vulnerabilities. This section explores these instruments by examining 1) the EU's responses to supply-chain-related vulnerabilities, 2) measures to protect the EU's technological and industrial base, and 3) means to address geopolitical concerns.

Addressing import- and supply-chain-related vulnerabilities











Several measures are foreseen to decrease supply chain vulnerabilities resulting from overreliance on single suppliers, particularly China. These include stockpiling (in the case of emergency medical equipment, for instance), relocating activities, bolstering alliances with like-minded countries, and diversifying to remove excessive reliance on single suppliers. Just like the US with its *Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth – 100-Day Reviews under Executive Order 14017* and China with its *14th Five-Year Plan*, the EU is hence also conducting a comprehensive review of the resilience of its own strategic supply chains. In the same spirit, carrying out stress tests to help prevent supply chain disruptions has also been envisaged.⁴⁰

Besides shedding light on the foreign dependencies in goods between the EU and the US and their “common dependencies” *vis-à-vis* the rest of the world, the *Update of the EU's Industrial Strategy* provides an analysis of common dependencies where both the US and the EU may be dependent on China. In these cases, the EU-US Trade and Technology Council may provide the right forum for cooperation aiming at decreasing vulnerabilities in terms of supply chain dependence and keeping pace with the race for technological leadership.⁴¹

40. “In Search of Resilience”, *The Economist*, October 9, 2021, available at: www.economist.com.











41. “EU-US Launch Trade and Technology Council to Lead Values-Based Global Digital Transformation”, European Commission, Press Release, June 15, 2021, available at: <https://ec.europa.eu>; “EU-US Trade and Technology Council Inaugural Joint Statement”, European Commission, September 29, 2021, available at: <https://ec.europa.eu>.

Figure 2. Overview of EU & US Dependencies in Sensitive Ecosystems

| Dependent Country | Source of dependency | Number of dependent products | Potential for diversification (% of dependent products) | Share in total import value | | | | | | | | |
|--|---|------------------------------|---|-----------------------------|-----|-----|-----|-----|------------|-------------|------|----------------------|
|  |  | 260 products | <table border="0"> <tr> <td>18%</td> <td>34%</td> <td>28%</td> <td>20%</td> </tr> <tr> <td>Low</td> <td>Medium Low</td> <td>Medium High</td> <td>High</td> </tr> </table> | 18% | 34% | 28% | 20% | Low | Medium Low | Medium High | High | 3.1% |
| 18% | 34% | 28% | 20% | | | | | | | | | |
| Low | Medium Low | Medium High | High | | | | | | | | | |
|  |  | 15 products | <table border="0"> <tr> <td>0%</td> <td>7%</td> <td>13%</td> <td>80%</td> </tr> <tr> <td>Low</td> <td>Medium Low</td> <td>Medium High</td> <td>High</td> </tr> </table> | 0% | 7% | 13% | 80% | Low | Medium Low | Medium High | High | 0.1% |
| 0% | 7% | 13% | 80% | | | | | | | | | |
| Low | Medium Low | Medium High | High | | | | | | | | | |
|   |  | 20 products | <table border="0"> <tr> <td>61%</td> <td>9%</td> <td>9%</td> <td>21%</td> </tr> <tr> <td>Low</td> <td>Medium Low</td> <td>Medium High</td> <td>High</td> </tr> </table> | 61% | 9% | 9% | 21% | Low | Medium Low | Medium High | High | EU: 2.8% US: 4.1% |
| 61% | 9% | 9% | 21% | | | | | | | | | |
| Low | Medium Low | Medium High | High | | | | | | | | | |
|   |  | 70 products | <table border="0"> <tr> <td>25%</td> <td>8%</td> <td>22%</td> <td>45%</td> </tr> <tr> <td>Low</td> <td>Medium Low</td> <td>Medium High</td> <td>High</td> </tr> </table> | 25% | 8% | 22% | 45% | Low | Medium Low | Medium High | High | EU: 4.6% US: 5.1% |
| 25% | 8% | 22% | 45% | | | | | | | | | |
| Low | Medium Low | Medium High | High | | | | | | | | | |

Source: "Staff Working Document - Strategic Dependencies and Capacities", op. cit. Adapted by the author.

Figure 3. Common & Reverse Dependencies (EU & US) in Sensitive Ecosystem: Examples at Product Level

| Dependent Country | Source of dependency | Health | Energy-intensive industries (EII) | Renewables | Digital/Electronics |
|--|---|---|---|---|--|
|  |  | Active Pharmaceutical Ingredients (APIs) (e.g. types of antibiotics) Medical apparatus (e.g. pacemakers) | (Critical) Raw materials (e.g. types of steel/phosphates) | Wind-powered electric generating sets | |
|  |  | APIs (e.g. hormones, vitamins) | (Critical) Raw materials (e.g. lithium oxide, beryllium) | Types of electric motors and generators | Optical devices |
|   |  | Covid-19 related goods (face masks and gloves) APIs (e.g. types antibiotics) | (Critical) Raw materials (e.g. tungstates, ferroalloys) | Permanent magnets | Laptops, cellphones, radio-broadcast receivers |
|   |  | Covid-19 related goods (face masks and gloves) APIs (e.g. antibiotics, vitamins, alkaloids) | Various (Critical) Raw Materials | Permanent magnets Type electric accumulators | Laptops, cellphones, radio-broadcast receivers |

Source: "Staff Working Document - Strategic Dependencies and Capacities", op. cit. Adapted by the author.

Specific instruments related to countering economic coercion are also being explored by the EU, such as the blocking statute,⁴² which until now has been evoked in relation to secondary sanctions applied by the US, and a new anti-coercion instrument,⁴³ which is currently under negotiation. In the specific case of Lithuania, where coercion is applied through the disruption of supply chains, the EU launched a WTO case against China, pending the adoption of its anti-coercion instrument.

Strengthening and protecting the EU's technological and industrial base

To protect the EU's technological and industrial base, the *Update* defined fourteen ecosystems representing future-oriented technologies worth strengthening and protecting.⁴⁴

Initiatives to cope with the twin transitions to a green and digital economy have been rolled out, for instance in lithium-ion batteries. A European Battery Alliance was launched in 2017, and a Strategic Action Plan for Batteries was developed in 2018. As many as fifteen gigafactories are to be built across Europe, and the EU is set to become the world's second-biggest lithium-ion battery manufacturer after China by 2024. New legislation for batteries, R&D spending, and a skilled workforce are to provide a favorable framework for battery initiatives within the EU, while batteries are also considered a priority in the EU's strategy on standards of February 2022. In addition to the battery alliance, the EU has also rolled out or is exploring the establishment of industrial alliances in fields such as critical raw materials, clean hydrogen, circular plastics, industrial data, edge and cloud computing, as well as processors and semiconductor technologies.⁴⁵

Furthering the EU's technological sovereignty also requires fighting market distortions and trade asymmetries, as well as upholding environmental, social, and human rights standards. A list of instruments developed in this vein and in others is included at the end of this section.

42. "Blocking Statute – Protecting EU Operators, Reinforcing European Strategic Autonomy", European Commission, updated on December 17, 2021, available at: <https://ec.europa.eu>.

43. "Proposal for a Regulation of the European Parliament and of the Council on the Protection of the Union and Its Member States from Economic Coercion by Third Countries", European Commission, December 8, 2021, available at: <https://eur-lex.europa.eu>.

44. "Annual Single Market Report 2021", European Commission, May 5, 2021, available at: <https://ec.europa.eu>.

45. "Industrial Alliances", Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, European Commission, <https://ec.europa.eu>.

Addressing geopolitical concerns

Concerns voiced over China's geopolitical aspirations may be addressed in different manners. As far as they directly impact the EU, these efforts should aim to increase unity among its member states. EU funding to address infrastructure needs throughout the block remain unrivaled, for instance. Tools such as the EU FDI screening instrument have also been recently developed to help assess and address the risks associated with investments or takeovers, while EU procurement standards help avert the awarding of public contracts that do not serve the common good.

For Western Balkan states aspiring to become members and undertaking efforts to converge toward EU standards in key areas, the Instrument for Pre-Accession Assistance (IPA) applies. These states and communities will also be able to benefit from the Global Gateway,⁴⁶ which is targeted at all regions of the world, and in which the EU intends to take a clearer stance on global infrastructure needs. As an alternative to the BRI, the Global Gateway aims to help beneficiary states develop through sustainable infrastructure projects, based on transparent rules and strict environmental and social standards, and guarantee their political and economic sovereignty.⁴⁷ In a broader scope, the EU has also formulated a strategy for the Indo-Pacific with a view to deepening and diversifying its economic and political relationships with the countries and peoples in the region.

As far as standard-setting and reshaping global governance are concerned, the upholding of democratic values and a rules-based order could give rise to flexible formats of countries wishing to embody leadership in key areas in a constructive and inclusive way. Here, the EU and/or its member states are some of the main protagonists of such initiatives. In the digital realm for instance, the EU has sought to get out in front by shaping the rules and norms around key issues such as data privacy, with GDPR, and the development of artificial intelligence, through the proposed Artificial Intelligence Act.⁴⁸ It has also suggested partnering with interested players to further a "standardization to promote a free, open, accessible, inclusive and secure global internet".⁴⁹ Other proposals made by other actors include the D10 "Democracy

46. "Questions and Answers on Global Gateway", Brussels, December 1, 2021, European Commission, available at: <https://ec.europa.eu>.

47. "Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank – Global Gateways", European Commission, December 1, 2021, available at: <https://eur-lex.europa.eu>.

48. "The Artificial Intelligence Act Proposal and Its Implications for Member States", *Briefing*, European Institute for Public Administration, September 2021, available at: www.eipa.eu.

49. "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – An EU Strategy on Standardisation Setting Global Standards in Support of a Resilient, Green and Digital EU Single Market", European Commission, February 2, 2022, available at: <https://eur-lex.europa.eu>.

10"⁵⁰ or the T12 "techno-democracies".⁵¹ Likewise, the Alliance for Multilateralism,⁵² a Franco-German initiative, may gather proponents of multilateralism on an *ad hoc* basis.

Figure 4. EU instruments to uphold high standards in environmental, social, and human rights, to strengthen trade defense, and to foster fair competition

- An **anti-dumping methodology** and an update of the **EU's trade defense instruments** are in vigor as of 2017 and 2018 respectively.
- To address security concerns linked to the deployment of 5G technology, in January 2020 the European Commission adopted a **toolbox of risk mitigating measures for 5G cybersecurity**, providing guidelines to member states for conducting risk and vulnerability assessments, including identifying main threats and threat actors.
- The **foreign direct investment (FDI) screening instrument**, which aims at greater transparency on foreign takeovers, is operational as of October 2020. It foresees that member states and the European Commission determine whether a foreign direct investment is likely to affect security or public order by considering its potential effects on, inter alia: "(a) critical infrastructure, whether physical or virtual, including energy, transport, water, health, communications, media, data processing or storage, aerospace, defense, electoral or financial infrastructure, and sensitive facilities, as well as land and real estate crucial for the use of such infrastructure; (b) critical technologies and dual use items [...], including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defense, energy storage, quantum and nuclear technologies as well as nanotechnologies and biotechnologies; (c) supply of critical inputs, including energy or raw materials, as well as food security; (d) access to sensitive information, including personal data, or the ability to control such information; or (e) the freedom and pluralism of the media".
- The **EU-China Comprehensive Agreement on Investment (CAI)**, which seeks to ease access to the Chinese market for European companies in several sectors, to improve the level playing field between China and the EU, and to embed sustainable development in the investment relationship between the two, was negotiated on December 30, 2020. It has not entered into force as the European Parliament has not ratified it, due in large part to Chinese sanctions against Members of the European Parliament, European institutions, and European researchers.
- A European Parliament **resolution on corporate due diligence and corporate accountability** of March 2021 aims at upholding social and environmental standards, rendering EU companies responsible for their suppliers' practices. It has become particularly topical with Western sanctions against the treatment of Uyghurs in Xinjiang. The European Commission's president, Ursula von der Leyen, further promised to put forward a ban on imports made with forced labor. This resolution is currently being discussed within EU institutions.
- A **regulation to address distortions caused by foreign subsidies in the single market** was proposed by the European Commission in May 2021.

50. L. Fisher, "Downing Street Plans New 5G Club of Democracies", *The Times*, May 29, 2020, available at: www.thetimes.co.uk.

51. J. Cohen and R. Fontaine, "Uniting the Techno-Democracies: How to Build Digital Cooperation", *op. cit.* The countries mentioned are the US, France, Germany, the UK, Australia, Japan, South Korea, Finland, Sweden, India, Israel, and Canada.

52. E. Brattberg, "Middle Power Diplomacy in an Age of US-China Tensions", *The Washington Quarterly*, Spring 2021, available at: <https://doi.org>.

- The **International Procurement Instrument (IPI)** endeavors to apply the same market openness in the EU and foreign markets. In June 2021, the EU member states reached an agreement for a mandate to negotiate with the European Parliament on the IPI.
- The **Carbon Border Adjustment Mechanism** was proposed on July 14, 2021, and aims at reducing the risk of carbon leakage by encouraging producers in non-EU countries to green their production processes.
- In 2021, a **proposal to amend the EU's blocking statute**, which aims to protect EU operators from the extra-territorial application of third-country laws, was made by the European Commission. With this amendment, the European Commission intends to further deter and counteract the unlawful extra-territorial application of sanctions on EU operators by countries outside the EU. It proposes to streamline the application of the current EU rules, including by reducing compliance costs for EU citizens and businesses.
- An **anti-coercion instrument** to counter the use of economic coercion by third countries was proposed by the European Commission on December 8, 2021.

Final reflections and recommendations

Europe's dependencies or vulnerabilities toward China relate to trade and investment, technological and industrial leadership, security, and geopolitics. The EU can only hold a distinct position from the US and China if it overcomes its dependencies and gains a greater degree of autonomy. A number of different tradeoffs in this area must be proactively addressed:

- **Review competition policy:** Against the backdrop of accelerating technological innovation on a global scale, Europe's competition policy is being reviewed.^{53,54} In particular, discussions have unfolded about allowing European players to merge and grow to reach a critical mass in order to improve their chances to compete globally, particularly in the face of Chinese national champions, which are shielded from foreign competition at home and boosted by public support as they go abroad.
- **Find a sustainable balance between liberalism and protectionism:** Unlike during the economic and financial crisis—which facilitated China's growing influence in Europe through the BRI—, the acquisition of strategic European assets by third-country actors has been averted⁵⁵ during the coronavirus crisis. Beyond crisis situations, adequate measures need to be taken to cope with

53. "Mergers: Commission Prohibits Siemens' Proposed Acquisition of Alstom", European Commission, February 6, 2019, available at: <https://ec.europa.eu>.

54. D. Fainsilber, "Alstom jette son dévolu sur Bombardier, pour conforter sa croissance et non supprimer des emplois", *Les Échos*, February 17, 2020, available at: www.lesechos.fr.

55. "Coronavirus: Commission Issues Guidelines to Protect Critical European Assets and Technology in Current Crisis", European Commission, March 25, 2020, available at: <https://trade.ec.europa.eu>.

power politics. "Industrial policy" and "sovereignty" have become buzzwords, although they once seemed incompatible with the EU's market-liberal tradition. Finding the right balance between liberalism and protectionism is essential, as the EU's openness to trade is already unquestionable.

- **Focus more proactively on the Western Balkans:** If the EU wants to be a geopolitical actor, it needs to start addressing growing third-country influence in candidate countries for EU accession. Stalling accession negotiations and enlargement fatigue in the Western Balkans increase China's weight in the region to the detriment of the EU. Further convergence between the EU and the Western Balkans should therefore be a priority. Formulating a clearer accession policy and deploying instruments to bridge infrastructure gaps in the region, with all the conditions that such policies and instruments may encompass, is now crucial.

Austria: From the Chinese Hoffnungsmarkt to European strategic dependence

LUCAS ERLBACHER

AUSTRIAN INSTITUTE FOR EUROPEAN AND SECURITY POLICY (AIES)

Summary

Whereas the slowdown of the European economy following the 2008 global financial crisis shaped Austria's perception of China as an opportunity for growth and export diversification—a "market of hope" or Hoffnungsmarkt—, recent years have seen the emergence of a discussion on strategic dependence. In this context, control over key technologies, materials, and goods, as well as research and innovation capabilities, are regarded as central to the ability to achieve the digital and green transitions, while also navigating geopolitical conflicts, as well as crises, such as the Covid-19 pandemic. With China's growing role within sensitive ecosystems, in particular digital technologies, the country and its policies have become a focal point of the debate on strategic dependencies. Crucially, given Austria's primary reliance on the single market and the global nature of these strategic dependencies, the debate has focused on the broader European context. While the Covid-19 pandemic served as a wake-up call by making the reliance in pharmaceutical products visible to the Austrian public, the Russian invasion of Ukraine might well induce a fundamental geopolitical rethinking of Austria's strategic dependencies.

Austria's discourse on dependence: From export diversification to strategic dependence

Throughout the first two decades of the twenty-first century, two overarching narratives on Austria's external dependence have been dominant¹: first, Austria's

1. This has been determined through an analysis of press releases issued by government institutions, as well as key advocacy groups from 2005 to 2019, which specifically refer to Austria's external dependence or the country's context. For government institutions, the Federal Ministry of Digital and Economic Affairs, of European and International Affairs, of Defence, and of Climate Action have been included, while for advocacy groups, the Austrian Federal Economic Chamber, the Chamber for Workers and Employees and its regional branches, the Chamber of Agriculture, and the Federation of Austrian Industries were included.

dependence on energy imports, specifically oil and gas from Russia, and second, the country's economic reliance on exports. In particular, following the 2008 global financial crisis and the ensuing European debt crisis, Austria's reliance on European export markets, first and foremost Germany, was increasingly pointed out. Arguably, the slowdown in the single market generated a perception of heightened vulnerabilities associated with Austria's reliance on the European economic sphere and induced economic actors to seek new markets.² In that sense, China, like other emerging markets, was perceived as a market of hope, or Hoffungsmarkt in German, as well as an opportunity to diversify export destinations. Tellingly, a ministerial press release from June 2010 reads: "[...] It is also important to reduce the dependence on the eurozone. Mitterlehner [minister of economic affairs from 2008 to 2017] has therefore in recent weeks visited China and Russia. [...]"³ Similarly, the Belt and Road Initiative was later perceived by a wide range of economic actors as an opportunity for the Austrian economy. More recently, the Beijing Winter Olympic Games have further sparked the enthusiasm of the domestic winter sports industry, which is faced with stagnant demand in its traditional European market.⁴

However, recent years have seen the emergence of a new dependence narrative focused on strategic sectors. Indeed, starting in mid-2018, the dependence in critical raw materials, in particular in relation to batteries for the e-mobility industry, was repeatedly pointed out. This was then later extended to digital technologies, most prominently in the context of Europe's 5G rollout and the launch of GAIA-X, a project initiated by Germany and France to develop a European alternative to US and Chinese cloud networks. Lastly, as in other EU countries, the Covid-19 crisis triggered a recognition of the dependence in medical and pharmaceutical products, as well as more generally the vulnerabilities associated with international supply chains.

Besides the "wake-up call" triggered by the global pandemic, the emergence of this new discourse on strategic dependence can also be traced back to the profound challenges posed by the green and digital twin transition, as well as persistent geopolitical conflicts, notably the now well-established US–China rivalry. Similar to the ongoing, paradigmatic shift in Europe's industrial policy,⁵ these challenges have induced a transformation in the understanding of dependence, in which the ability to achieve this twin transition while navigating geopolitical conflicts has become a prime

2. After the global financial crisis, the waning demand from Austria's traditional European export market was partially replaced by exports to Asia. See for example, S. Ederer, E. Stockhammer and P. Četković, "20 Jahre Österreich in der EU – Neoliberale Regulationsweise und exportgetriebenes Akkumulationsregime", *Politische Ökonomie Österreichs*, Beigewum, 2015, pp. 34–58.

3. Bundesministerium für Wirtschaft, Familie und Jugend, "Mitterlehner: Exportdynamik stützt Wirtschaftswachstum", June 8, 2010, available at: www.ots.at (author's translation).

4. Salzburg Orf, "Skiindustrie will Geld vom Bund für China", May 12, 2019, available at: <https://salzburg.orf.at>.

5. See notably, J. Eder and E. Schneider, "Umkämpfte Industriepolitik: Zwischen Geopolitik, grüner Wende, Digitalisierung und Corona", *Kurswechsel*, Beigewum, No.4, 2020, pp. 3–12.

concern.⁶ Strikingly, Austria's minister of digital and economic affairs, Margarete Schramböck, welcomed the EU Chips Act, which notably seeks to secure the EU's supply of semiconductors and reduce its external dependencies, with the words "Chips are the oil of the twenty-first century. Without chips, no production. Without chips, no digitalization".⁷ In this context, it is not only control over core technologies, production materials, and strategic goods that is deemed central, but also the capacity to shape future developments through research and innovation or geopolitical influence. For instance, according to Margarete Schramböck, in order for Austria to reduce its external dependence in the area of AI, it "[...] mainly has to invest in research and position Austria as an international research location for AI".⁸

Awakening media coverage, dormant political debate, and burgeoning policy interest

While the strategic dependence discourse has found an echo in Austria's media landscape, the coverage on strategic dependence on China has largely been focused on the general European context rather than on Austria itself. Indeed, only around one-third of the press articles reviewed refer to the Austrian context, while nearly three-quarters mention the European context.⁹ A notable exception is the coverage about the reliance on Chinese pharmaceutical imports, with a large majority of articles pointing out Austria's domestic circumstances. Arguably, the acute shortages in PPE and certain medical products during the first phase of the pandemic have made visible the consequences of relying on imports to the wider Austrian public. Furthermore, within the different strands of the strategic dependence discourse, China is generally mentioned alongside other countries. For instance, the reliance associated with batteries tends to be traced to both South Korea and China, while India is also mentioned in the context of pharmaceutical products, and the United States for digital technologies. Moreover, Austria and Europe tend to be portrayed as being dependent on Asian supply chains instead of solely on China.

6. Likewise, the European Commission has defined strategic dependencies as those being "[...] of critical importance to the EU and its Member States' strategic interests such as security, safety, health and the green and digital transformation". See European Commission, "Staff Working Document – Strategic Dependencies and Capacities", May 5, 2020.

7. Bundesministerium für Digitalisierung und Wirtschaftsstandort, "Schramböck: Chips Act als Chance für Europa", February 8, 2022, available at: www.bmdw.gv.at (author's translation).

8. Bundesministerium für Digitalisierung und Wirtschaftsstandort, "AVISO: Schramböck: Wachstum und Chancen durch Künstliche Intelligenz", March 1, 2019, available at: www.ots.at (author's translation).

9. In that context, an analysis of major Austrian media institutions, including *Der Standard*, *Die Presse*, *Heute*, *Kleine Zeitung*, *Kronen Zeitung*, *Kurier*, *Oe24*, *Orf*, and *Wiener Zeitung*, has been undertaken. Between the second quarter of 2018 and the second quarter of 2021, 70 press articles mentioning a dependence on China have been identified. Of these, 26 refer to the Austrian, 52 to the general European, and 11 to the German context. A reference to a specific context is defined as the mention of either a direct dependence affecting Austria, the EU, or Germany, or of an actor, which can be assigned to a specific context.

In comparison, Austria's political debate on dependence on China appears to be fairly limited. In fact, during the last two legislatures, spanning from 2017 to the present day, only eleven different references to a dependence on China could be observed in Austrian parliamentary debates.¹⁰ Similar to the media coverage, the reliance on pharmaceutical imports from China has found the biggest echo in these debates. The negligible extent of the Austrian political debate on dependence on China is especially striking when compared to other European member states, especially Germany. Arguably, this can be attributed to Austria's broader lack of a political debate on China, rather than the lack of policy interest toward strategic dependence. Indeed, for two years various public institutions have supported efforts to assess the reliance in strategic sectors, especially Covid-19-related products (see footnotes 18–21).

Austria's trade relationship with China: Limited direct dependence

Although Austria's bilateral trade with China has steadily increased over the last two decades,¹¹ the dependence on trade with China appears to be limited, especially compared to the predominant importance of the single market. Indeed, out of all Austrian export categories, merely 7% count Mainland China as one of their three biggest global export destinations.¹² These include a broad variety of commodities, such as specialized machinery and industrial instruments, pharmaceutical goods, as well as textile inputs, in particular artificial fibers. Nonetheless, with the latter products representing less than 2% of Austria's total export value, the direct economic reliance on the Chinese market appears comparatively small. Conversely, China seems to be reliant on Austria for some specific product categories. For instance, Austria's exports of artificial fibers (HS6: 550490, 550410) represent more than half of China's total imports of these products. Having been identified as "Advanced Materials" by the EU report on Advanced Technologies for Industry,¹³ artificial fibers are likely to hold a crucial position in the Chinese textile industry. In fact, Austrian enterprises have been able to establish themselves as international leaders, so-called hidden champions, in different industrial subsegments. Consequently, while Austrian companies might be

10. This has been examined through an analysis of the debates both in Austria's Federal and National Council, as well as the motion for resolutions (Entschließungsantrag) addressed to the federal government. A reference was defined as a mention of either Austria's dependence on China specifically, or the Austrian context more broadly.

11. From 2014 to 2019, China was Austria's third-biggest origin of imports, even rising to second place in 2020 due to a significant decrease in imports from Italy. Since 2014, it has been Austria's tenth largest export destination. See Wirtschaftskammer Österreich, "Österreichs Außenhandelergebnisse", 2020.

12. The following statistics have been computed based on the BACI database by the Centre d'études prospectives et d'informations internationales (CEPII), which comprises bilateral export and import data on a HS6 product level. Specifically, trade data for 2019 from the BACI HS1992 Revision was used.

13. See European Commission, "Advanced Technologies for Industry – Methodological Report: Indicator Framework and Data Calculations", *EU Reports*, Brussels, November 2020.

dependent on the Chinese market for certain export products, they also seem to be influential actors in specific niche segments.

Much like Austria's export economy, the country's direct reliance on Chinese imports appears to be confined to a limited set of products. For instance, among the import categories in which Austria is dependent on extra-EU import sources,¹⁴ 10% saw at least half of their import value originating from China in 2019, whereas for another 12% the import share ranged between 20% and 50%. Analogous to Austrian exports to China, these imports include a variety of items from different sensitive ecosystems¹⁵: the chemical element manganese (HS-6: 811100), used in steel production, which was classified as a "Special Material" in the EU dual-use items list¹⁶; the critical raw material tungsten (HS-6: 720280)¹⁷; and various Active Pharmaceutical Ingredients (APIs). While the EU remains Austria's primary source, the importance of imports from third countries, notably China, is heightened in regard to key technologies. For instance, according to Klien et al. (2021), Chinese imports are especially significant in the context of products related to AI and big data, as well as security technology, with an import share of more than 30% and 40% respectively.¹⁸ This is likely to be even more pronounced when considering indirect imports from China through the single market. In fact, with Germany itself relying on masks from China, Austria's imports from Germany, which account for around half of the country's mask imports, appear to actually originate from the PRC.¹⁹ In addition, China's importance has increased over the last two decades. As Reiter and Stehrer (2021) show in the context of products vulnerable to global trade shocks, Austria's extra-EU import share

14. Applying the European Commission's approach on strategic dependencies (see footnote 6) to the Austrian context, this study identified 410 product categories (HS6 digit) for which Austria relies in the majority on highly concentrated extra-EU import sources and for which the EU's total imports cannot be replaced by EU exports. Specifically, Austria is regarded as having an external dependence according to three criteria: first, Austrian extra-EU import sources show a Herfindahl-Hirschman Index (HHI) greater than 4000; second, the share of Austrian imports from extra-EU sources in Austria's total imports is greater than 50%; and third, the EU's total exports are smaller than its imports from outside the EU. Regarding the data used, see footnote 12.

15. A list of product categories, which can be attributed to sensitive ecosystems, was established on the basis of product lists found in official documents, as well as academic studies. In total, the list includes seven categories: Advanced Technologies, Critical Raw Materials, Covid-19 Goods, Pharmaceutical Supply Chain, Dual-use Products, Semiconductor Supply Chain, and Renewable Energy. It should be noted that in certain instances the underlying list includes products on a more detailed level (ex. CN8 digit) than the trade data used in this study (HS6 digit). In this case, the product categories classified in this study into sensitive ecosystems should be viewed as comprising at least one sensitive product.

16. See European Commission, "Dual-use Trade Controls", November 17, 2021.

17. Although in 2019 Austria was Europe's biggest producer of tungsten and the seventh largest worldwide, it still largely relies on foreign imports. See for instance, Bundesministerium für Land- und Forstwirtschaft, Umwelt und Wasserwirtschaft, "Ressourcennutzung in Österreich – Bericht 2015", 2015.

18. M. Klien, M. Böheim, M. Firgo, A. Reinstaller, P. Reschenhofer and Y. Wolfmayr, "Stärkung der Unabhängigkeit des Wirtschaftsstandortes Österreich bei kritischen Produkten", Austrian Institute of Economic Research (WIFO), Vienna, June 2021. Commissioned by the Austrian Liaison Office of the Länder.

19. J. Grumiller, H. Grohs and C. Reiner, "Increasing Resilience and Security of Supply Production Post-COVID-19: From Global to Regional Value Chains?", Arbeiterkammer Wien, Working Paper 216, April 2021.

from China has increased fourfold between 2000 and 2018.²⁰ More recently, between 2019 and 2020, imports from China of Covid-19-related goods have risen by 178%.²¹

Conclusion

Arguably, China's expanded role within sensitive ecosystems, coupled with the intensified demand generated by the digital and green transitions, as well as more dramatically during the Covid-19 crisis, have triggered a perception of strategic dependence on China. Yet, in the case of Austria, the limited direct reliance on the PRC, compared with the preeminence of the single market, appears to have deviated the debate's focus onto the broader European context. Overall, indirect trade with China through Austria's European partners, first and foremost Germany, seems not to have translated into a perception of dependence specific to Austria, due to the complex and concealed nature of this relationship. In addition, the focus on the broad context reflects the understanding of the global nature of these dependencies, which are not only common to the EU as a whole, but also necessitate a common policy response. In this context, European industrial projects, most notably Important Projects of Common European Interest (IPCEIs), have been positively received by policy makers. Currently, Austria participates, with three and six companies respectively, in the IPCEIs on microelectronics and batteries, and it signed the manifesto for an IPCEI on hydrogen and more recently on health.

So far, compared to digitalization and Covid-19, geopolitics seems to have played only a secondary role in the Austrian context. This can in particular be explained by the country's perceived limited geopolitical role as well as its long-standing position of neutrality where "within the EU [it is] leaving leadership on major foreign and security policy issues [...] to others".²² Yet, similar to the Covid-19 pandemic in relation to critical goods, the Russian invasion of Ukraine is likely to profoundly shape Austria's perception of strategic dependence. Whereas at the moment the debate on geopolitical risks focuses on energy products from Russia, this might in the future be expanded to other sectors and regions. As Margarete Schramböck wrote on social media a few days following the invasion, "[...] we have agreed to the future strengthening of comprehensive national defense. This includes economic national defense [...] Energy, chips, batteries, and medicines are just some of the essential components, for which

20. O. Reiter and R. Stehrer, "Learning from Tumultuous Times: An Analysis of Vulnerable Sectors in International Trade in the Context of the Corona Health Crisis", *Research Report No. 4*, FIW – Research Centre International Economics, July 2021. Commissioned by the Federal Ministry of Digital and Economic Affairs.

21. O. Reiter and R. Stehrer, "Trade in COVID-19-related Products in Austria and the EU27 during the Pandemic", in E. Gnan and C. Schneider (eds.), *Schwerpunkt Außenwirtschaft 2020/2021*, pp. 167–175. Cooperation between Austria's central bank (OeNB) and the Austrian Federal Economic Chamber (WKÖ).

22. A. Urosevic, "Austria and the Growing US–Chinese Rivalry: From Cold War Neutrality to European Solidarity?", in M. Esteban and M. Otero (eds.), *Europe in the Face of US–China Rivalry*, report by the European Think-tank Network on China (ETNC), January 2020, pp. 35–38.

Europe must achieve strategic autonomy".²³ In the medium term, this is not likely to fundamentally change Vienna's approach to bilateral relations with China. However, with the pursuit of a geopolitical Europe and the protection of European strategic autonomy becoming a key priority on Brussels' policy agenda, Austria will continue to follow common efforts to reduce Europe's strategic dependence—notably with regard to China.

23. M. Schramböck, Instagram, February 27, 2022, www.instagram.com (author's translation).

Belgium: Exploring the non-debate about dependence on China with Magritte

STEVEN LANGENDONK

LEUVEN INTERNATIONAL AND EUROPEAN STUDIES (LINES), KU LEUVEN

Summary

This chapter investigates the impact of perceptions of dependence on China on Belgian policy debates. For this purpose, it analyzes: media representations of dependence on China; elite views on dependence and China policy; and recent elite experiences with China. Among other findings, it shows that: 1) the notion of dependence is gaining limited public attention via concerns about investments and network security; 2) the regional diversity of elite perspectives constrains the downloading of EU-level policy; and 3) negative elite experiences with Chinese behavior are an important driver for Belgian participation in EU policy initiatives and elite consensus formation. Finally, as it stands, dependence discourse is unlikely to become an important factor in national policy debates, but it may contribute to greater elite consensus on the need for (and implementation of) EU policy.

Introduction

This chapter explores how the notion of dependence shapes Belgian debates about China along three dimensions: via representations of dependence on China in the media; via elite perceptions of China policy and dependence; and via recent elite experiences with Chinese behavior in the relationship.¹ The pathways are discussed in separate sections, which bear a play on Magritte's famous surrealist painting as their title. These titles are useful metaphors for understanding how dependence discourse

1. The methods employed for the analysis are described in footnotes throughout. The methodological approach is similar to previous research by the author: S. Langendonk, "Discourse Power as a Means to 'Struggle for Position': a Critical Case Study of the Belt and Road Narrative's Effects on Foreign Policy Formulation in the Netherlands", *Journal of Chinese Political Science*, No. 25, 2020, pp. 241–260, available at: <https://doi.org>.

interacts with the Belgian context. The conclusion discusses the findings, likely consequences for EU-level policy, and some recommendations.

Ceci est la dépendance à la Chine – Homogeneous media representations fail to provoke debate

Representations of current and future dependence on China in the Belgian media are overwhelmingly concentrated around issues of economic security and secure communications.² Economic security is a traditional issue that gained national attention after the failed takeover of Eandis by the State Grid Corporation of China in 2016.³ Secure communications became salient in 2019 and 2020, during the wave of national and EU-level debates about Huawei's role in the rollout of 5G.⁴ Dependence discourse is to a lesser extent also present in coverage of supply chain security, political influence, academic freedom, and access to medicine and other health products (see Figure 1). Although the number of articles on the topic has steadily grown since 2016 and 2020 in particular, dependence is not yet a key focus in the broader scope of China-related coverage. Finally, there are important regional differences in both the number and content of arguments about dependence, with Flemish articles accounting for more than 90% of the number of words coded.⁵

2. This section is based on an original analysis of media coverage in Flanders and Wallonia. Nexis Uni was used to gather all articles published between January 2017 and January 2022 which contain arguments about dependence on China. Articles from the Dutch-language *De Morgen*, *De Tijd*, *De Standaard*, *Het Laatste Nieuws*, *Knack*, *De Gazet Van Antwerpen*, and *Het Belang van Limburg* and the French-language *Le Soir*, *L'Avenir*, *La Libre*, and *La Dernière Heure* were included. Implicit references to dependence were accounted for by including search terms that were found to be closely associated with discussions of dependence (such as danger, influence, threat, problematic). The resulting corpus was manually curated to include only articles that mention dependence in the relevant sense (Belgian or regional dependence on China). Finally, each argument was coded along two coding axes: the issue area and the frame of reference used to interpret dependence (see Figure 1).

3. T. Renard, "Business Vs. Security: The Conundrum of Chinese Investments in Belgium", in J. Seaman, M. Huotari and M. Otero-Iglesias (eds.), *Chinese Investment in Europe: A Country-Level Approach*, European Think-tank Network on China, 2017.

4. See J. Van Horenbeek and S. Kelepouris, "5G-toegang in ruil voor varkensvlees; China zet Belgische regering onder druk om zijn telecombedrijven op onze markt te krijgen", *De Morgen*, February 20, 2021.

5. Substantive arguments only appeared in 68 articles that contained a combination of the above-mentioned keywords. Most articles appeared in elite media outlets that regularly cover international affairs (such as *De Tijd* or *Le Soir*).

**Figure 1. Media representations of dependence on China (Jan. 2017–Jan. 2022):
Percentage of words coded**

| | Economic Dependence | Secure Communications | Supply Chain Security | Geo-political Position | Political Influence | Health Products | Academic Research |
|-------------------------------|---------------------|-----------------------|-----------------------|------------------------|---------------------|-----------------|-------------------|
| National Security | 23.7 | 21.5 | 0.0 | 1.1 | 2.4 | 1.2 | 0.2 |
| (Geo)strategic Realism | 16.6 | 3.9 | 2.9 | 4.6 | 3.6 | 0.0 | 0.0 |
| Business Voices | 2.5 | 0.0 | 5.8 | 0.0 | 0.0 | 1.7 | 0.0 |
| Individual Experience | 2.0 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| Multiple Perspectives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.3 | 0.0 |

In terms of timing, dependence arguments tend to appear when policy dilemmas follow from the actions of major states.⁶ For instance, pressures generated by US–China competition generated attention and skepticism toward Huawei’s role in Belgium. In terms of framing, dependence is nearly always presented from the perspective of national security or (geo)strategic realism (see Figure 1).⁷ Articles in the national security category often quote a variety of elite representatives and are oriented toward the issue of the day, whereas those in the (geo)strategic realism category lay out the pessimistic views of an individual on long-term international trends. Both frames are characterized by a similar positioning of Belgium as a small country that is forced to undergo the consequences of China’s behavior or geopolitical struggles, and must rely on a strong EU, qualified federal security services, and (in the case of Flanders) a strong shared identity.⁸

Given the limited number of francophone articles, only the effects of said representations on Flemish policy debates can be usefully studied.⁹ Contrary to the general coverage about China, which tends to present developments as happening “over there”, dependence arguments are directly connected to the national space. Although this arguably increases public attention, the tendency to present China as a

6. This is also illustrated by the fact that media coverage of dependence on China dropped off between January and March, while dependence discourse rose sharply due to Russia’s invasion of Ukraine.

7. On the notion of strategic realism, see S. Guzzini, *The Return of Geopolitics in Europe? Social Mechanisms and Foreign Policy Identity Crises*, Cambridge: Cambridge University Press, 2013.

8. It is not uncommon to find references to “the Chinese” buying their way into Flanders, and there are even occasional references to a “yellow peril” in news about the purchase of car factories and football clubs.

9. The character of the effect of media representations on national policy debates is difficult to establish, and it is likely highly sensitive to particular national or linguistic contexts. For a recent study on the topic, see J. Huang, G.G. Cook and Y. Xie, “Between Reality and Perception: The Mediating Effects of Mass Media on Public Opinion toward China”, *Chinese Sociological Review*, 2021, pp. 1–20, available at: <https://doi.org>. For a classic critique that stresses the power of policy elites to shape public opinion via the media, see M. J. Edelman, *Politics as Symbolic Action: Mass Arousal and Quiescence*, Institute for Research on Poverty Monograph Series, Chicago: Markham Pub. Co., 1971.

monolithic security issue constrains the scope for public debate. This is because this framing renders dependence as a policy problem to be solved by security bureaucracies and enhanced national vigilance.¹⁰ From this point of view, a lack of political consensus is an obstacle to effective policy.

Ceci n'est pas la dépendance à la Chine – Heterogeneous elite views impede national and EU policy

Policy elites with experience on China policy consider (economic) dependence a marginal but growing issue, and most view it as a long-standing reality for Belgium's foreign policy rather than a China-specific issue.¹¹ Respondents agreed that China policy is more dependent on the EU's positioning than China's behavior. This is due to Belgium's limited size, the existence of "irreconcilable differences in terms of political systems", and a "painful lack of policy-relevant knowledge about China".¹² As such, policy debates—public or not—tend to be reactive and intermittent. When they occur, they are usually informed by a pragmatic balancing act between short-term (mostly economic) interests and multilateral coordination.¹³

Policy elites agreed that the fragmented nature of the Belgian political system is the foremost obstacle to its China policy, as images of China diverge widely between the regions and between levels of government.¹⁴ Whereas regional differences rest on contrasting evaluations of the balance of opportunities and challenges China represents, differences between governments are likely a consequence of the lack of sustained policy-level attention.¹⁵ A minimal consensus seems to exist that dependence is one of many *economic* issues in the relationship that require greater national coordination. However, some also perceived it as a useful wedge to push for

10. This extends to the broader corpus of China coverage in Flanders. Coverage in Wallonia tends to emphasize the importance of realizing economic opportunities. This assessment, supported by interviews 8 and 9, suggests a close connection with the worldviews of regional policy elites. For an excellent analysis of common media representations of China, see L. Lams, "China: Economic Magnet or Rival? Framing of China in the Dutch- and French-Language Elite Press in Belgium and the Netherlands", *International Communication Gazette* 78, No. 1–2, 2016, pp. 137–156, available at: <https://doi.org>.

11. This section is based on analysis of (federal and regional) parliamentary documentation, and nine semi-structured interviews conducted between October and December 2021. Interview numbers do not represent the chronological order in which they were conducted. A distinction is made between policy elites who are public servants and elected representatives (1–5) and outside individuals with an informed view on the relationship (6–9).

12. Interview 2. Other respondents expressed worry about the fact that policy input is provided by a small group of nongovernmental experts, and about the lack of publicly available policy-relevant information about the relationship.

13. For a discussion of how Belgian values shape China policy, see B. Hellendorf, "Belgium's Multilayered China Policy: A Case of Principled Pragmatism?", in T. N. Ruhligh *et al.* (eds.), *Political Values in Europe-China Relations*, European Think-tank Network on China, 2019.

14. See *Ibid.* See also the 2021 National Security Strategy, available at: www.premier.be.

15. See footnote 8.

a more systematic China policy.¹⁶ In the words of one diplomat, “talking about dependence is one way of getting people to listen to you about the challenges posed by China [...], especially after Covid”.¹⁷ Taken together, these structural constraints impede the development of China policy, and render Belgium a mostly passive recipient of EU-level policy initiatives and narratives.

This is illustrated by comparing the yearly debates on the foreign policy budget in the federal parliament of 2020 and 2021. Whereas prior to the acceptance of the 2019 Strategic Outlook in the European Council, the government's position was to continue with existing (mostly bilateral) initiatives, the 2021 position was that “Belgium supports the strategic approach of the EU, which is both balanced and assertive”.¹⁸ Discussions about economic and “strategic” dependence in federal and regional parliamentary debates are outliers and often reflect the influence of EU-level initiatives and debates on Belgian foreign economic policy. This goes for the federal government's activities as well. For example, the Federal Public Service Economy started drafting a report on “strategic dependence” in response to the EU Council conclusions of October 1, 2020.¹⁹ Therefore, similar to the EU level, the debate now centers on the effects of state coercion and the negative externalities of China's domestic and foreign (economic) policies.²⁰

The only tangible federal policy initiative in this area is a national mechanism for screening foreign investment.²¹ This mechanism, intended to complement the federal platform for ex-ante screening and converge with EU-level moves on investment screening, is reportedly held up by regional differences over which sectors should be included.²² Based on interviews, parliamentary documents, and the media analysis, it is unclear how dependence discourse is affecting this debate. Even though arguments about economic dependence are far more prevalent in Flanders than in Wallonia, the

16. Interviews 3 and 4.

17. Interview 4.

18. Advice regarding section 14 – FPS Foreign Affairs, International Trade and Development Cooperation. Report of the Commission for Foreign Affairs by Mister André Flahaut. December 11, 2020, available at: www.lachambre.be; Advice regarding section 14 – FPS Foreign Affairs, International Trade and Development Cooperation. Report of the Commission for Foreign Affairs by Mister Michel De Maegd. December 16, 2021, available at: www.dekamer.be. Translations are by the author.

19. Interview 5.

20. See for instance, Exchange of views with the Minister of Finance. Report of the Commission for Finance and Budget by Ahmed Laaouej, Belgian Parliament, February 8, 2016, available at: www.dekamer.be; Written question from Els Van Hoof to Pierre-Yves Dermagne, Question 552 (2021), Belgian Parliament, August 20, 2021, available at: www.lachambre.be. IPAC member Van Hoof based her account of strategic dependence on an internal IPAC report.

21. See for instance the discussion about the Eandis affair in Renard, *op. cit.* 2017; and VSSE, Annual Report 2019: A Summary, 2020, available at: www.vsse.be.

22. G. Nath, “Screening Chinese koopjesjagers verzinkt in Belgisch moeras”, *De Standaard*, June 12, 2020, available at: www.standaard.be.

level of investment is higher in Flanders, and some respondents argue it is holding up the process for this reason.²³

La trahison des images – Elite experiences are forcing a rethink

Looking beyond the concrete operation of the notion of “dependence on China” in Belgium and assessing the influence of negative images of China requires a closer look at how policy elites are experiencing Chinese behavior.²⁴ There is a strong shared feeling that past images of China, centered around the notion of engagement, were wrong.²⁵ According to a senior policy official, “engagement was a wrongheaded way of looking at it”, and “the priority now is to find a workable European narrative to compete with China”.²⁶ Although the search for a new paradigm for EU–China relations finds its roots in a broad range of relational dynamics,²⁷ the Belgian case sheds some light on how personal experiences feed into national participation in the broader European process.

Policy elites felt that the bilateral relationship had worsened significantly since 2016. They pointed to existing tensions and recent bilateral controversies as reasons,²⁸ and stressed in particular their frustration with an increasingly “inflexible” and “whole of society” approach in Chinese diplomacy. On the one hand, this put pressure on Belgium’s fragmented policy environment, as Chinese outreach to public representatives and administrations increasingly bypassed diplomatic channels to push back on sensitive issues. Consequently, a lack of familiarity with federal positions on political issues and a lack of China-related expertise created issues for Belgium’s expression of its political values within the relationship.²⁹ As one diplomat noted, “as the Chinese say: their actions made me lose face [...] It seems they don’t care at all

23. See for instance, Proposal for a resolution by Jeremie Vaneckhout, Björn Rzoska, Imade Annouri, and Chris Steenwegen regarding a long-term vision on Chinese interference in the Flemish economy, Flemish Parliament, May 14, 2020, available at: <https://docs.vlaamsparlement.be>; and SERV, Advice on Flemish Strategic Autonomy, July 5, 2021, available at: www.serv.be.

24. Except for one respondent, all agreed that their views of China had grown more negative as a consequence of personal experiences first, and media and think-tank reports second.

25. For a recent assessment of engagement and its critics, see A. I. Johnston, “The Failures of the ‘Failure of Engagement’ with China”, *The Washington Quarterly* 42, No. 2, 2019, pp. 99–114, available at: <https://doi.org>.

26. Interview 1.

27. S. Langendonk and E. Drieskens, “The EU’s Embrace of Geopolitics: Insights from the EU-China Relationship”, in O. Costa and S. van Hecke (eds.), *The EU Political System after the 2019 European Elections*, Cham: Palgrave, forthcoming.

28. Interviews 1 and 2. Controversies include a digital campaign by Huawei to influence Belgian politicians, and the sanctions imposed on Samuel Cogolati (a member of the federal parliament) in 2021 in response to the EU sanctions on China, which are viewed as undermining the already low levels of trust in the relationship. See S. Kelepouris, “Minister De Sutter: ‘China kan eventueel onze democratie in gevaar brengen’”, *De Morgen*, February 24, 2021, available at: www.demorgen.be.

29. Interview 1.

who they offend to push through their interests".³⁰ This frustration is worsened by the sense that Belgian access to Chinese officials is being limited further.³¹ This is seen as a form of "nonreciprocity" or even "unreasonable dependence" and viewed as "particularly toxic to efforts to build mutual trust".³²

On the other hand, these experiences also led to initiatives to clarify the common position of different federal and local administrations and reach out to other European member states. Specifically, after consultations with France, Germany, Finland, and the Netherlands, the Federal Public Service Foreign Affairs proposed a general guideline for China policy, which is under review by the Federal Council of Ministers, and set up an internal and a cross-ministerial working group for coordination. Moreover, negative experiences in multilateral settings have moved Belgian diplomats to coordinate more closely with like-minded countries.³³ Despite these developments, diplomatic efforts toward China remain characterized by a tactful avoidance of confrontation and careful attention to cast Belgian concerns in a language of shared values.³⁴

Conclusion

Analogous to Magritte's famous rendering of a pipe, there is a real chasm between one-dimensional representations of dependence in the media and the dissonance of competing regional elite perspectives of what dependence on China means for Belgium. Dependence discourse is therefore unlikely to become an important factor in national policy debates, but it may contribute to greater elite consensus on the need for (and implementation of) EU policy. In any case, the most important factors for Belgian China policy are likely to be found in policy shifts at the EU level and elite experiences with Chinese diplomacy, both of which were found to be stimulating a degree of top-down convergence.

This chapter primarily dealt with perceptions of dependence and their effects on policy debates, not whether perceptions are representative of the risks. Initial analyses suggest that Belgium, as a small trading nation, is highly dependent on strategically vital goods sourced from China and other major powers.³⁵ Recent investments in the security service VSSE to enable it to execute its increased role in investment screening and ongoing efforts to chart areas of dependence by the federal government seem to reflect a sensitivity to this assessment. Notwithstanding regional differences, this

30. Interview 1.

31. Interviews 1, 2, 3, and 5.

32. Interview 2.

33. Interviews 1 and 2.

34. For the 50th Anniversary of Diplomatic Relations in 2021, the narrative read, "this [mutual] respect ought to let us address any topic with complete honesty in our contacts with China, even those where our views diverge". See: <https://china.diplomatie.belgium.be>.

35. Serv, *op. cit.*, 2021.

makes the country a likely advocate of greater EU awareness and coordination on the issue as concerns about dependence deepen.

If a lesson can be drawn from the Belgian case, it is that past images matter for future policy, and that images are never set in stone. Whereas the image of engagement remains dominant in Wallonia, it only barely survives in Flanders amid geopolitical fears. The disorientation and frustration experienced by policy elites following the betrayal of their past image of China is informing a search for novel paradigms. There is however a risk that Belgian dependence on third-party assessments will lead to the inflation of threat assessments and divert attention from areas where its diplomatic contributions are likely to be force multipliers. For this reason and in support of the further development of its China policy, it is essential for Belgium to develop and maintain a diverse knowledge base able to generate useful accounts of Chinese behavior.

Czech Republic: Pendulum swings toward freezing ties based on overestimated fear of China

RODOLF FÜRST

INSTITUTE OF INTERNATIONAL RELATIONS (IIR)

Summary

The issue of dependence on China resonates with the strategic concerns of the Czech Republic in economic and cyber security. Yet, in terms of available data on trade and investments, the Czech Republic's economic dependence on China is still low. The precautionary measures taken by excluding Chinese suppliers from 5G networks and the nuclear energy sector prevent any dependence on Chinese suppliers from emerging in these areas. Although the hypothetical cyber and energy security risks have been taken into consideration, the Czech domestic discourse on securitization prevails over the real level of security challenges. As the period of Czech bilateral—as well as 16+1 multilateral—rapprochement with the PRC failed to achieve convincing economic results, Czech skeptics have won the domestic political battle of views.

Introduction

The Czech agenda with China continues its fluctuation between warm and cold relations. Recently, this trend has been growing even stronger after the success in the Czech parliamentary elections of several conservative and liberal parties, all of which promote an assertive, China-critical policy. The political Left, the leading promoter of pragmatic bilateral ties with China since 2012, completely disappeared from parliament, and President Zeman, the leading face of the temporary pro-Chinese shift, is in the last year of his term in office. The political change after the parliamentary elections last October indicates dismal forecasts for Chinese ambitions related to Czechia.

In a broader European context, the Czech case reveals certain specific features. As a result of China's deepening ties with Central and Eastern Europe and the poor outcomes of the Chinese investment campaign there, in Czechia geopolitical views of China prevail over geoeconomic views. Since 2012, the perception of China in Czech political and media debates has been focused on issues like China's rising global

influence, security challenges, human rights, cybersecurity, and protective measures against the tech giants Huawei and ZTE.

In this context, domestic public communication on economic ties and possible dependencies is being marginalized and securitized. The notion of dependence, which is sometimes mentioned in the Czech media, is blurred and overshadowed by the more urgent focus on China's influence. The undistinguished issue of China's influence has become a research domain of think tanks, which significantly shape public opinion, but which have failed to offer a deeper analytical insight in terms of the missing set of indicators for defining and measuring matters like China's presence versus its influence, and the actual level of Czech dependence on China.

The common interactions and dependencies at the EU–China level with respect to the Czech position are scarcely noticed in Czechia, except for their being included on the internal ministerial agenda.¹ So far, the most effective result of the EU's common policies in the Czech Republic is accepting the proposed framework for investment screening and the EU's 5G Cybersecurity Toolbox.

The paradox of securitizing relations with China despite minimal dependence

The Czech case demonstrates the failed efforts of the two previous Czech governments (2013–2017; 2017–2021) and President Zeman to deepen the economically oriented, pragmatic agenda with China. Such efforts were constantly questioned by domestic opposition actors who rejected the Czech state's policy as ineffective and as threatening national security. The panic resulting from China's influence has been dominating media and political narratives, but economic data reveal a low level of Czech dependence on China, and that China has minimal effective sources of leverage and instruments to exercise a real intrusion into the Czech domestic economic, state, and media environment. The cumulative stock of Chinese investments in Czechia has now reached approximately EUR 1.2 billion,² far less than the originally promised flow of capital included in bilateral memorandums, and pertaining to no sectors or specific infrastructure that may be considered strategic for Czechia.³ China is currently Czechia's second-largest aggregate trade partner, while the Chinese market ranks seventeenth for Czech exports. The annual Czech-Chinese trade deficit has been continuously growing, and it is currently at about USD 30 billion.⁴ The economic

1. Based on the author's interviews with the Ministry of Industry and Trade, and the Ministry of Foreign Affairs.

2. Based on the cumulative value of completed Chinese FDI in the EU-27 and the UK by country, 2000–2020, see A. Kratz, M. J. Zenglein and G. Sebastian, "Chinese FDI in Europe 2020 Update", *MERICs Report*, June 2021, available at: <https://merics.org>.

3. "Ekonomické dohody podepsané při příležitosti cesty presidenta ČLR do ČR", Office of the President of the Czech Republic, April 2016, available at: www.hrad.cz.

4. "Čína", *BusinessINFO.cz*, July 1, 2021, available at: www.businessinfo.cz.

arguments in Czech public debates that there is a possible dependence on China prove to be counterfactual.

Arguments pointing to Czechia's secondary dependence on China through value chains, mainly through supplies going to German producers, have some relevance. Indirect exports to China through Germany, as the final exporting country, are estimated as being up to 1.2% of total Czech exports (at least the same percentage as that of direct exports from Czechia to China).⁵ The automobile company Škoda VW, which accounts for about 5% of Czech GDP,⁶ is currently limiting its car production due to the lack of chips that it imports from Malaysia, Japan, and China.⁷

An agreement between the private Czech PPF Group and Huawei to supply equipment and infrastructure for Czechia's 5G development was canceled, and Huawei was replaced by Ericsson as the major supplier. The Chinese bid for the enlargement of the nuclear power station in Dukovany was rejected before the public tender officially began, as Russian and Chinese technology providers have been labeled as a security threat and were discarded in advance. With these two shifts, the potentially relevant dependence links were nipped in the bud. Moreover, in 2022, the Czech hardline security policy will continue under the new government (which took shape in December 2021), which is generally expected to be even more assertive with regard to China.

The issue of material dependence on China had some temporary rationale in March 2020, when sufficient supplies of face masks and respirators proved to be unavailable during the initial outbreak of the Covid-19 pandemic. The increased flow of medical materials from China elevated the PRC to the rank of the second-largest exporter to Czechia.⁸ However, the original shortage of medical materials disappeared, and the Czech market is currently sufficiently supplied from multiple sources, including domestic ones. Chinese imports currently dominate in the product range of consumer electronics, computers and mobile phones, and solar panels in the Czech consumer market. A significant amount of Chinese semi-finished products is also imported as inputs to the huge Taiwan-owned FOXCONN assembly line in Czechia.⁹

Regular direct flights between the Czech Republic and China were mutually halted during the coronavirus outbreak in February 2020, though this was also partly due to the deteriorated diplomatic relations after Prague's active agenda with Taiwan. Prague had twelve flight connections per week with China, operated by three Chinese

5. E. Hrtoňová, "Estimate of Czech-China Balance of Trade from the Perspective of Global Value Chains", Bc. thesis, Masaryk University, 2020, available at: <https://is.muni.cz>.

6. V. Koval, "Akutní nedostatek čipů trvá: Škoda zřejmě zcela zastaví výrobu...", *Autojournal.cz*, October 13, 2021, available at: www.autojournal.cz.

7. R. Plavecký, "Kvůli nedostatku čipů budou ve Škodě Auto znovu snižovat platy", *Novinky.cz*, October 10, 2021, available at: www.novinky.cz.

8. The Czech Statistical Office, Czech Foreign Trade, <https://vdb.czso.cz/>.

9. "Riziková závislost na Číně ovládla trh s počítači a mobily", *Dotyk*, November 17, 2016.

airlines.¹⁰ The resumption of flights currently remains uncertain due to the ongoing Covid-19 pandemic, financial expenditures, and the expectedly difficult negotiations with Chinese partners in the worsening political atmosphere. Aside from the interrupted direct flights, just as Prague and other historic Czech towns were becoming popular among Asian visitors, the coronavirus pandemic significantly reduced flows of tourists by 50%.¹¹

The imagined Chinese influence in Czechia and the battle for media dominance

In Czechia, the geopolitical view of a rising China prevails over the geoeconomic position of the Europe–China agenda. The political perception of the BRI project, rising tensions in the Indo-Pacific, and the situations in Hong Kong and Xinjiang all raise concerns in Czechia about the threat to Western democracies from an anti-democratic and aggressive China. Security discourse in Czech political and media circles¹² still contains few direct and concrete facts, as well as unclear findings as to any leverage for China's assertive influence in the Czech Republic. President Zeman's occasional pressure on the foreign ministry to avoid criticism of human rights issues might be an argument for that,¹³ but the Czech parliamentary system provides presidents with very limited powers. Right-wing political parties, most of the public, and the mainstream liberal media have never embraced the resumption of political dialogue with China in 2012, the Czech Republic's joining the 16+1 platform,¹⁴ the establishing of the formal strategic partnership with China (2016), and President Zeman's frequent visits to China.¹⁵ The mainstream media raised allegations that Prague abandoned the legacy of former president Václav Havel and the pro-democracy orientation of Czech foreign policy.¹⁶ The specific reasons for the criticism pointed to President Zeman's support for the economic agenda and his ignoring of all sensitive themes in the PRC's domestic affairs. Zeman's appointment of Ye Jianming, the controversial chairman of the non-transparent group CEFC,¹⁷ as an advisor for the economic agenda with China, and his

10. "The Ban on Direct Flights to and from China is Now in Force", *Prague Morning*, February 10, 2020, available at: <https://praguemorning.cz>.

11. "Number of Tourists in Czech Republic Fell by 50 Percent in 2020", *brnodaily.com*, February 11, 2021, available at: <https://brnodaily.com>.

12. O. Lomová, "Čínští investoři de facto nemají zatím zájem rozvíjet odvětví v zemi, kde investují", *Euro.cz*, February 2, 2016, available at: www.euro.cz.

13. "Velvyslanec Kopecký se přesune z Číny do Arménie. Podle Lidových novin kvůli sporu se Zemanem", *Česká televize*, June 27, 2019, available at: <https://ct24.ceskatelevize.cz>.

14. "Ekonomické dohody podepsané při příležitosti cesty presidenta ČLR do ČR", Office of the President of the Czech Republic, April 2016, available at: www.hrad.cz.

15. "17+1 po (téměř) deseti letech: čas na důkladné přehodnocení", *Sinopsis.cz*, March 10, 2021, available at: <https://sinopsis.cz>.

16. M. Hudema, "Odklonem od Havla Česko prodělá", *Hospodářské noviny*, October 30, 2014, available at: <http://archiv.ihned.cz>.

17. "Čína u nás získala s mizivými investicemi politický vliv, tvrdí sinolog Hála", *Český rozhlas*, May 28, 2018, available at: <https://plus.rozhlas.cz>.

choice of words in an interview with Chinese state television about the “stabilizing society” in China, could not avoid strong domestic criticism.¹⁸

The rapprochement with China through Czech-Chinese think tanks and business lobby groups at the bilateral and multilateral (16+1) level was not well received by the public either. The Chinese strategy of inviting and co-opting senior Czech political leaders into the joint business and trade chambers and new think tanks gave an easy opportunity for suspicions to be raised about engaging business lobbies and political elites. A fear of China's rising influence started to be proclaimed by several China-critical Czech academics, as well as by most of the media, and by think tanks who consider that China prioritizes political objectives over economic ones.¹⁹ The NED-sponsored projects Chinfluence, MapInfluENCe, CHOICE, European Values, and Sinopsis published a series of policy analyses and opinion pieces that echoed the views pointing to China's rising influence in Czechia. For example, the platform Sinopsis argued that China's influence through the CEFC's investments in Czechia was “huge”,²⁰ but did not establish a set of criteria and indicators that would define the difference between China's emerging presence, the media impression of it, and China's real influence as an effective power seeking to enforce its economic and political objectives. The think tank AMO, for example, published a detailed analysis titled “Czech Actors Who Create the Pro-Chinese Agenda: Actors, Their Role and Ties”. Interestingly, the findings point to the Czech media as the key opinion maker, mainly in a negative sense. The existing pro-Chinese actors represent a significantly minor part of the spectrum.²¹

Conclusion: Virtual anxiety caused by China's presence

The annual official meetings with Chinese state dignitaries at the bilateral level and in the 16+1 format gave the impression that Czech politicians had become overly devoted to China. The powerful financial corporation PPF, which was involved in doing business in China and rolling out Czechia's 5G network, suffered a crushing defeat²² after having faced a media and political campaign led by a part of the Senate and the hardline think tanks Sinopsis and European Values. In addition, the exclusion of Chinese companies from the tender for the Dukovany nuclear power plant, the ban on the Chinese company CEFC buying stakes in the Czech- and Slovak-owned J&T Bank via the Czech National Bank, and the rejection of Chinese coronavirus vaccines in the Czech Republic have indicated that Czechia has applied preventive measures rather than eliminating

18. President Zeman's interview with CCTV, March 28, 2016, available at: <http://news.cntv.cn>.

19. O. Lomová, “Čínské investice v Česku nevede obchodní zájem”, *Euro.cz*, February 2, 2016, available at: www.euro.cz.

20. M. Hála, “Česká republika na hedvábné stezce. Jak Čína fúzuje s českým státem”, *HlídacíPes.org*, March 10, 2017, available at: <https://hlidacipes.org>.

21. I. Karásková, “Vytváření pročínské agendy v Česku: aktéři, jejich role a vazby”, *Policy Paper*, No. 9, *Amo.cz*, June 2018, available at: www.amo.cz.

22. J. Spurný, “Čínské dobrodružství PPF možná končí”, *Respekt*, November 5, 2020, available at: www.respekt.cz.

the hypothetically already-existing Chinese influence. Furthermore, the Dalai Lama's visit to Prague and his reception at the government level at the residence of the minister of culture in 2016, the termination of the Prague–Beijing Twin Cities Treaty by Prague City Hall, the visit of Taiwan's foreign minister to Prague in 2021, the Czech Senate Representative's visit to Taipei in 2020, and the World Uyghur Congress in Prague in November 2021,²³ all without the consent of the government and the foreign ministry, together suggest that the existing Czech dependence on China or even any effective Chinese political influence in the Czech Republic seem to simply be a common hypothesis. Ultimately, Czech relations with China have become disproportionately politicized and focused on a narrow context of domestic political disputes framed by the ideological construction of the threat from the East.

23. Press Release, The World Uyghur Congress in Prague, November 12–14, 2021, available at: www.uyghurcongress.org.

Croatia: A bridge too far or a sea of opportunities?

BRANIMIR VIDMAROVIC

DEPARTMENT FOR ASIAN STUDIES, UNIVERSITY OF PULA, CROATIA

Summary

Recent years have brought about a change in hitherto stagnant Sino-Croatian relations. China has proven to be a reliable partner in several large infrastructure and energy projects. Despite the lack of economic and political weight, Beijing likely considers Croatia a valuable partner given its future potential. Lack of worries and discussions about risks and potential dependence on China and its market among Croatian political and business elites, as well as investment hunger, create favorable conditions for further cooperation between Beijing and Zagreb. However, the gradual development of Croatia's high-tech industry may open up new prospects for cooperation with China in sensitive areas that touch upon European security interests. Given the bleak prospects of Sino-EU relations and the deterioration of mutual trust spurred by an additional Sino-Western rift over Russia's aggression in Ukraine, Croatia should consider a careful re-evaluation and optimization of its (future) cooperation with China.

Introduction

In the context of growing concerns about Chinese influence and dependence on China, Croatia is often overlooked—or simply dismissed—as being too small to have any significant impact on the EU's economy and politics. With a population hovering just above 4 million and a GDP of USD 55.9 billion dominated by tourism and services, Croatia is politically and economically overshadowed by much larger actors like Germany or France, whose critical connections with Beijing shape much of the EU's China narrative and political action. However, the fallout from souring relations between China and Lithuania on China–Europe relations as a whole shows the political and economic importance of smaller EU member states, with Croatia being an interesting case.

A recent shift toward deepening economic relations with China

The past five years have marked a qualitative shift in otherwise stagnant economic relations between Croatia and China. In June 2017, the European Commission officially confirmed that it would co-finance the construction of the Pelješac bridge with the Croatian government. The EU provided a EUR 357 million grant, or 85% of the total estimated EUR 420 million needed for the project. In January 2018, the China Road and Bridge Corporation (CRBC) won a public tender for the bridge's construction. Following a strikingly swift start to construction work, the Croatian government announced that it would host the next "16+1" summit in Dubrovnik in 2019.

At the time, both events attracted considerable media and public attention and sparked a series of discussions. It seemed as though the Croatian search for big investments was finally paying off. Since the early 2000s, each Croatian government has placed great political importance on attracting foreign investment. Many of these efforts have failed either because of conflicting internal interests or structural and legislative inconsistencies. A hitherto "mythical" investment giant, China suddenly became a Croatian reality—and a big part of the investment discourse across all levels of society. The government praised the opening of a new chapter in Sino-Croatian relations. Media and political commentators speculated on the possibility of future Chinese investments in projects such as terminals in the ports of Rijeka and Zadar, and the new Zagreb–Rijeka railway line.

It is important to note that these events took place in the context of rapidly emerging fears about Chinese technological dominance and gradual deterioration of the West's trust toward China. Encouraged in part by Washington's tough new stance on Beijing, the EU too began to revise its trade and investment policy, especially with respect to 5G networks and critical and emerging technologies.

This shift in the debate on China at the European and transatlantic level has been largely picked up in the Croatian media. Regardless of their position on the political spectrum, newspapers and online media outlets began publishing more critical, somber, and sometimes alarmist articles on Chinese foreign policy and its economic practices. Nevertheless, these shifts have not sparked a serious debate on Croatia's cooperation with China among political elites, and they have had limited impact on bilateral cooperation.

Swimming against the tide, Croatia seeks to further expand its China ties

Firstly, unlike bigger EU economies with deeper dependencies on China, Croatia simply lacked the practical experience of cooperation with China. Citing an analysis by Ivica Bakota, Zvonimir Stopić stresses that this lack of experience in dealing with Chinese initiatives, together with the desire to distance itself from the Balkans—namely

Serbia—where China has gained a strong foothold, are among the main reasons for the low intensity of bilateral contacts.¹ In practice, this meant that prior to the construction of the Pelješac bridge, Zagreb had neither positive nor negative experiences in dealing with China.

The bridge was its first such experience—undeniably a positive one—and it stabilized the levels of trust within the Croatian government toward China at a time when the rest of the EU began showing signs of Sino-skepticism. Answering a question about cooperation with China during the visit of US Secretary of State Mike Pompeo to Croatia in October 2020, Croatian Prime Minister Andrej Plenković bluntly said that China was “very smart to devise [the 16 plus 1] format of the relationship and the political dialogue and the economic framework with the countries of Central and Eastern Europe”. He added that while Croatia is “fully aware of all the aspects” of China’s policy in the region, Croatia strives to have “a level playing field” with respect to both the relationship between Croatia and other EU members, and relations with China, “in accordance with the rules that exist on the global level and which put us in the same market position”.² Croatia rejected the American proposal to sign a joint declaration on 5G security, effectively leaving the Croatian market de jure open for Huawei and other Chinese 5G manufacturers.³

Secondly, Croatia’s (re)discovered trade relations with China are very limited in scope and structure. According to the Observatory of Economic Complexity, in 2019 Croatian exports to China amounted to USD 120.4 million, with imports standing at USD 804.1 million. By comparison, in the same period, Slovenia’s exports and imports to and from China stood at USD 297 million and USD 2.3 billion respectively, whereas Serbia exported USD 329.1 million worth of goods and services and imported USD 2.5 billion. The share of China in Croatia’s imports and exports is 3.51% and 0.84%, respectively. Needless to say, Croatian trade cooperation with China is virtually devoid of joint ventures, technology-intensive industry, or emerging/critical tech. Out of USD 4.83 billion worth of imported machines and electronic equipment, such as broadcasting equipment and electronic control boards, China’s share accounts for a modest 7.61%. Croatian cooperation with China is thus limited to “traditional” industries that do not pose a security risk.

During the Dubrovnik 16+1 summit, Croatia and China signed ten agreements and memorandums concerning “conventional” topics such as agriculture and milk exports, national banks, railroad projects, further investment opportunities, tourism, sports,

1. Z. Stopić, “Croatia and the Chinese ‘17+1’ Cooperation Framework”, *Croatian International Relations Review* 26, No. 86, 2020, pp. 130–154, available at: <https://doi.org>.

2. “Secretary Michael R. Pompeo and Croatian Prime Minister Andrej Plenkovic at a Press Availability”, U.S. Department of State, December 1, 2020, available at: <https://2017-2021.state.gov>.

3. Despite the lack of a nationwide ban on Huawei (or any other Chinese telecoms equipment manufacturer) in the 5G rollout, the three largest teleoperators—A1 (Austria), Hrvatski Telekom (Germany), and Telemach (Sweden)—have all received internal instructions from their respective headquarters to turn down Huawei 5G equipment.

and education.⁴ The only odd one out was the cooperation agreement on education and training in industry, innovation, and technology between the Central State Office for the Development of Digital Society and Huawei—most likely lobbied for by the Chinese side.

Pressure mounts to further scrutinize relations with China

On the flipside, it seems that the EU is becoming wary of the peculiar case of Croatia. The Pelješac bridge was a unique example of successful hybrid cooperation between the EU and China. In a financially and legally controlled environment—with EU money and transparent public tender—China was just a contractor, albeit a very efficient one. This labor-intensive project, which did not involve any emerging/critical technology, nor the elements of a “debt trap”, looked like a promising model for future cooperation with China. However, it created favorable conditions for inviting “more” China to Croatia. This has obviously raised some concerns in Brussels and Washington. In 2021, the daily paper *Večernji List* reported that authorities at the Port of Rijeka annulled the public bid for the 50-year concession of a container terminal, in which a Chinese consortium led by the CRBC gave the best offer, citing immense political pressure from the US and the EU to drop the Chinese bid.⁵ In private conversations, certain government officials claim that the Croatian intelligence community is actively examining the Chinese influence in Croatia and across the region.

Are the pressure and fears justified? It is complicated. On the one hand, as discussed earlier, Croatia is economically and politically too small to have any meaningful impact on the security of supply chains. Its dependence on China is far too small to be seriously considered. However, from Beijing’s point of view, no country is too small to be completely neglected. The fact that Croatia is far away from the big EU politics and mostly oriented toward traditional industries is not a drawback but a condition that, given time and effort, can still yield payoffs.⁶ Most notably, China uses its influence to complicate the EU’s unanimity on China policies and water down uncomfortable declarations. To that end, China is actively building its influence, which stretches far beyond the economic sphere. In central and southeast European countries, China is trying to build party-level relations with actors from both ends of the political spectrum. Beijing is also trying to fill a funding vacuum in scientific

4. S. Veljković, “Potpisujemo 10 Sporazuma S Kinezima”, *Večernji List*, April 10, 2019, available at: www.vecernji.hr.

5. J. Bohutinski, “Zbog Pritiska EU I Sad-A Kinezi Ne Ulaze U Riječku Luku”, *Večernji List*, January 2, 2021, available at: www.vecernji.hr.

6. E. Brattberg *et al.*, “China’s Influence in Southeastern, Central, and Eastern Europe: Vulnerabilities and Resilience in Four Countries”, Carnegie Endowment for International Peace, October 13, 2021, available at: <https://carnegieendowment.org>.

communities that are neglected by the government.⁷ All the pieces come together to create a whole: a favorable image of China that does not rest on several high-profile contacts but rather on a broader set of institutions.

Even though Croatia has never influenced the wording of nor blocked any China-related EU resolution, there is reason to believe that Beijing sees future potential in Zagreb.

The economists Davor Mikulić and Željko Lovrinčević point out that even though Croatia is less integrated into global value chains, with most FDI inflow directed to “financial institutions, hotels and restaurants, telecommunications and other service sectors which are more oriented to the domestic market”, there is “plenty of opportunity for further liberalisation, internationalisation and globalisation in the economy”.⁸ The authors suggest that the Croatian economy is “operating below the potential national production frontier.” Such prospects are reason enough for China to nurture good relations with a state despite its relatively limited power and size. Again, as the importance of smaller eastern and southeast European states rises, each such actor acquires its own unique significance and assigned worth. In the context of a (lacking) comprehensive and unified European approach toward China, ambiguous behavior and relations with Beijing pose certain risks.

Opportunities and risks in green tech

Apart from the above-mentioned political influence and internal discord, there is the issue of common problems for humanity, such as climate change and green energy. The EU energy transition is bound to pick up speed, despite, or rather owing to, the current energy crisis. The same is true for Chinese innovation and export of green technologies. In the face of energy instability, small and poorer European states may opt to seek Chinese partnership in the renewable energy sector, believing it to be free of security concerns.

In Croatia, the Chinese company Norinco started building wind turbines near the city of Senj in 2018. The wind park consists of 39 stand-alone turbines with a total output of 156 MW, worth EUR 230 million. In November 2021, Croatia's prime minister,

7. For more information on how Beijing builds relations with political parties in Europe, see: I. Karásková *et al.*, “Central Europe for Sale: The Politics of China's Influence”, *Association for International Affairs Policy Paper*, No. 3, 2018; E. Brattberg *et al.*, *op. cit.*; V. Shopov, “Let a Thousand Contacts Bloom: How China Competes for Influence in Bulgaria”, ECFR, March 10, 2022, available at: <https://ecfr.eu>; L. Cerulus, “Beijing's Influence in European Parliament Draws Fresh Scrutiny”, *Politico*, November 26, 2020, available at: www.politico.eu; T. N. Rühlig *et al.*, “Political Values in Europe-China Relations”, Report by the European Think-tank Network on China (ETNC), December 2018; I. Karásková *et al.*, “Empty Shell No More: China's Growing Footprint in Central and Eastern Europe”, Association for International Affairs, April 2020, available at: <https://chinaobservers.eu>.

8. D. Mikulić and Ž. Lovrinčević, “The Import Content of Croatian Economic Sectors and Final Demand”, *Economic Research-Ekonomska Istraživanja* 31, No. 1, 2018, pp. 2003–2023, available at: <https://doi.org>.

Andrej Plenković, inaugurated the testing phase.⁹ Owing to its dependence on tourism and energy, Croatia is becoming increasingly environmentally aware. In 2019, the share of renewables accounted for roughly 28.5% of the total energy mix.¹⁰ Currently, the majority of this energy comes from hydropower. Wind energy comes second, with 18.4% share in the total energy production.¹¹ According to the Croatian Energy Strategy 2030, the share of renewables in total energy consumption will increase to 36.4% in 2030 and double in 2050.

In turn, this may lead to more intensive cooperation with Chinese producers of solar, wind, and hydro technology. Given Croatia's energy strategy, the current willingness to pursue deeper economic relations with China, and the opportunities this presents for China and Chinese firms to demonstrate investment capabilities in renewable energy in the EU market, Croatia and other southeast European states may be a small and quiet vanguard of China's green tech. On paper, this is a positive prospect. In the context of the securitization of the EU economy and growing discrepancies between China and the EU on future global governance models and values, this will present Brussels with yet another challenge in consolidating its foreign policy.

Croatian industry is slowly transforming and advancing. R&D expenditure by Croatian enterprises increased more than sevenfold from EUR 6 million in 2005 to EUR 49 million in 2014.¹² In fact, IT and high-tech companies are among the fastest-growing companies in Croatia. In 2019, companies such as Infobip, Span, Nanobit, Rimac Automobili, and Microblink all recorded huge growth compared to the previous year. Rimac, a world-famous producer of electric supercars, posted a year-on-year growth of 171%.¹³ In February 2021, Rimac announced a partnership with Kingsway Holding, a Hong Kong-based dealer of ultimate luxury cars like Lamborghini and Koenigsegg.¹⁴ While this is purely a distribution partnership, it would be safe to assume that Chinese businesses will be interested in exploring joint development and production of Rimac's renowned batteries.

9. "Premijer Andrej Plenković Pustio U Probni Rad Vjetroelektranu Senj: Uloženo 200 Milijuna Eura", *Jutarnji List*, Hanza Media D.o.o., December 7, 2021, available at: www.jutarnji.hr.

10. "Croatia – Renewable Energy", Trade.gov, International Trade Administration, U.S. Department of Commerce, September 16, 2021, available at: www.trade.gov.

11. D. Jukić *et al.*, vol. 1659, Državni Zavod Za Statistiku Republike Hrvatske, Zagreb, 2020, Energetska Statistika u 2019, available at: www.dzs.hr.

12. G. Dukić *et al.*, "Croatian High-Tech Industry: Current State and Prospects", *Tehnicky Vjesnik – Technical Gazette* 26, No. 2, 2019, available at: <https://doi.org>.

13. "The Top 1000 Hi-Tech Croatian Companies by Revenue from Exports of 2019", *Whoiswhoinit*, available at: www.whoiswhoinit.com.

14. "Rimac Announces Expansion into Key Asian Markets with Kingsway Dealership Network Partnership", Rimac Automobili, February 18, 2021, available at: www.rimac-automobili.com.

It has been posited that the Chinese electric car industry will expand further into Europe and perhaps even dominate the continent's electric vehicle market.¹⁵ However, if the erosion of trust toward China continues, the EU may soon face a dilemma. SupChina believes that "when European countries wake up to this reality, there will be loud calls for banning Chinese EVs or for closely monitoring their use of data". If the EU draws up plans to consolidate the European EV market for security and economic reasons, young and enthusiastic manufacturers such as Rimac might face a tough choice. At the end of the day, a powerful electric battery is in fact a dual-use technology which will inevitably become an integral part of military vehicles due to its advantages over combustion engines, including better performance, lower noise levels, and reduced heat signatures. As the Croatian IT and high-tech industry develops, so too will its appetite for investments and markets. In this sense, even if the question of dependence and interdependence with China in crucial and emerging technologies is not an issue today, it may be so in the future.

Hidden risks of indirect dependencies, but a continued ambition to deepen ties

When contemplating possible dependencies and risks, Croatian politics is not concerned with dependencies, despite the fact that they exist indirectly through imports from Croatia's biggest import markets, i.e., Italy, Germany, Slovenia, Hungary, and Austria. But there are also value chains. Croatia is, in fact, vulnerable to any scenario that may weaken these economies, or the EU as a whole.

The risks of a Lithuania-like scenario are limited but not impossible. For example, a number of companies such as Boxmark Leather, AD Plastik, Cimos Hrvatska, LTH Metalni lijev, Lipik Glass, Kostel Promet, and HSTEC produce various automotive parts for European automakers.¹⁶ These include lucrative contracts with high-end and luxury automakers like Bentley, Porsche, Lamborghini, Ferrari, and Aston Martin. Cumulatively, this sector generates around half a billion euros in revenue.¹⁷ Should, for some reason, China exclude Croatia from its customs system, and pressure European businesses into avoiding Croatia-made components, the shock would be substantial. Another systemic risk is the fact that almost half of Croatia's 200 biggest companies are foreign-owned. Foreign nationals and shareholders control 42.9% of

15. "China in 2022: Forecasts and Trends", *SupChina*, February 11, 2022, available at: <https://supchina.com>.

16. "Top 8 Hrvatskih Tvrtki Koje Rade Za Aston Martin, Ferrari, McLaren...", *Autostart*, October 4, 2017, available at: <https://autostart.24sata.hr>.

17. G. Vuzem, "Ovi Hrvatski Divovi Godišnje Okrenu 500 Milijuna Eura U Tišini", *Tportal.hr*, December 12, 2016, available at: www.tportal.hr.

Croatia's 1,000 biggest companies.¹⁸ In similar negative scenarios, it is highly doubtful that foreign shareholders would risk their prospects to protect the Croatian market.

Still, Croatian business and political elites do not yet feel they have a legitimate reason to doubt or otherwise scrutinize Croatian cooperation with China. The issue of EU dependence on Chinese products, manufacturing sector, tech, or supply chains exists in the media domain, but has very little to no effect on Croatia's China policy-making process. In private conversations, mid-level government officials with insight into the EU's deliberation on the future of relations with Beijing express their concerns with the current political situation, invoking good bilateral relations and untapped investment opportunities for Croatia. Croatian business sectors, ranging from tourism, services, and real estate to exporters, are also in favor of better ties with China.

Being a highly politicized society, Croatian debates and attitudes concerning China are heavily influenced by Washington's conduct and world politics. There are visible shifts in attitudes toward Chinese internal and external foreign policy, mainly in the media. Even though these changing narratives may shape the policies of future government(s), there is insufficient political will and societal resolution to call for scrutiny of Sino-Croatian ties. Political realities will limit the possibilities for cooperation with China, but the need for investments and affordable infrastructure solutions will guarantee that China will stay in Croatia.

18. G. Litvan, "Najveće Strane Kompanije Koje Posluju U Hrvatskoj", *Lider Media*, August 19, 2020, available at: <https://lider.media>.

Denmark: Enhanced vigilance in countering potential dependencies on China

ANDREAS B. FORSBY

DANISH INSTITUTE FOR INTERNATIONAL STUDIES (DIIS)

Summary

The risks and vulnerabilities of relying too heavily on Beijing have for several years figured prominently in the Danish policy debate on China, contributing to the significant deterioration of Danish-Chinese relations witnessed since 2018. Initially sparked by media revelations of self-censorship during Chinese high-level visits to Denmark, the dependency debate has subsequently revolved around security-related questions pertaining to Chinese investments in Greenland and Huawei's position in Denmark's critical digital infrastructure. As a result, the Danish government has introduced several legislative measures to reduce potential risks and vulnerabilities. While the policy debate has also addressed China's centrality to Danish companies, global supply chains, and the climate change challenge, an overall assessment suggests that the scale and scope of Denmark's dependence on China is, in a comparative sense, quite limited.

Introduction

When in 2008 the Danish government signed a Comprehensive Strategic Partnership agreement with China—the smallest European country to have ever done so—the prevailing political atmosphere was one of pursuing enhanced engagement with Beijing. Over the course of the next decade, government-to-government relations were rapidly expanded to facilitate bilateral collaboration across a wide range of areas, including trade and investment, research and education, green technologies and sustainability, tourism, and cultural exchange. Closer bilateral ties were eagerly pursued with little regard for the potential risks of deepening dependencies. Since around 2018, however, as perceptions of China have grown increasingly negative in

Denmark,¹ concerns about being dependent on China have come to figure more prominently in the policy debate, notably with respect to security-related issues. Meanwhile, the overall bilateral collaboration trend has been reversed, and the Danish government is presently pursuing a far narrower joint work program for its languishing partnership with China.²

Drawing on the recent Danish policy debate, this chapter maps perceptions of Denmark's dependence on China as they are manifested in the public arena. Such dependence can be direct or indirect, pertaining either to the bilateral relationship between Denmark and China or to China's broader power and influence in the international system. It can also refer either to the current state of affairs or to risks of becoming too dependent unless precautionary measures are taken now. The chapter first takes an overall look at the dependency issue in the Danish policy debate on China, then zooms in on four specific aspects of the debate—Huawei/5G security, China's presence in Greenland, Danish companies operating in China, China's carbon footprint—and finally offers a brief general assessment of Denmark's dependence on China.

Self-censorship as a wake-up call: The dependency issue in Danish-Chinese relations

One of the most severe political crises in Denmark in the last decade can be boiled down to the question of dependence on China. A state visit in June 2012 by then-Chinese President Hu Jintao triggered a constitutional breach when peaceful pro-Tibetan demonstrators were systematically prevented by the Danish police from exercising their freedom of speech, as documented by a special investigative commission in late 2017.³ While the commission was reappointed in June 2018 to further probe several outstanding questions, one key lesson to emerge from the ensuing policy debate was that the deepening strategic partnership comes with strings attached. In fact, these strings were not only being pulled increasingly assertively by the Chinese embassy in Copenhagen,⁴ but also by the Danish Ministry of Foreign Affairs, which, according to internal email correspondence, actively orchestrated the "face-saving" operations by the police.⁵ What appears to have been a systematic pattern of self-censorship has thus highlighted the risks of relying too heavily on Beijing.

1. AB Forsby, "The Hardships of Chinese Soft Power Promotion in Denmark", in T. Dams *et al.* (eds.), *China's Soft Power in Europe*, Report by the European Think-tank Network on China (ETNC), April 20, 2021, available at: www.clingendael.org.

2. Udenrigsministeriet, "Denmark and China Agree to Renew Joint Work Programme", Ministry of Foreign Affairs of Denmark, November 30, 2021, available at: <https://um.dk>.

3. T. Bagger *et al.*, "Tibetkommissionens beretning", *Tibetkommissionen*, December 2017, available at: www.regeringen.dk.

4. AB Forsby, "Diplomacy with Chinese Characteristics", *Asia Dialogue*, December 18, 2018, available at: <http://theasiadialogue.com>.

5. M. Skjoldager and H. Davidsen-Nielsen, "Tibetsag 2.0: Ligger der en rygende pistol eller våd kineser?", *Politiken*, January 29, 2021.

In late 2018, the Danish parliament hosted a comprehensive debate on “the growing pressure from China”, which demonstrated far more critical views of China across the political spectrum and concluded with an unprecedented call on the government to consider the “implications of China’s growing political, economic, and military power” (the resolution was supported by the government itself).⁶ Subsequently, the Danish government has taken several protective measures aimed at countering undesired vulnerabilities and forestalling potential dependencies, albeit without targeting China directly to avoid provoking Chinese countermeasures or violating basic WTO principles of non-discriminatory legislation. For instance, a national investment screening mechanism was adopted in July 2021 to ensure a systematic assessment of foreign economic investments in terms of potential national security risks, including whether the investor is “controlled by a foreign government”.⁷ Another new law on “the security of suppliers of critical digital infrastructure” (L1156) was introduced in June 2021 to enable the authorities to ban specific suppliers on national security grounds if, among other things, they are deemed to be “directly or indirectly controlled by another country’s authorities”.⁸ In particular, these legislative measures have been prompted by two specific dimensions of China’s growing influence in Denmark, which will be addressed in the following section.

Potential security-related dependencies on China: 5G infrastructure and Greenland

Security-related concerns about China have, along with human rights issues, been the main driver of deteriorating bilateral relations in the past few years.⁹ Security-related concerns have primarily pertained to the risks of becoming dependent on Chinese companies by allowing them to potentially control parts of Denmark’s critical infrastructure. The two main focal points have been 5G/Huawei and China’s presence in Greenland.

While Huawei’s involvement in Denmark’s 4G mobile network drew some initial criticism—notably in 2015 when a missing security clearance for several Huawei employees was brought to the public’s attention¹⁰—it was not until the US government launched its offensive against the Chinese tech giant in late 2018 that the question of 5G security and the risks of becoming dependent on Huawei became widely debated

6. Folketinget, “Det stigende pres fra Kina”, The Danish Parliament, December 7, 2018, available at: www.ft.dk.

7. Retsinformation, “Lov om screening af visse udenlandske direkte investeringer m.v. i Danmark”, Ministry of Industry, Business, and Financial Affairs, May 10, 2021, available at: www.retsinformation.dk.

8. Retsinformation, “Lov om leverandørsikkerhed i den kritiske teleinfrastruktur”, Ministry of Defense, June 8, 2021, available at: www.retsinformation.dk.

9. AB Forsby, “China as a National Security Threat”, *DIIS Report*, December 2021, Chapter 4.

10. B. Christensen, “Nervøse politikere om Huawei i Danmark”, *Danish Broadcasting Corporation*, April 23, 2015, available at: www.dr.dk.

in Denmark.¹¹ Following public warnings in December 2018 from both the head of the Danish Defense Intelligence Service (DDIS) and the minister of defense, in January 2019 the Defense Committee of the Danish Parliament held a public hearing on “Huawei and Danish security policy”, during which the defense minister, Claus Hjort Frederiksen, observed that “the Danish government takes the Huawei question very seriously”, that “we shouldn’t be naïve”, and that “companies like Huawei have close ties to the political system [...] and are obliged to assist the Chinese security service”.¹² Moreover, in a much-cited interview with the Danish prime minister in May 2020, she emphasized that “we need to ensure that we can trust [5G] providers and that they are reliable [...] and that they cannot counteract Danish security interests”.¹³ As a result of this political pressure on local mobile network operators (TDC and 3) to end their 5G collaboration arrangements with Huawei, the Chinese tech giant is now effectively excluded from Denmark’s digital infrastructure. Moreover, the newly introduced law (L1156, see above) authorizes the Cybersecurity Center of DDIS to ban specific vendors “if the arrangement is deemed to constitute a threat to national security”.

The issue of dependence on China has also been raised in the context of China’s investments and activities in Greenland.¹⁴ A handful of Chinese investments in Greenlandic mines from 2013 to 2015 sparked some public debate about, among other things, the potential influx of several thousand Chinese workers.¹⁵ An attempted takeover in 2016 of an abandoned marine station in Grønnedal by a Chinese investor also attracted some public attention. It was not until 2018, however, when a Chinese consortium was shortlisted for constructing the projected expansion of Greenland’s airport infrastructure, that the potential risks of relying too heavily on China became a matter of high politics. Amid direct warnings from Washington about allowing the Chinese to gain a strategic foothold in Greenland,¹⁶ the Danish prime, foreign, and defense ministers all cautioned against the risks of Greenland ending up in a Chinese “debt trap”.¹⁷ Although it was never entirely clear whether Copenhagen or Nuuk had the final say in the matter—given the potential security implications of the issue—the Danish government granted itself an effective veto power by securing funding for the

11. See AB Forsby, “China as a National Security Threat”, *DIIS Report*, December 2021, pp. 31–32.

12. T. Breinstrup, “Hjort: Ikke muligt at forbyde brug af Huawei i Danmark”, *Berlingske*, January 23, 2019, available at: www.berlingske.dk.

13. K. Mouritzen, “Mette Frederiksen trækker nye grænser”, *Berlingske*, May 13, 2020, available at: www.berlingske.dk.

14. See Y. Jiang, “Danmarks politik i forhold til kinesiske investeringer”, *Internasjonal Politikk* 78, No. 1, 2020.

15. V. Hyltoft, “Den første kineser i Grønland”, *Berlingske*, February 4, 2013, available at: www.berlingske.dk.

16. Ritzau, “USA advarer Claus Hjort om kinesisk entrepreneur på Grønland”, *Danish Broadcasting Corporation*, May 5, 2018, available at: www.dr.dk.

17. M. Breum, “Hvad er motivet bag Danmarks statsminister og Grønlands lufthavne?” *High North News*, November 7, 2018, available at: www.highnorthnews.com.

airport expansion. Since then, China's interest in Greenland seems to have dwindled, and none of the Chinese mining projects have come to fruition.¹⁸

Economic and other types of dependencies: Danish companies, supply chains, and climate change

The question of Denmark's economic dependence on China has, for at least two reasons, not generated as much policy debate or controversy as the security-related issues. First, with the partial exception of the 2009 crisis, when Beijing put Copenhagen in the diplomatic deep freeze for half a year after the Danish prime minister received the Dalai Lama, Denmark has not been directly exposed to Chinese economic coercion. (The Dalai Lama crisis reportedly caused some "technical obstacles" for Danish export goods entering China.¹⁹) Second, the Danish government still wants to pursue economic opportunities in its relationship with China and tends to present economic ties in a positive light. "China has become Denmark's fifth-largest export market", as the MFA noted when the foreign minister, Jeppe Kofod, visited China in late 2021.²⁰ Indeed, the government has recently felt the need to educate the public on the centrality of the Chinese economy. An official, comprehensive survey of Danish companies operating in China pointed out that "trade statistics largely underestimates the actual importance that China plays in a multitude of ways to Danish economic interests and to the overall Danish economy".²¹ While direct Chinese investments in Denmark are negligible, several hundred Danish companies operate in the Chinese market, where "four out of five companies indicate that their present activities in China are essential for the global performance of their Danish mother company", and "more than half of the companies have established strategic collaborations with Chinese partners".²² However, the survey also reported that, for two out of three companies, turnover in China accounts for less than 20% of their global turnover.²³ Furthermore, whether Danish companies' business interests in China can/should be equated to Danish national interests—or regarded as part of Denmark's dependence on China for that matter—has been up for debate.²⁴

18. AB Forsby, "Kinas strategiske fodfæste i Arktis smuldrer", *Altinget*, January 2, 2022, available at: www.altinget.dk.

19. L. Patey, *How China Loses: The Pushback Against Chinese Global Ambitions*, Oxford: Oxford University Press, 2021, p. 162.

20. Udenrigsministeriet, "Udenrigsminister Jeppe Kofod besøger Kina", Ministry of Foreign Affairs of Denmark, November 26, 2021, available at: <https://via.ritzau.dk>.

21. "Survey of Danish Companies in China: Challenges and Opportunities", Royal Danish Embassy in Beijing, Danish Chamber of Commerce and Sino-Danish Center, June 2020, p. 2, available at: <https://kina.um.dk>.

22. *Ibid.*, p. 3. According to the surveyed companies (i.e., approx. 2 out of 3), their activities in China are essential in terms of sales, procurement activities, manufacturing, and services.

23. *Ibid.*, p. 5.

24. L. Patey, *op cit.*, p. 187.

A final dimension of the dependency issue pertains to China's increasingly central position in the international system. During the Covid-19 crisis, China-related supply chain challenges have attracted attention in Denmark, especially with respect to access to critical medical supplies. Addressing this issue in a quite outspoken way, Magnus Heunicke, the minister of health, observed in late 2019 that "we are very concerned that so much medicine is produced in China and other places outside of Europe. We therefore find ourselves in a situation where our public health relies on how the mood is in China".²⁵ Such supply chain worries aside, the single most important dependency issue in the context of China's growing global impact has been climate change, which has become a key priority for the Danish government. When Jeppe Kofod visited his Chinese counterpart Wang Yi in late 2021, the Danish press release stated that the Danish government has "committed itself to assisting China in its green transition", since China, given its indispensable role in fighting global warming, "needs to speed up to meet its emission targets".²⁶ Indeed, this new green agenda, which many Danish green tech companies are well positioned to exploit, might help to jump-start the Danish-Chinese strategic partnership, as envisioned by the two sides in their proposal for a "Green China-Denmark Joint Work Programme" in 2022.

Overall assessment: Denmark's dependence on China is limited

Over the past few years, the question of dependence on China has become increasingly politicized and even securitized in the Danish policy debate. Meanwhile, new legislation has been adopted to reduce the risks of relying on China in areas that might compromise national security, and a set of new national guidelines for international collaboration on research and innovation with countries that are "not like-minded" are soon to be announced.²⁷ Moreover, the strategic Danish-Chinese partnership is currently undergoing a transformation process that will either leave it as an empty shell or narrow it down to a few key areas (of unavoidable dependencies), such as economic relations and the green transition agenda. As such, Denmark's dependence on China is actively being reduced in line with changing policy perceptions, where China is now being portrayed by the Danish government as not only a "collaboration partner" but also an "economic competitor" and a "systemic rival", in sync with official

25. F. Pedersen and P. Benson, "Vores folkesundhed afhænger af humøret i Kina", *Berlingske*, November 8, 2019, available at: www.berlingske.dk.

26. Udenrigsministeriet, "Udenrigsminister Jeppe Kofod besøger Kina for at drøfte grøn omstilling og sikkerhedspolitik", Ministry of Foreign Affairs of Denmark, November 26, 2021, available at: <https://via.ritzau.dk>.

27. Uddannelses- og forskningsministeriet, "Kommissorium for Udvalg om retningslinjer for internationalt forsknings- og innovationssamarbejde", Ministry of Higher Education and Science, September 15, 2021, available at: <https://ufm.dk>.

statements from the EU.²⁸ Whether this development reflects a new trend whereby the EU track (rather than the bilateral one) will become increasingly important in Denmark's relations with China remains to be seen.

In a broader perspective, the scale and scope of Denmark's bilateral dependence on China, as compared to the US, is quite limited. Whether in terms of security, technology, culture, social media, or trade and investments, Denmark is deeply reliant on the United States.²⁹ While this comprehensive state of dependence did spark some debate during the Trump administration's time in office,³⁰ such concerns have receded into the background again. In fact, in its new foreign and security strategy, the Danish government depicts the United States as "a unique and crucial partner for Denmark" and raises no dependency concerns at all—"more than ever, Denmark needs strong ties with the United States".³¹

28. Regeringen, "Udenrigs- og sikkerhedspolitisk strategi 2022", Ministry of Foreign Affairs of Denmark, January 2022, available at: <https://um.dk/udenrigspolitik>.

29. AB Forsby, "America First: Denmark's Strategic Navigation in the Era of US-China Rivalry", in M. Esteban *et al.* (eds.), *Europe in the Face of US-China Rivalry*, Report by the European Think-tank Network on China (ETNC), January 2020, available at: www.realinstitutoelcano.org.

30. *Ibid.*, p. 51.

31. Regeringen, "Udenrigs- og sikkerhedspolitisk strategi 2022", Ministry of Foreign Affairs of Denmark, January 2022, p. 12, 57, available at: <https://um.dk/udenrigspolitik>.

Finland: Fears of dependence on China burden good relations with the US

JYRKI KALLIO

FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

TUULI KOIVU

NORDEA

ANU RUOKAMO

FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

Summary

China is Finland's second most important partner in economic cooperation outside the EU, second only to the US. The Governmental Action Plan on China (2021) warns Finnish companies against becoming over-reliant on the Chinese market, while the Finnish Security and Intelligence Service and the Ministry of Culture and Education have cautioned relevant actors to proceed with care. The main concern is related to the potential adverse effects for cooperation with the US. In contrast, there has been little public debate or media discussion on these topics. The Finnish authorities maintain that there have so far been no instances of damage caused by dependence on China and that the situation is under control, but express concern over the ability of local-level actors to recognize the risks.

Overview of bilateral relations and related dependencies

Finland's relations with China are largely driven by pragmatism and the primacy of commercial interests. Finland has never been a practitioner of "megaphone diplomacy". Political relations have hence been unproblematic. In 2017, Finland and China signed a Joint Declaration establishing and promoting a future-oriented new-type cooperative partnership. The partnership is explicitly said to be complementary to the EU-China Strategic Partnership, signaling Finland's commitment to cooperation within the EU framework. As a sign of Finland's pragmatic approach, the partnership was launched with a joint declaration instead of an agreement.

Finland's bilateral relations with China are comprehensively analyzed in the Governmental Action Plan on China,¹ published by the Foreign Ministry of Finland in 2021. The document discusses the issue of dependence in several aspects. First, the Action Plan notes (p. 7) that the interdependence between China and the EU has been growing: "for a growing number of European companies, China is not only an important base for manufacturing, but also a key market where presence is essential".

Regarding Finnish exports and the importance of China as a market for Finnish companies, the role of China is augmented by the complexity of supply chains. The Action Plan states (p. 32) that "China is the second most important partner (after the US) for economic cooperation outside the EU in terms of bilateral trade, global supply chains and investment". In the service sector too, China is one of the most important export markets for many Finnish companies. China's share of Finnish service exports was rising prior to the pandemic and was close to 6% in 2019, while the euro area, Sweden, and the US dominated Finnish service-sector exports.²

Finnish companies also produce a lot of goods in China, whether for local or global markets. Unfortunately, data on the value of those activities is scarce and often difficult to interpret. Nevertheless, China's importance as a production hub is manifested by the fact that Finnish technology companies employ almost 50,000 people in China.³ That's almost twice as many workers as in the US and three times as many as in Sweden. Finnish businesses have invested a total of approximately EUR 11 billion in China.⁴

China's share of Finland's foreign trade has remained at about the same level over the last decade. China's share in Finnish exports is about 5%, and it accounts for 6–8% of Finland's imports. The importance of tourism is on the rise, and before the Covid-19 pandemic, Chinese tourists were the fifth-largest group of foreign tourists.⁵ The Action Plan mentions food exports and tourism among the potential sources of dependencies. While tourism provides income and helps to balance the deficit in trade in goods between Finland and China (p. 18), "it is important to avoid over-reliance on the Chinese market and to build a sustainable growth model that promotes individual tourism".

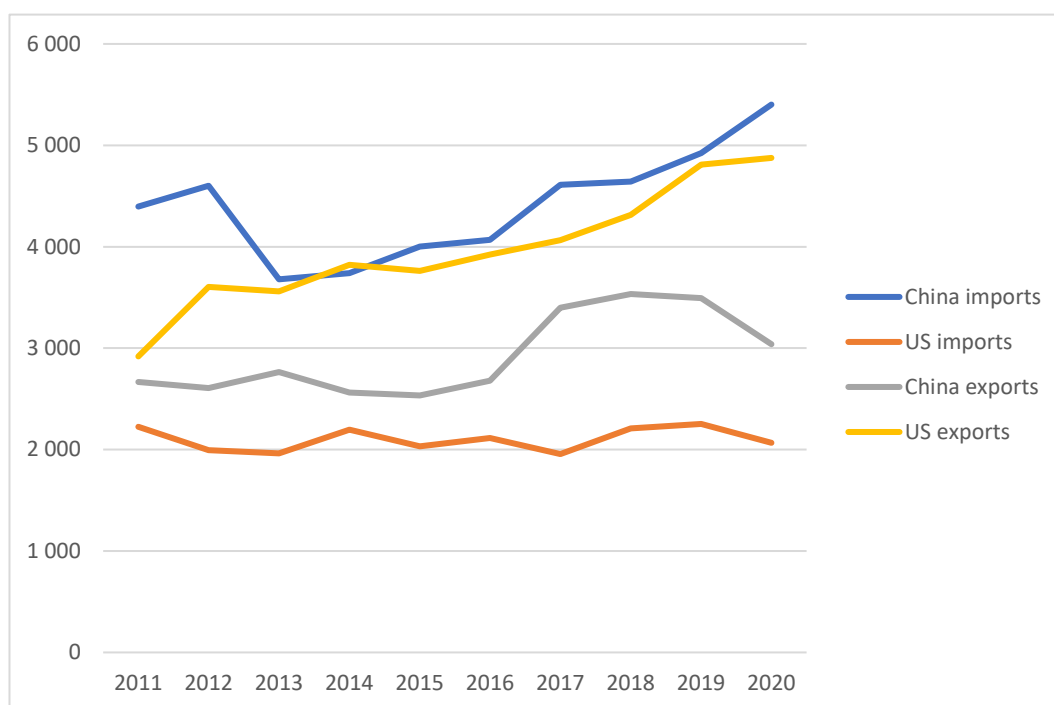
1. "Governmental Action Plan on China", Ministry for Foreign Affairs of Finland, June 8, 2021, available at: <https://um.fi>.

2. Financial account and international investment position by sector and region, Tilastokeskus, March 25, 2022, available at: <https://pxnet2.stat.fi>.

3. "Henkilöstö", Teknologiateollisuus ry, February 2, 2022, p. 9, available at: <https://teknologiateollisuus.fi>.

4. K. Crowley *et al.*, "Suomen vienti hyötyy vessapaperin ennätyskulutuksesta ja sakkaa turismin pysähdyksestä – Yle selvitti koronakriisin vaikutukset vientinäkymiin", YLE Uutiset, May 7, 2020, available at: <https://yle.fi>.

5. "Majoitustilasto", Tilastokeskus, April 8, 2019, available at: www.stat.fi.

Figure 1. Finland's Trade 2011-2020 (EUR million)

Source: Finnish Customs.⁶

While EU statistics showed Finland to be the fifth-largest recipient of Chinese investments in 2016, that was due to the acquisition of the Finnish game producer Supercell by the Chinese company Tencent. Investments in the manufacturing industry are still lacking, despite many promises. There are at least four biorefinery projects with Chinese funding in the pipeline, but they are all currently at a standstill for various reasons, ranging from financial difficulties to missing environmental permits.⁷ There is only one BRI project in Finland: a container train connection from Kouvola to Xi'an, opened in 2017. Due to the war in Ukraine, all rail connections through Russia are facing the possibility of being discontinued.⁸

6. "Suomen ja Yhdysvaltojen välinen kauppa vuonna 2021 (1-6)", Finnish Customs, September 28, 2021, p. 3, available at: <https://tulli.fi>. "Suomen ja Kiinan välinen kauppa vuonna 2021 (1-8)", Finnish Customs, November 19, 2021, p. 2, available at: <https://tulli.fi>. "Suomen ja Yhdysvaltojen välinen kauppa vuonna 2020 (1-7)", Finnish Customs, October 28, 2020, p. 2, available at: <https://tulli.fi>

7. H. Kallio, "Kaidin tehtaan suunnittelu pysähtyi talousvaikeuksiin", Lapin Kansa, November 16, 2019, available at: www.lapinkansa.fi; P. Mauno, "Valtava sorapenkka Kemijärven rannalla odottaa tehdasta", Lapin Kansa, September 30, 2020, available at: www.lapinkansa.fi; J. Rönkkö, "Kiinalaiset vetäytyivät Myllykosken ja Savonlinnan bioetanoli-hankkeista", Kouvola Sanomat, July 17, 2017, available at: <https://kouvolansanomat.fi>.

8. H. Huotilainen, "VR Transpoint käynnistää idän-tavaraliikenteen uudelleen", *Kauppalehti*, March 30, 2022, available at: www.kauppalehti.fi.

Referring to China's increased role in global value chains for goods, services, and technologies (pp. 16–17), the Action Plan states that "Finland seeks to avoid harmful strategic dependencies". In particular, the Action Plan mentions products critical to security of supply (e.g., pharmaceuticals and rare earths). First, China is a supplier of many critical products to Finland. This became particularly apparent during the pandemic, first with regard to masks, before their production began in Finland, but also more widely regarding global supply chains, which have experienced a lot of challenges due to lockdowns and logistical issues. More broadly, China has a comparative advantage of producing many manufacturing goods for global markets, and relocating this production would cause extra costs and thus create economic inefficiencies. China is a critical supplier of both consumer and investment goods, such as electronics, textiles, and machines. It would be extremely difficult and expensive to replace even a share of their production with other countries. We know that although low-tech industries have been diversifying their production to countries with lower costs than China, the process has been slow, and therefore this sort of dependence on China is expected to continue.

All in all, dependence on China is related to the country's vast international role. Finland is a highly open and small economy, very vulnerable to global trends. Finland's main export market is the EU, and the euro area serves as an anchor for Finland's financial sector. This limits the direct impact of economic fluctuations in China on the Finnish economy, but China defines the momentum of global growth in many sectors. The fact that China often sets the tone for global fixed investments and global manufacturing exposes Finland to the business cycles stemming from China. China's role as a destination of Finnish financial investments is small. The same applies to Chinese financial investments in Finnish equities and bonds. Exact numbers cannot be presented as the data on bilateral financial investment flows between China and Finland is quite weak.

Dependence on China in the media

The media serves to reflect the national discussion concerning dependence on China. In major national media outlets, the news and analysis regarding Finland's dependence on China⁹ have predominantly focused on the importance of the Chinese market to Finnish companies. However, the number of related stories in 2019, 2020, and 2021 (January–November) was relatively small. The share of all China-related news stories containing the keywords China, Finland, and dependence was less than 5%. The

9. This analysis is based on a media search focusing on news reporting by the Finnish Broadcasting Company (YLE) and Finland's largest newspaper, *Helsingin Sanomat*, between January 1, 2018, and November 9, 2021. The keywords used (in Finnish) in the search were "Finland", "China", and "dependence". The media search was conducted using the media monitoring software Meltwater.

absolute numbers of these news stories show an increase from 2018 to 2021, but the numbers of general China-related stories have risen too.

The news stories warn of potential problems for businesses due to fluctuations in demand and disruptions in logistics chains, including the shortage of components. Kone (the market leader in elevators and escalators in China), Wärtsilä (marine and energy industry), and Finnair (national carrier) are singled out as Finnish companies at risk. Covid-19 has also increased media awareness on the security of supply with regard to the dependence on Asian supply chains for face masks and other medical equipment.

Among the China-related news stories discussing dependence, only a few included a security angle. With relation to 5G and Huawei, this set of articles does not generally mention that using Huawei networks specifically might provide a loophole for direct attacks by China. In addition, these articles, specifically in relation to Finland, only occasionally warned that technologies like 5G were being used as tools in the superpower rivalry between China and the US, which makes it important for Europe to develop its own technologies. In this regard, the Finnish company Nokia is often mentioned. This reflects the general discussion in Finland. Major telecom operators have stated that they have not found a security threat in Huawei equipment,¹⁰ and the authorities have been reluctant to point fingers at any one provider.

Different actors' views

Among the different actors in Finland, the range of opinions regarding dependence on China varies. According to an interviewee representing Finnish businesses, it is natural that businesses want to seek their fortunes in China. It is next to impossible to replace China with other business partners, and Finland needs Chinese investments. Therefore, the interviewee wanted to question the very use of the term "dependence". The interviewee acknowledged that Chinese political characteristics influence the way that business is done, but stressed that businesses must analyze risks regarding all their partners.

The interviewees representing the Finnish foreign service and defense administration maintained that the government has been forceful in education and information regarding awareness of the risks, and further efforts are forthcoming. The government, however, cannot make decisions or choices on behalf of individual actors, such as enterprises or academic institutions.

Neither the interviewees from the foreign service nor those from the defense administration mentioned any concrete risks to Finnish security having so far emerged from China. Furthermore, an interviewee from the foreign service cautioned against fearmongering and China panic. Some interviewees—referring to the debate on the

10. T. Lehto, "Suomalaiset operaattorit: Huaweiin vakoilu-uhkaa ei havaittu – 'Seuraamme aktiivisesti tilannetta'", *Kauppalehti*, January 25, 2019, available at: www.kauppalehti.fi.

vulnerabilities related to 5G technology—nevertheless expressed skepticism toward the willingness of Finnish telecom operators to make business decisions based on factors other than price.

One factor that is under close monitoring is China's increased interest in the Arctic. Since 2020, the Ministry of Defense has been responsible for granting permission for real estate purchases by non-EU or non-EEA nationals. This is the result of new national security legislation. One case that was reported in the media had to do with the sale or lease of an airfield in Finnish Lapland to China in 2018, supposedly to serve China's Arctic research. The scheme was turned down by the Finnish authorities at the initial stages.¹¹ An interviewee from the defense administration also mentioned China's need to have satellite ground stations above the Polar Circle and stated that setting up a ground station in Finland would not be allowed.

The Governmental Action Plan states (p. 6): "The tightening political climate and weakening human rights situation in China, as well as increased influence and intelligence activities, also affect Finland's cooperation with China, limiting its potential". This statement is reflected in the recommendations for academic institutions' cooperation with China, published by the Ministry of Education and Culture in 2021.¹² While the document recognizes the value of such cooperation, it urges Finnish institutions to secure their own interests, especially regarding security and competitiveness. Talking to the media, experts from the Ministry of Education and Culture and a Finnish university have also pointed out that cooperation with China can hinder that with US institutions.¹³

The recommendations by the Ministry of Education and Culture were followed by a blog post from the Finnish Security and Intelligence Service (SUPO).¹⁴ It stated that many Chinese universities have ties to the Chinese military and emphasized that there is no freedom of research in China. SUPO has recently also issued other warnings about China. It has singled out China as a country that has an interest in utilizing information technology for espionage in Finland,¹⁵ and has warned Finnish enterprises of the risks of cooperation with China.¹⁶

11. T. Leisti, "Kiina halusi lentotukikohdan Kemijärvelle arktisia tutkimuslentoja varten – Suomen puolustushallinto tyrmäsi hankkeen", *YLE Uutiset*, March 4, 2021, available at: <https://yle.fi>.

12. "Toimintatapasuosituksia akateemiseen yhteistyöhön Kiinan kanssa", Ministry of Education and Culture, December 1, 2021 available at: <http://urn.fi>.

13. E. Rantalainen, "Supo huolestui vakoiluriskistä korkeakouluissa – kiinalaisista tuli isoin ulkomaalaisten opiskelijoiden ryhmä eri yliopistoissa", *YLE Uutiset*, November 5, 2021, available at: <https://yle.fi>.

14. T. Turunen, "Kolumni: Korkeakouluyhteistyö Kiinan kanssa – mahdollisuuksia ja uhkakuvia", Finnish Security and Intelligence Service, December 2, 2021, available at: <https://supo.fi>.

15. T. Pietiläinen, "Suojelupoliisi nimeää nyt Kiinan maaksi, joka haluaa käyttää uusia tieto-verkkoja vakoiluun", *Helsingin Sanomat*, September 27, 2021, available at: www.hs.fi.

16. P. Sajari, "Suojelupoliisi varoittaa kiinalaisista yhtiöistä: Kytkökset valtiovaltaan otettava vakavasti – Puolustusvoimat: Pelkona Suomen lamauttaminen", *Helsingin Sanomat*, February 7, 2019, available at: www.hs.fi.

The importance of good relations with the US may come into play here, as well, and explain SUPO's keenness to single out China as a security threat. In developing its intelligence and counterintelligence capabilities, SUPO needs the cooperation of relevant Western, and in particular US, authorities.

Indeed, an overarching theme that emerged in all the interviews was the role of the US. According to a detailed study comparing Finland's dependencies on China and the US, China "remains far less important for the Finnish economy than the United States. In many respects, the relative importance of the Chinese economy for Finland has decreased relative to the US economy during the past decade".¹⁷ A report by the Confederation of Finnish Industries and the Foreign Ministry, "China and the United States – A Challenge to Companies: Impacts of the Superpower Competition to Finnish Companies",¹⁸ also stresses that Finnish businesses may need to make a choice between the two superpowers and their markets: "The technology sector, in particular, is affected by the China–US rivalry because of the sanctions, export control and standardization. For globally operating companies, the rivalry between the two superpowers may mean a choice between two markets or geographical differentiation of activities and limited opportunities for trading in global markets".¹⁹

Conclusions

With an export-driven economy, Finland cannot avoid different kinds of dependencies. The issue of dependence on China, and the related risks, have recently been highlighted in many fora. While Chinese investments are welcomed, screening mechanisms have also been improved.²⁰ To date, there have been no significant cases where dependence on China might have harmed Finnish interests. The risks are potential but not yet manifest.

A major factor behind the need to avoid dependence on China is the reliance on technological and security cooperation with the US. The wider discussion on dependence on China started with the US voicing its concerns. At the same time, the importance of the US seems to be taken for granted. Maintaining a balance between political and economic interests is becoming increasingly difficult with the politicized rivalry between China and the US, and choices must be made. The Government Report

17. M. Wigell, "Europe Facing Geoeconomics: Assessing Finland's and the EU's Risks and Options in the Technological Rivalry", Publications of the Government's analysis, assessment, and research activities 2022:12, Prime Minister's Office, February 3, 2022, p.93, available at: <http://urn.fi>.

18. "China and the United States – A Challenge to Companies: Impacts of the Superpower Competition to Finnish Companies", Publications of the Ministry for Foreign Affairs, No. 2021:6, Ministry for Foreign Affairs of Finland, July 26, 2021, available at: <http://urn.fi>.

19. *Ibid.*, p. 3.

20. M. Mattlin, "Kanariefågeln som tystnade. Finlands gestalt shift om kinesiska investeringar", *Internasjonal Politikk* 78, No. 1, 2020, pp. 54–67, available at: <http://dx.doi.org>.

on Finnish Foreign and Security Policy (2020) emphasizes China as a risk, whereas the US is presented as an important partner.²¹ The importance of the US is likely to be further underlined, with public opinion having turned in favor of Finland joining NATO after the Russian attack on Ukraine.²²

It was pointed out in some interviews that there are “useful idiots” among national-level politicians who are willing to promote Chinese interests without any suspicions. In 2020, the Finnish media reported on the close and dubious connections that two parliamentarians from the rightwing-populist Finns Party have had with China.²³ Similarly, some interviewees expressed doubts about the ability of Finnish municipalities with financial difficulties to say no to business proposals that are “too good to be true”.

Therefore, the main risk related to dependencies on China lies with “Finlandization”, aiming to appease a foreign power by avoiding anything that could be interpreted as an insult, including saying no to requests. This was the besetting sin of the Finns during the Cold War between the US and the Soviet Union, and it could be hampering the best efforts of the national authorities to control the country's dependence on China today, as well.

21. “Government Report on Finnish Foreign and Security Policy”, Publications of the Finnish Government, No. 2020:32, the Government of Finland, October 29, 2020, available at: <http://urn.fi>.

22. See M. Koivisto, “Ylen kysely: Enemmistö suomalaisista kannattaa Suomen Nato-jäsenyyttä”, *Yle Uutiset*, February 28, 2022, available at: <https://yle.fi>.

23. “Perussuomalainen Kiina-ilmiö: käsikirjoitus”, *Yle MOT*, March 15, 2020, available at: <https://yle.fi> (updated September 11, 2020).

France: China one concern among many in the debate on resilience and strategic autonomy

JOHN SEAMAN & PAUL LOUÉDIN

FRENCH INSTITUTE OF INTERNATIONAL RELATIONS (IFRI)

Summary

Concerns about dependencies on China and the vulnerabilities they create are growing in France. While such dependencies are today seen as limited to a few specific (nevertheless critical) sectors, the potential for China's dominance in the high-tech industries of the future raises concerns about a more strategic level of dependence in the years to come. Beijing's observed willingness to leverage its asymmetric advantages through economic coercion, coupled with a broader misalignment of interests on core concepts shaping the international system (from economic governance to political values, the so-called systemic rivalry), are shaping policy views in Paris. And yet, the French discussion on dependence is one element of a broader discussion on France's and Europe's place in the world, going well beyond China. While holding to the concepts of openness and free trade, strategic autonomy and sovereignty are organizing principles in French policy discourse. It is now thought that the interdependencies created through open exchanges should be the result of more conscious, clear-eyed political choices rather than solely the consequence of an efficiency-seeking economic rationale.

Introduction

France's approach to China has been shifting for years, from one of all-out engagement to one that is more balanced, or at least "less naïve". Within this more clear-eyed approach to relations with China, the notion of dependence has emerged as a critical focal point of policy reflection, wherein the Covid-19 pandemic served as a lightning rod for public debate on dependence, vulnerability, and the need to construct greater resilience. This chapter seeks to explore this notion of dependence on China in the public debate in France and how it has evolved. The analysis is constructed from a broad review of media coverage and public discourse by top-level officials, analysis of

policy papers and public strategy documents, as well as interviews with key stakeholders in both the public and private sector. The aim is to shed light on both how French actors understand the notion of dependence and vulnerability in relation to China and the policy solutions put forward in an effort to improve resilience.

The wider context of France's resilience and strategic autonomy debates

Before exploring the notion of dependence as it relates to China in particular, it is important to underline that this discussion does not exist in a vacuum. Rather, it takes place within a broader context of sweeping transformations and strategic reflection on the associated challenges for France. Among the most important transformations that shape the French notion of dependence are the process of globalization—including more recent moves toward deglobalization and the effects of rapid technological change—and the structural change in the balance of power currently underway in the international system.

Globalization and the deindustrialization debate

France's relationship with globalization has been a major subject of public debate for decades,¹ and it has set the scene for how dependence and vulnerability are considered today. In particular, successive French administrations and the private sector have embraced the efficiency-seeking, market-driven logic that has in large part defined the process of globalization. The process of deindustrialization has been one consequence. Indeed, the weight of industry in the national economy has dropped more than 10 percentage points in the last four decades, representing only 13% of GDP today.²

While due to complex factors, including productivity gains and changing consumption habits, this deindustrialization process is often considered as a source of vulnerability due to rising dependence on overseas production—a narrative that became particularly prevalent over the course of the Covid-19 pandemic, but one that has much deeper roots.³ The rise of populist parties in France also responds to the sense of lost competitiveness and a hollowing-out of France's industrial base. In this context, profound structural changes brought on by technology, including as a consequence of the energy transition and the fight against climate change, represent

1. See for instance H. Védrine, "La France et la mondialisation", *Rapport au Président de la République*, September 4, 2007, available at: www.vie-publique.fr.

2. Y. Kalantzis and C. Thubin, "Les causes de la désindustrialisation en France", *Bloc-notes Eco*, Billet No. 37, Banque de France, November 13, 2017, available at: <https://blocnotesdeleco.banque-france.fr>; and INSEE, "Valeur ajoutée par branche, données annuelles 1949 à 2020", Institut national de la statistique et des études économiques, June 22, 2021, available at: www.insee.fr.

3. A. Voy-Gillis and O. Lluansi, *Vers la renaissance industrielle*, Clichy: Éditions Marie B., 2020.

both risks of a further loss in competitiveness and new opportunities to transform and reindustrialize the French economy.

US–China rivalry and the “return of geopolitics”

A second level of transformation that structures the French discussion on dependence is the shift in the global balance of power and the “return of geopolitics”. Ultimately, the notion of “dependence” is tightly wound up within the national (and by extension European) debate on sovereignty, resilience, and the ability to act with an acceptable degree of independence in pursuit of one’s own interests. While Russia’s invasion of Ukraine has dominated the discussion since February 2022, in recent years it has been the deepening strategic competition between the United States and China that has largely structured the debate, and it will in all likelihood continue to be a central element of reflection as Europe’s strategic context shifts.

In this context, the depth of transatlantic interdependencies, but more importantly the asymmetric advantages that the United States enjoys, particularly in the military sphere, but also in the digital technology and financial domains, are considered problematic. Indeed, French and EU decisions to press forward with projects such as Galileo, which limits dependence on the American Global Positioning System (GPS), and GAIA-X, a project aimed at building European cloud-computing capacities and advancing toward the goal of digital sovereignty, are important indicators of how France and Europe more broadly are working toward a base level of strategic autonomy in a global sense, not simply one that is directed at China.⁴

Despite concerns about overreliance on American technology and power, dependencies on the United States nevertheless do not appear to elicit the same degree of alarm as those on China. A bedrock of “like-mindedness” with regard to political values and sealed by a military alliance is certainly one factor. Officials further note the multitude of forums for discussion and the institutionalized level of engagement with US counterparts, particularly in areas where there are divergences—the recently established Trade and Technology Council is one clear manifestation—as signs of a base level of confidence and mutual understanding in the transatlantic relationship. The relationship with China, meanwhile, does not appear to be set against the same background of common understanding, mutual core interests, and structured mechanisms for dialogue and cooperation.

4. J. Seaman, M. Julienne and F. Nicolas, “France’s search for greater (European) autonomy in the digital age”, in B. Dekker and M. Okano-Heijmans (eds.), “Dealing with China on High-Tech Issues”, Clingendael Report, December 2020, available at: www.clingendael.org.

The emergence of a China-dependence debate

In France, public perceptions of dependence on China (or Chinese producers) reached a fever pitch amid the first wave of the Covid-19 pandemic. Coupled with a recognition that vital personal protective equipment had been outsourced to producers based in China was a much more vocal and assertive, or “wolf warrior”, public diplomacy on the part of the Chinese embassy in France, which shook public confidence in relations with Beijing.⁵

Yet concerns about growing dependencies on China emerged in the public discussion much earlier, stemming from a recognition of China's growing economic clout and increasing competitiveness. One important wave of popular discussion accompanied a series of Chinese investments in the mid-2010s, for instance the Chinese firm Casil's acquisition of a controlling stake in Toulouse-Blagnac Airport in 2015, or the purchase of French vineyards by wealthy Chinese investors. The frequent reference in the French media to the “growing appetite” of “voracious” Chinese investors bent on “total takeover” fueled a symbolic construction in the public eye of a predatory China. This, despite the fact that, in reality, Chinese investments in France remain very modest in aggregate terms, with China being only the eleventh-largest source of foreign investment in the country, with a stock of EUR 2.6 billion.⁶ Nevertheless, a push to tighten investment screening regulations in France, in 2014, in 2018, and again in 2020, was motivated in part by concerns about Chinese investments in strategic, particularly high-tech, sectors.

The debate around 5G that emerged in France in 2019 served to focus the discussion on risks of future dependence on China, notably in the technology domain. The decision taken by the French state to constrain access to the French 5G equipment market for Chinese suppliers, notably through a system of limited permits that effectively excludes Huawei and other Chinese vendors but avoids an outright ban, reflects the sensitivities involved in the French approach. While security concerns are the dominant factor, there is also a broader debate emerging about how to relate to China in emerging technological fields. On the one hand, by shedding light on the qualitative evolution of the Chinese production system, the 5G case raised the new fear of becoming technologically dependent on China, echoing broader concerns about France's fear of “decline”. These are coupled with concerns about how technology is being used to undermine civil liberties and exercise political control in China, and the risk that such practices could become increasingly normalized more globally. On the other hand, there is an increasing recognition that China is a rapidly developing source of research and innovation that cannot simply be ignored or cut off—nor should it,

5. M. Julienne, “France: Between Healthcare Cooperation and Political Tensions with China Amid Covid-19”, in J. Seaman, “Covid-19 in Europe-China Relations: A Country-Level Analysis”, European Think-tank Network on China (ETNC), April 2020, available at: www.ifri.org.

6. Ultimate investor methods for calculating foreign investment put this figure at EUR 8.6 billion. Direction générale du Trésor, “Échanges bilatéraux entre la France et la Chine”, Ministry of Economy and Finance, May 17, 2021, available at: www.tresor.economie.gouv.fr.

particularly where such innovations could prove instrumental in responding to global challenges such as climate change.

Concerns around perceived dependencies in France have been augmented by China's coercive trade measures against partners such as Australia and South Korea, and more recently against Lithuania. The further development of coercive tools in China's arsenal, such as unreliable entity lists, sanctions (including on European institutions, representatives, and individuals), and, in particular, the notion of extraterritoriality that is increasingly prevalent in Chinese laws from data security to the national security law that applies to Hong Kong, is also a source of concern. Extraterritoriality is particularly troubling for French companies, as it is also a widely used tool for US sanctions, and many firms risk being caught in the crossfire between Washington and Beijing. Within France, there is also a growing concern about how dependence on the Chinese market or Chinese sources of revenue and financing for specific businesses or academic institutions translates into levers of influence, as illustrated in a recent report by the IRSEM, a think tank associated with the French Ministry of the Armed Forces.⁷ Furthermore, China's growing ambitions in regional and global affairs give rise to reflections about the China-related dependencies of other states and actors, for instance in Africa and the South Pacific, and how China's growing leverage will impact French interests. Finally, Russia's war on Ukraine raises further questions, of which two are noteworthy: first, Sino-Russian interdependencies and how they will affect Russia's strategic calculus; second, whether Beijing's actions will at some point trigger sanctions on Chinese actors that will reveal the extent of French, European, and global economic dependencies on China.

A more complex picture of trade and supply chain vulnerabilities

Within this evolving conversation in France on China and dependence, concerns around trade and supply chain vulnerabilities predominate. The notion that France is heavily dependent on China for imports stems in particular from the yawning trade deficit with China, which reached EUR 38.9 billion in 2020, and the increasing importance of China over time. In aggregate trade terms, China is France's second-largest trading partner, its largest source of imported goods after Germany, but only its seventh destination for exports. But this macro picture should not be confused with a structural level of dependence. Two levels of analysis—imports and supply chains—serve to create a more nuanced, complex, though nevertheless concerning picture of France's economic dependencies with regard to China.

7. P. Charon and J.-B. Jeangène Vilmer, *Chinese Influence Operations: A Machiavellian Moment*, Report by the Institute for Strategic Research (IRSEM), Paris, Ministry of the Armed Forces, October 2021, available at: www.irsem.fr.

***Trade dependence is exaggerated overall,
but real in some critical sectors***

In an effort to identify “vulnerable” French imports, a study by the French Ministry of Economy and Finance reviewed data for some 5,000 product categories.⁸ It found 121 categories with a concentration of over 50% in a small number of non-European countries, representing 1% of the total value of imported products in 2018. China was the primary source in 28 of these product categories. By comparison, the number of highly concentrated imports from China in Germany is 55, Poland 68, Italy 85, Spain 88, and the Netherlands 127, indicating that for France this is more of a European supply chain issue than a proper bilateral issue between France and China. Furthermore, of products with a high China-concentration, only 5 were considered to have a low potential for diversification. A further review of the data shows that critical raw materials, including germanium, magnesium, antimony, and rare earth metals, as well as rare earth-derived permanent magnets, LED lightbulbs, and a number of pharmaceutical goods, particularly active ingredients for antibiotics, are among the products of concern. This ultimately spells trouble for the pharmaceutical, automotive, and defense sectors, in particular.

In terms of its export volume to China, France remains comparatively less dependent on the Chinese market than its German neighbor. Indeed, France's market share in China is low (1.5%, compared to 5.1% for Germany). The aeronautics sector dominates French exports, contributing to 39% of France's total surplus in 2019,⁹ but given the diversified, notably European nature of the aeronautics industry, one can hardly consider such exports to be purely “French”. Otherwise, the value of French exports to China is concentrated mostly in “non-critical” sectors from an industrial point of view, including spirits, wines, cosmetics, and other luxury goods. Still, it should be noted that such aggregate trends may not reflect market access dependencies for sectors that do not represent high absolute monetary values.

***Supply chains prove more complex,
but less problematic for France than others***

Beyond what seem to be relatively exaggerated, but nonetheless acute concerns in direct trade terms, supply chain vulnerabilities have also become a major source of worry. In part, what France's deindustrialization process in recent decades means in practice is that French firms have invested heavily in production processes

8. C. Bonneau and M. Nakaa, “Vulnérabilité des approvisionnements français et européens”, *Trésor-Éco*, No. 274, Direction générale du Trésor, Ministry of Economy and Finance, December 17, 2020, available at: www.tresor.economie.gouv.fr.

9. A. Berthou and G. Gaulier, “Les exportations françaises en 2020: l'aérodépendance”, *Bloc-notes Éco*, No. 227, Banque de France, August 18, 2021, available at: <https://blocnotesdeleco.banque-france.fr>.

overseas.¹⁰ In other words, they have integrated into global value chains in which China plays a central role. Still, while this has led to complex supply chain issues that are wreaking havoc in areas such as semiconductors, the evidence that China dominates those issues is in fact thought to be quite small in the case of France—despite China’s role as global manufacturing hub.

In macroeconomic terms, the limited impact of supply chain disruptions on the French economy as a whole is due in part to the predominance of the service sector in the French economy, wherein services account for over 85% of GDP. As such, supply chain shocks to the industrial sector, which represents roughly 13% of GDP, in fact have a limited impact on the overall French economy. Moreover, while the industrial sector has a greater relative dependence on value-added generated outside of France (31%, versus only 17% for services), more than half of that external value-added for French industry is generated within the EU, and only 7% in China. Nevertheless, certain sectors are clearly more exposed to supply chain shocks linked to China than others. Those industrial sectors are electronic appliances (25% of externally generated added value), textiles (22%), electrical equipment (14%), and transportation equipment (7%).¹¹

Here, a few points warrant consideration. First, France’s deindustrialization means that its dependencies on China are ultimately hidden within more complex, indirect interdependencies within the European and global economy. As one official noted, “you never really know the extent and impact of your dependencies until you’re confronted with them in real time”.¹² Second, efforts by France to reindustrialize, particularly targeting high-tech industries of the future, have focused the discussion on potential future vulnerabilities that may derive from China’s industrial policies, in particular Beijing’s stated strategy of dual circulation.

An increasingly proactive policy response

France has made concerted efforts to assess and address its vulnerabilities both in relation to China and more broadly with a view to improving its strategic autonomy and digital sovereignty. While France’s 2022 presidential debates underline the prevalence of populist discourse and the persistence of an anti-EU, or at least Eurosceptic base, the Macron government has clearly framed its approach as being one that is centered around pursuing these goals at the European level. As such, measures taken at the national level are also often complemented by or pressed forward at the EU level (many of which are detailed in the EU chapter of this report).

10. C. Emlinger, S. Jean and V. Vicard, “L’étonnante atonie des exportations françaises”, *La lettre du CEPII*, No. 395, January 2019, available at: www.cepii.fr.

11. A. Reshef and G. Santoni, “L’industrie française est-elle tributaire de la Chine?”, *Le Blog du CEPII*, December 6, 2021, available at: <http://cepii.fr>.

12. Interview with French official in the Ministry of Economy and Finance, November 2021.

At the national level, the General Secretariat for Defense and National Security (SGDSN), under the auspices of the prime minister, is tasked with coordinating a broad interministerial approach. The Ministry of the Armed Forces has also been commissioned to assess the most critical dependencies for national defense from the Covid-19 pandemic, in addition to regular assessments of dependence and vulnerability. The minister for the armed forces, Florence Parly, has publicly stated that the objective of the exercise is to develop the European Defence Technological and Industrial Base (EDTIB) in the field of materials and components for high technology.¹³

The French president has formulated a long-term strategy for the development of national industry. The France 2030 project announced in October 2021, with a budget of EUR 30 billion over five years, aims to develop French industrial competitiveness in the fields of energy, automobiles, aeronautics, and space. This project is explicitly linked to the European recovery plan NextGenerationEU of December 2020. This is particularly the case for electronic components, where the acknowledgment of the continent's loss of autonomy makes it necessary to design a European and French strategy "taking into account the masses and the stakes".¹⁴

France has also strengthened the mechanisms for insulating and preserving its industrial base. As early as 2018, the minister of the economy strengthened the Montebourg decree allowing the state to screen foreign investments in strategic sectors by extending it to the digital sector. France has also pushed for more robust efforts to combat market-distorting practices, particularly on the part of China, for instance through anti-subsidy measures that are aimed at leveling the playing field and allowing for a more balanced interdependence.

Beyond Europe, France has also sought to strengthen the resilience of partners in key regions, notably Africa and the Pacific, for instance through its Indo-Pacific strategy and Europe's global gateway. Foreign Minister Jean-Yves Le Drian noted in an interview in November 2021 that there is clear concern that China is bringing countries in the region under its "tutelage" through acts of "predation".¹⁵ More generally, it is now thought that the interdependencies created through open exchanges should be the result of more conscious, clear-eyed political choices rather than solely the consequence of an efficiency-seeking economic rationale. This will necessarily limit the scope for exchanges with China by essentially ringfencing sectors that Paris deems to be strategic. Yet, Emmanuel Macron has continued to support maintaining, and even deepening, constructive relations with China, as demonstrated by his efforts to press for the signature of the Comprehensive

13. L. Lagneau, "Pour la ministre des Armées, il faut 'absolument réduire notre dépendance envers la Chine'", *Zone Militaire*, March 18, 2021, available at: www.opex360.com.

14. E. Macron, "Discours du Président de la République à l'occasion de la présentation du plan France 2030", *Élysée*, October 12, 2021, available at: www.gouvernement.fr.

15. A. Salles, P. Richard and C. Bozonnet, "Jean-Yves Le Drian: 'Nos concurrents n'ont ni tabous ni limites'", *Le Monde*, November 19, 2021, available at: www.lemonde.fr.

Agreement on Investment with China in December 2020. While the fallout of Russia's invasion of Ukraine may prove to be a strain too many, France under Emmanuel Macron is likely to continue to walk the fine line of "*en même temps*" in its relations with Beijing.

Germany: Politics trying to break free from the narrative of economic dependence

BARBARA PONGRATZ, BERNHARD BARTSCH & VINCENT BRUSSEE
MERCATOR INSTITUTE FOR CHINA STUDIES (MERICS)

Summary

In recent years, dependence has become a central concern in German debates about China. By our assessment, German dependence on China should not be overestimated. Business interests have long been the main driver of China policy in Germany; it was believed that whatever benefits German companies benefits Germany as a whole. This principle is increasingly coming under scrutiny. In this chapter, we address four different dimensions of the dependence debate. We find that trade and investment dependence on China is relatively low compared to linkages with the US in these areas. Supply chain dependence is also limited. Moreover, we argue that Sino-German innovation dependence is mutual. The new German government, despite frank rhetoric in its coalition treaty, is inheriting an important trait from the Merkel era: the struggle to strike a balance between addressing short-term concerns and pursuing strategies to reduce economic and political dependencies or perceptions thereof in the medium and long term. Putin's war in Ukraine and German attempts to shake off energy resource dependencies from Russia significantly diminish the political appetite for taking on the China dependence challenge.

Introduction

Economic dependence on China is the central topic around which German debates on China have revolved for decades. It is also at the heart of current efforts to adjust German China policy in the post-Merkel era.

For key German industries such as the automotive sector or SMEs in the mechanical engineering sector, China is one of the biggest, if not the biggest market. The automotive industry, the most important sector of Germany's export-oriented economy, produces and sells more cars in China today than in Germany. In 2020, the

first year of the Covid-19 crisis, the quick recovery of Chinese demand saved the balance sheets of many German exporting companies, as was the case in the global financial crisis a decade earlier.

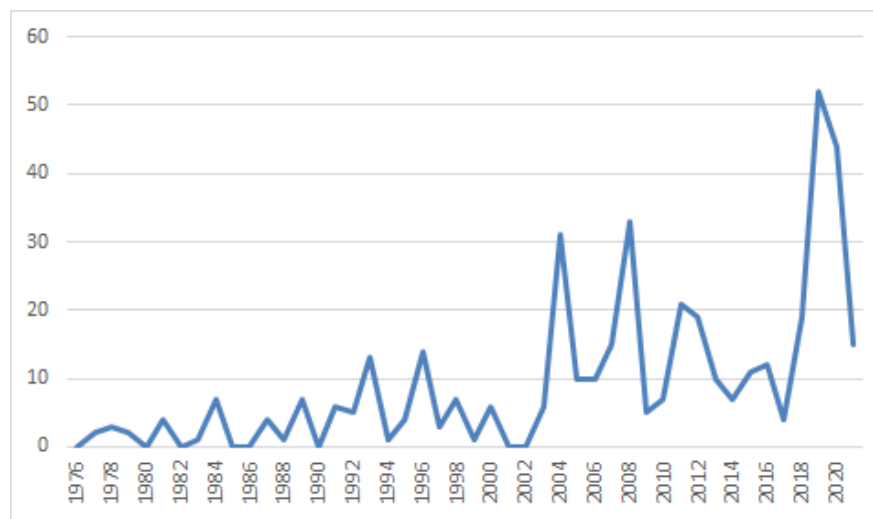
Business interests have therefore long been the driver of China policy in Germany, so much so that it has sometimes been claimed that the country's China policy was essentially decided by the CEOs of Volkswagen, Daimler, and BMW. That may be an exaggeration, but the underlying logic was widely accepted, namely that whatever benefits the business interests of German companies in China also benefits the German economy as a whole—and that political tensions are therefore a serious, even existential threat.

But this principle is increasingly coming under scrutiny. Given China's development and industrial policies of recent years, the debate in politics and also in the business sector is moving toward the following question: In which sectors is economic cooperation with China still mutually beneficial and promising for the medium and long term—and where are the dependencies that must be tackled?

The central role that this question plays in Germany today is reflected by the frequency with which it features in parliamentary debates in the German Bundestag. An analysis of Bundestag speeches shows that overall mentions of "dependence" in the context of China have increased significantly in recent years and reached record highs in 2019 and 2020 (see Figure 1). The coalition agreement of Germany's new government, signed in December 2021, makes "reducing strategic dependencies" a key objective of its China policy.¹

1. Dependence in the German debate is mainly framed in terms of the dependence of German companies on China and the economic dependence that derives from that. Other forms of interdependence or the interdependence of other actors (e.g., universities) only play a minor role.

Figure 1: Bundestag debates: Mentions of “dependence” in the context of China* show that dependence on China has become a more prominent issue over time



**Calculated as the number of times "dependence" (and related terms) is mentioned in conjunction with "China" (and related terms) in Bundestag debates.*

Nevertheless, it is far from clear how deep the dependence on China really runs for German businesses or the German economy as a whole. This article therefore tries to provide data (where available) and key patterns by looking at four different dimensions of the dependence debate:

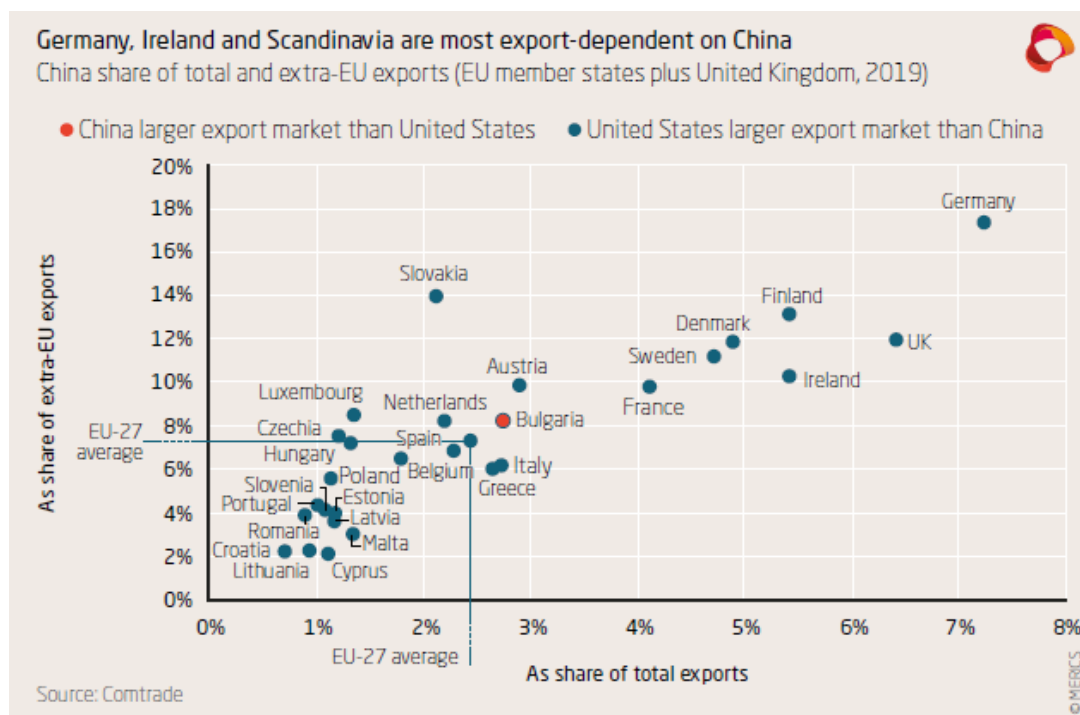
- trade and investment dependence;
- corporate dependence;
- supply chain dependence;
- innovation dependence.

Trade and investment dependence on China is low relative to the US

Traditionally, trade has been the main prism through which Germany has viewed its relationship with China—more than any other European country. Germany is by far China’s largest trading partner in the EU. In 2019, Germany accounted for 48.5% of EU exports to China, 4.6 times that of France, the bloc’s second-largest exporter to China.

Germany’s flourishing economic relationship with China is an outlier within the EU (see Figure 2). However, Germany’s position as the EU’s manufacturing hub may contribute to some other member states’ exposure to China being underrepresented, as they are only indirectly linked to exports through the supply chain. At the same time, this may lead to a certain overestimation of Germany’s perceived dependence.

Figure 2. China share of total and extra-EU exports



Source: ComTrade, © Merics.

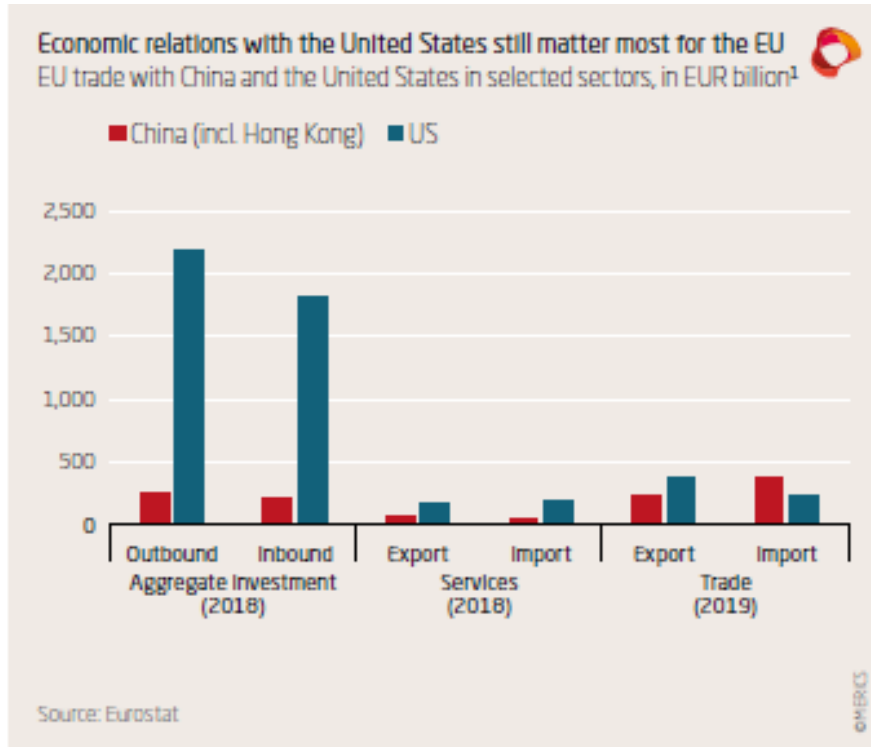
In 2020, China accounted for 8.0% of Germany’s exports. This share has almost tripled since 2005 (2.7%). Nevertheless, the US still remains the most important customer of German products (8.6%). However, in a short, headline-grabbing episode, this ranking flipped in the second quarter of 2020, when China for the first time became Germany’s largest export market, as other EU members and the United States suffered from the economic impact of the Covid-19 pandemic.

On the import side, China remains the most important supplier for the German economy (ahead of the Netherlands and the US). China’s share of German imports increased significantly in the same period, rising from 6.5% in 2005 to 11.4% in 2020, while the US’s share somewhat stagnated (2005: 6.7%; 2020: 6.6%). Germany’s share in China’s global exports has fluctuated between 3% and 4.5% over the last two decades.

Chinese investments in Germany have figured prominently in public debates, triggered by the acquisition of the German robotics manufacturer Kuka by the Chinese conglomerate Midea (2016) and subsequent Chinese investments in high-profile companies like Daimler and Deutsche Bank. Still, the overall importance of Chinese companies and Chinese investments in Germany remains relatively minor. Greenfield investment, such as the battery manufacturer CATL’s USD 2 billion German plant, remains rare. Chinese aggregate inbound investment stock remains around 5% of the EU’s total. This is dwarfed by the United States, the EU’s largest investment source

and destination (see Figure 3). European investment in China, on the other hand, is led by Germany, with most investment in the automotive sector.

Figure 3. EU trade with China and the United States in selected sectors



Source: Eurostat, © Merics.

By a rough assessment of the German Federation of Industries (BDI), 900,000 jobs in Germany are in one way or another related to business with China, accounting for 2% of the German workforce. While this is important for the German economy (and vital for individual companies), this does not translate into a dependence for Germany as a whole. German companies directly employ over 1 million staff in China, jobs created by their Chinese suppliers and partners not included.²

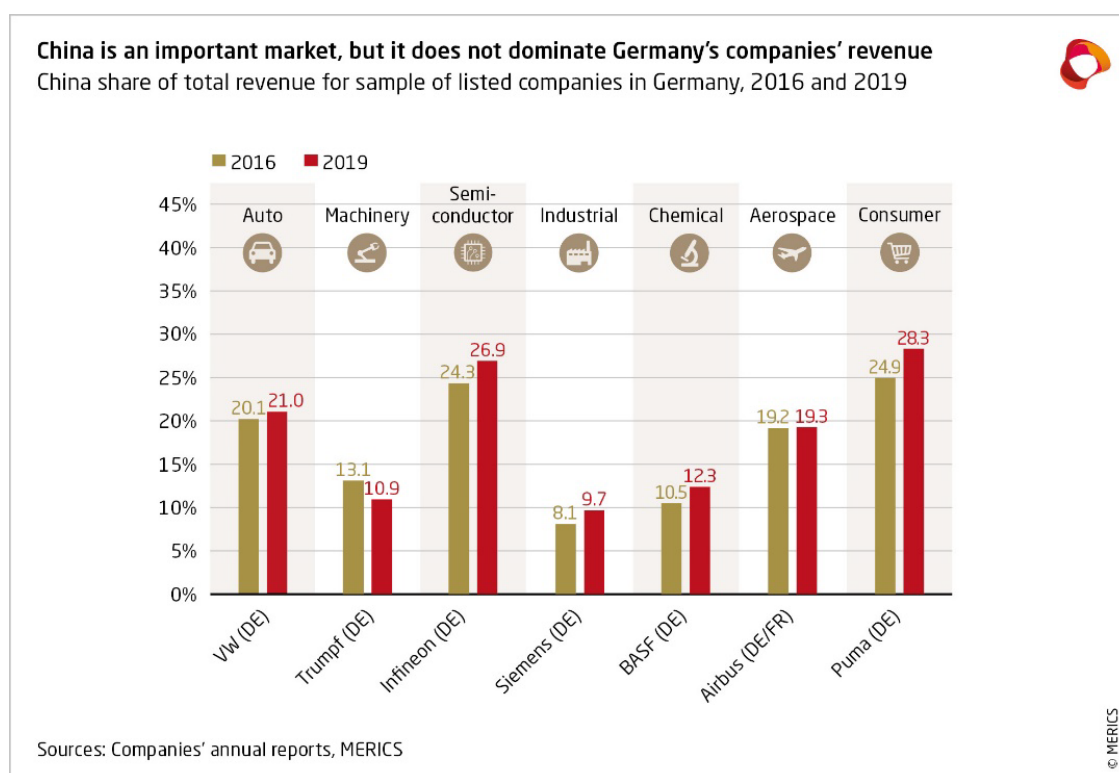
Corporate dependence drives German debates

China's increasing innovation power and dynamic market shape corporate decisions in Europe—and amplify companies' exposure to Chinese pressure. However, overall corporate dependence remains limited, as markets in Europe and the US are as important or even more important than the Chinese market for their business.

2. Based on MERICS calculations (in 2013) as part of a Business Confidence Survey by the German Chambers of Commerce Abroad, available at: www.ahk.de.

As a manufacturing behemoth, China is already the largest market in many industries (e.g., chemical, plastics, electronics, automotive), and forecasts continue to be positive for many sectors. Looking at a sample of seven major and publicly prominent German companies from different industries helps to evaluate the role that the Chinese market plays for their revenue. China is a very important market, but it does not dominate German companies' revenues.

Figure 4. China share of total revenue for sample of listed companies in Germany



Source: Companies' annual reports, © Merics.

For most of the sampled German companies, Europe and the United States remain as important or even more important than the Chinese market. Siemens, a pioneer in cooperating with the government in China, is a case in point.³ China is a key market for the company, with a revenue share of 9.2%, but it is smaller than the German market (12.3%) and significantly smaller than the US one (21.6%).

The exposure of the automotive industry to the Chinese market is a key driver of the perception that Germany and Europe are dependent on China. As the world's largest automotive market, China is undeniably very important for Germany's industry, including Volkswagen and its suppliers. In 2019, the Volkswagen group's brands sold 4.2 million vehicles in China, nearly 40% of its total vehicle sales, making the country its most important market. However, focusing on the number of VW brand vehicle

3. See corporate information on Siemens China on the company's website: new.siemens.com.

deliveries provides a skewed picture of the group's dependence on China, as it does not account for the ownership structure of Volkswagen Group China, which is owned by VW and its Chinese partners. As Volkswagen does not hold a majority stake in VW China, the latter's sales revenue and profits are not included in the group's total. This makes it very challenging to evaluate the overall importance of the Chinese market for the group. It is estimated here that VW's China revenue accounted for 21% of VW's global revenue in 2019.⁴

With improved innovation and product quality, Chinese brands like Lenovo, Haier, DJI, or Alibaba have become household names in Germany and other European markets. Huawei, Xiaomi, and, recently, Vivo are expanding their presence in the smartphone market. Huawei and Lenovo generated nearly a quarter of their revenue in the Europe, Middle East, and Africa region, with the EU accounting for at least 50%. This indicates that the European market is almost as important for some Chinese companies as the Chinese market is to the sampled German companies.

Supply chain dependence is limited

China dominates many of the product categories in the EU and by extension Germany. Critical strategic dependence is defined here as existing where the EU is a net importer of a good, the EU imports more than 50% of that good from China, and China controls more than 30% of the global market for that good. In this case, limited access to a product category can disrupt a country's economy or leave it otherwise vulnerable.⁵

For the EU as a whole, and some member states such as Germany, there is indeed a strategic dependence for certain products. In 2019, the EU was strategically dependent on China for 659 of the over 5,600 product categories defined by the United Nation's Comtrade database. These account for 43% of total imports by value from China. The EU's and by extension Germany's critical strategic dependence on China is most pronounced in the electronics sector.

However, critical strategic dependence is constrained to a relatively limited cluster of product categories. There are 103 product categories in electronics, chemicals, minerals/metals, and pharmaceutical/medical products in which the EU has a critical strategic dependence on imports from China. The renowned German ifo Institute classifies 5% of German imports in 2021 as heavily dependent.⁶ The strategic import dependence in some parts of supply chains is, however, mutual. The strength of German companies comes from their higher degree of specialization as well as from

4. M. Zenglein, "Mapping and Recalibrating Europe's Economic Interdependence with China", MERICS China Monitor, 2020, available at: <https://merics.org>.

5. *Ibid.*

6. "Das Risiko China", *Frankfurter Allgemeine Zeitung*, March 11, 2022, print edition.

occupying niche markets.⁷ China's dependence on traditional European high-tech industries, such as machinery, is much greater. Finding domestic or foreign alternatives to Europe for advanced machinery is more difficult than for final products such as protective masks or consumer goods.

Innovation dependence is mutual

China is more than just a market and production hub for German companies. Its innovation power, dynamic market, and improved regulatory regime shape corporate decisions that deepen their exposure. Received by China with open arms, German companies are tapping into China's innovation and talent pool by setting up research and development (R&D) centers there, reinvesting large shares of their profits generated in the country. For example, Siemens operates 20 Chinese R&D centers, which include its global headquarters for robot research, and Volkswagen acquired a majority stake in the e-mobility joint venture JAC and a 26% stake in the EV battery supplier Gotion High Tech.

On the other hand, many Chinese companies and research organizations rely on German know-how, which in many sectors remains indispensable for building up the country's domestic innovation system. This is especially the case where technological capabilities are lagging behind, such as semiconductors or basic research. Alongside building up research centers or mergers and acquisitions, another important element is research collaboration with European companies, universities, or research organizations. This is reflected, for example, by the high numbers of Chinese students at European universities.

Limited dependence—But increasing politicization

In recent years, dependence has become a central concern in German debates about China. By our assessment, German dependence on China should not be overestimated. Trade and investment relations with China, while hugely important for the German economy and even vital for some prominent companies, are not one-sided. Also, economic relations with the US and other EU member states still outweigh trade and investment volumes with China. Supply chain dependence is limited, and innovation dependence is mutual.

Nevertheless, dependence or interdependence with China cannot be assessed by economic or business statistics only. Over the past decade, China has strongly politicized its economic relations. Beijing is increasingly willing to exercise economic

7. Atlas of Economic Complexity, "Country & Product Complexity Rankings", 2022, available at: <https://atlas.cid.harvard.edu>. The Harvard Growth Lab's Economic Complexity Index shows Germany's accumulation of productive knowledge. Its use in more numerous and more complex industries is high compared globally, with Germany ranking third and China sixteenth.

pressure to advance its interests, taking forceful action in response to behavior that is not aligned with its expressed core interests or that crosses its red lines, including in relation to territorial disputes, human rights, and Taiwan. After the Czech Republic, France, Denmark, Norway, and Sweden, Lithuania is the sixth European country in recent years to face an episode of Chinese economic coercion, following the opening of a Taiwanese Representative Office in Vilnius in November 2021.

The new coercive economic tactics that China has used in relation to Lithuania, such as pressure on multinationals including the German automotive supplier Conti, has potentially wide-ranging implications for Germany's China policy. German companies are experiencing an unprecedented vulnerability to being dragged into political conflicts and having their dependencies on China exploited. Politicians for their part feel that they are facing a delicate situation where any attempt to tackle the root cause of the problem—an interdependence that is perceived to have shifted markedly in China's favor—comes with significant economic and possibly political costs.

The new German government, despite frank rhetoric in its coalition treaty, is inheriting from the Merkel era the struggle to strike a balance between addressing short-term concerns and pursuing strategies to reduce economic and political dependencies or perceptions thereof in the medium and long term. To that end, the coalition's working agenda identifies close coordination within the EU, with the US, and with other like-minded partners as a key ingredient of its future China policy. A new China strategy with input from all ministries is in the making, but it is not expected before the end of 2022. An assessment of dependencies across different sectors and policy areas is sure to figure prominently.

However, as of April 2022, Putin's war in Ukraine is set to lead to a significant reshuffling of priorities, both in the German government and in the corporate sector. As Germany attempts to shake off energy resource dependencies from Russia, the political appetite for taking on the China dependence challenge must be expected to diminish.

Greece: No meaningful debate on dependence on China

PLAMEN TONCHEV

INSTITUTE OF INTERNATIONAL ECONOMIC RELATIONS (IIER)

Summary

The degree of Greece's dependence on Chinese investment has weakened, but the country is becoming increasingly dependent on Chinese imports, while the shipping industry is intrinsically connected to China. Bilateral political relations are not as close as they were under the previous government, but they remain ostensibly warm. Although there is growing awareness of the fact that China is unlikely to throw its weight behind Greece on national priorities, Athens is careful not to confront Beijing on sensitive political issues. While a comprehensive risk assessment is definitely needed, the view of the Greek political elite is that the country should have a friendly relationship with China, "just in case".

Limited dependence on Chinese investment, loans, and tourism

During the 2010s, Greece pinned its hopes on large-scale Chinese investment projects. In 2016, the shipping giant COSCO obtained a 51% stake in the Piraeus Port Authority (PPA/OLP), while China's State Grid purchased 24% of the stock of the Independent Power Transmission Operator (IPTO/ADMIE). Back then, there was an expectation that China could be of help at a time when Greece was at loggerheads with international creditors and there was no appetite from abroad to invest in a country plagued by indebtedness and political instability. In reality, however, during the 2010s China (including Hong Kong) only figured as the sixth-largest source of foreign direct investment (FDI) in Greece.¹

The mood has now changed quite a bit. Having graduated from three bailout agreements, Greece is restoring its credibility and is attracting a growing volume of FDI from Europe, the United States, Israel, etc. China's importance as a potential

1. Source: Enterprise Greece, available at: www.enterprisegreece.gov.gr.

source of investment capital has diminished, and the current Greek prime minister is on record stating that "Greece is not particularly dependent on Chinese investment".² This is confirmed by the fact that a number of prospective Chinese investment projects have recently been aborted. For instance, under the terms of an agreement signed by the state-controlled Public Power Corporation (PPC) and the China Machinery Engineering Corporation (CMEC) in 2016, the Chinese company was planning to undertake the construction and operation of a lignite production unit in northwest Greece. However, the current government, shortly after coming to power in mid-2019, announced its lignite divestiture policy.

In 2020, two more Chinese state-owned enterprises (SOEs) took part in the tender for the privatization of the Natural Gas Distribution Networks (DEPA Infrastructure), but neither of them made it to the final stage. In early 2021, three Chinese SOEs were disqualified from the public tender for a 49% stake in the Hellenic Electricity Distribution Network Operator (HEDNO/DEDDIE). The rationale behind this decision was that State Grid in IPTO/ADMIE and the three other Chinese companies in HEDNO/DEDDIE could effectively control electricity transmission and distribution in Greece. Following this development, the Chinese side reportedly lodged a complaint with the European Commission,³ but its arguments were dismissed. At about the same time, the consortium CMEC-Maison Group was left out of the short list of contenders in the public tender for an underground natural gas storage project in northern Greece. In addition, Greece has joined the US-led Clean Network,⁴ and Huawei has been eased out of 5G networks currently being constructed in the country. While there has been no public debate on related issues, it is clear that this policy was coordinated with Washington.

In fact, these developments should not be attributed exclusively to the policies of the current center-right government. Failed attempts by Chinese companies to clinch contracts in Greece were recorded throughout the previous decade as well. For instance, the private Chinese group Fosun was interested in buying a major stake in the Greek gambling monopoly OPAP, but the tender was won in 2013 by a Greek-Czech fund. In addition, Fosun was part of a consortium that undertook a large property development project in 2014, but in 2019 the stake of the Chinese company was purchased by the Greek consortium leader. In 2016, COSCO was widely expected to participate in the public tender for the privatization of the national railway network operator, but the Chinese shipping giant stayed out of the race in the end. In 2018, the National Bank of Greece decided to sever its negotiations with the Chinese company Gongbao, which had made the best offer for a controlling stake in Greece's largest insurer, Ethniki Asfalistiki.

2. Interview of Greek Prime Minister Kyriakos Mitsotakis, May 5, 2021, available at: <https://primeminister.gr>.

3. "China's SGCC lodges complaint over DEDDIE sale exclusion", *Energy Press*, February 1, 2021, available at: <https://energypress.eu>.

4. Tweet by the US ambassador to Greece, August 13, 2020, available at: <https://twitter.com>.

The only noteworthy exception to this trend is the renewal of COSCO's contract in September 2021 and its acquisition of an extra 16% of the PPA stock, on the basis of a relevant clause in the 2016 agreement. This was preceded by tense negotiations, as the Chinese company had not completed a set of mandatory investments and the dispute could have led to international arbitration. In the end, the Greek government decided that it stood a slim chance of winning a legal battle against COSCO. Another argument in favor of a compromise was that legal proceedings would have had a negative effect on the narrative projected by Athens that Greece is an investment-friendly economy. Furthermore, it is reasonable to assume that the Greek government decided to avoid a clash with the Chinese authorities, which regularly tout Piraeus as a "success story" on a global scale and a jewel in Beijing's Belt and Road crown.

It is noted that the Bank of China has opened a branch in Greece, though its footprint remains limited at present. Together with three Greek banks, it is involved in the provision of a EUR 400 million syndicated loan to IPTO/ADMIE.⁵ In 2019, the Industrial and Commercial Bank of China (ICBC) announced that it would open a representation office in Greece,⁶ but its presence in the country has remained obscure to date.

Beyond investment and finance, the enormous number of China's outgoing tourists has understandably been on Greece's radar. In 2019, 164,000 Chinese tourists visited the country, but only 11,000 the following year due to travel restrictions in the wake of the coronavirus outbreak.⁷ Yet, even before that, the share of Chinese tourists did not surpass a mere 0.4% of the total 34.2 million tourists who visited Greece in 2019. Attracting money from China through the Golden Visa scheme has also been popular, as Chinese citizens accounted for nearly 75% of all beneficiaries until 2020. However, this drive has now taken a downturn amid the pandemic and growing controversies.⁸

Higher degree of dependence on China in shipping and trade

Shipping is a huge industry, contributing to the Greek economy in net receipts worth some EUR 6 billion in 2019 and EUR 4 billion in 2020, i.e. 3.3% and 2.4% of GDP, respectively.⁹ Lately, there have been complaints from Greek shipowners about obstacles they come up against in China, such as restrictions on the supply of marine equipment and the provision of shipping services.¹⁰ Notably, there appears to be a shift

5. IPTO Press Release, October 27, 2020, available at: www.admie.gr.

6. "ICBC Opens Representative Office in Greece", *China Banking News*, November 13, 2019, available at: www.chinabankingnews.com.

7. Source: Hellenic Statistical Service (ELSTAT).

8. P. Tonchev, "The Golden Visa Rush in Greece", *CHOICE*, August 26, 2021, available at: <https://chinaobservers.eu>.

9. Annual Report of the Union of Greek Shipowners 2020-21, Figure 8, available at: www.uqs.gr.

10. A. Tsimplakis, "Report of Chinese Restrictions, Higher Duties on Imported Marine Equipment, Services Raises Major Concern in Piraeus", *Naftemporiki*, October 23, 2019, available at: www.naftemporiki.gr.

away from Chinese shipyards in favor of South Korea: in 2019, while the value of orders placed by Greek shipping companies with Chinese shipyards amounted to USD 2.3 billion, the respective figure in South Korean shipyards exceeded USD 14 billion. A plausible explanation put forward is that Greek owners value the technological edge and expertise of South Korean shipyards compared to their competitors in China.¹¹

Nonetheless, bilateral relations in shipping remain close. China is a big customer of the Greek shipping fleet, which is reportedly behind 50% of imports of energy resources and 20% of imports of other goods into China, and this can be seen as a form of interdependence.¹² Greece accounts for a large share of trade between Europe and China: as of the end of 2020, Greek shipowners controlled no less than 20.7% of the global fleet capacity and 54.3% of the overall European Union capacity.¹³

With regard to trade, China's market is seen as an attractive destination for Greek exports, which have been growing, even if from a low base. As Greece is crawling out of its protracted economic crisis, trade with China has picked up. Similarly, Greece's trade deficit with the Asian giant has also increased (Fig. 1), though this appears to have been neglected by the Greek authorities. Oil products and marble make up 70% to 75% of the total value of Greek exports to China. Smartphones and computers or other high-tech products needed for the green transition of the economy, such as solar panels and electric vehicles, account for a big chunk of Chinese exports to Greece.

Figure 1. Greece - China trade balance, 2016 – 2020 (EUR million)

| Year | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------------|----------|----------|----------|----------|----------|
| Exports | 328.1 | 472.6 | 902.3 | 892.5 | 854.8 |
| Imports | 2,886.9 | 2,713.4 | 3,598.8 | 4,061.3 | 3,742.9 |
| Trade balance | -2,559.0 | -2,241.0 | -2,696.5 | -3,168.8 | -2,850.4 |
| Total exports | 25,142.5 | 28,498.3 | 33,463.4 | 33,800.7 | 30,705.3 |
| China's share in exports | 1.3% | 1.6% | 2.7% | 2.6% | 2.8% |
| Total imports | 43,137.0 | 49,079.8 | 54,074.0 | 55,521.0 | 48,621.7 |
| China's share in imports | 6.7% | 5.5% | 6.7% | 7.3% | 7.7% |
| Total trade deficit | 17,994.5 | 20,581.4 | 20,610.6 | 21,720.3 | 17,916.4 |
| China's share in trade deficit | 14.2% | 10.9% | 13.1% | 14.6% | 15.9% |

Sources: Hellenic Statistical Authority (ELSTAT), Exporters' Association of Northern Greece (SEVE).

11. "Greek Owners: South Korean Shipyards Dominating Orders Attracting \$14 Billion of Invested Capital", *Hellenic Shipping News*, November 19, 2019, available at: www.hellenicshippingnews.com.

12. A. Bloom, "China's Belt and Road Megaproject in the Mediterranean: Was It the Greek Shipping Tycoons Who Sealed the Deal?", *Global Voices*, July 8, 2021, available at: <https://globalvoices.org>.

13. I. Bellos, "Greek Shipowners Order 85 Newbuilds", *eKathimerini*, January 18, 2021, available at: www.ekathimerini.com.

Is Greece politically dependent on China?

The previous left-of-center government, in power from January 2015 to July 2019, made a number of high-profile goodwill gestures to Beijing in its quest for a powerful political ally as an alternative to the much-vilified West.¹⁴ Furthermore, in April 2019, Greece acceded to the controversial 16+1 format, seen by many as undermining the EU's unity. By contrast, the current government is pro-Western, and this has clearly affected its less enthusiastic stance toward China. In addition, security challenges in the Aegean and the Eastern Mediterranean have rendered closer ties with Western allies essential.

With regard to geopolitics, there is an internal government debate on whether China, being a permanent member of the UN Security Council, could be of help to Greece in its standoff with next-door Turkey. Unsurprisingly, Greek officials regularly mention Turkey in their exchanges with Chinese counterparts, but the response they get is invariably vague and evasive. During his visit to Athens in September 2020, Beijing's top diplomat, Yang Jiechi, stated that "the parties involved must resolve their differences through dialogue".¹⁵ In a way, the notion of political dividends to be drawn from a smooth relationship with Beijing points more to a hedging strategy than a realistic expectation. Given China's political weight, Greece clearly seeks to be on good terms with the Asian giant, "just in case."

Yet, while up until July 2019 Greece offered its wholehearted support to China, the current government is scrambling to strike a delicate balance. Greek officials take pains to convince Western partners that Athens is enjoying a "healthy and legitimate commercial relationship" with Beijing,¹⁶ while remaining committed to the EU and NATO. Prime Minister Mitsotakis sums up the ambivalent stance of his government as follows: "It is complicated; we are partners and competitors at the same time".¹⁷ In the context of this complicated relationship, in early 2021 Greece refused to host the 2022 summit of the then 17+1, but at the same time Athens has been conspicuously silent on all sensitive political issues, such as human rights and the rule of law in China.

In a broader sense, the discussion about political dependence on China remains largely hypothetical, and two developments in particular need to be factored in. First, Athens has recently signed major defense deals with France and the US, while China has nothing tangible to offer in terms of security in Greece's neighborhood. Second, the legal basis for Greece's claims in the Aegean and the Eastern Mediterranean is the United Nations Convention on the Law of the Sea (UNCLOS), the very same convention

14. P. Tonchev, "Sino-Greek Relations: Marked by Values or Opportunism?", in T. N. Rühlig *et al.* (eds.), *Political Values in Europe-China Relations*, ETNC, 2018, pp. 43-45, available at: www.ui.se.

15. Read-out of meeting between Greek Prime Minister Kyriakos Mitsotakis and Yang Jiechi, September 4, 2020, available at: <https://primeminister.gr>.

16. S. Amaro, "Greece Not Abandoning China", *CNBC*, June 14, 2021, available at: <https://www.cnbc.com>.

17. Interview of Greek Prime Minister Kyriakos Mitsotakis, *Athens984*, November 9, 2021, available at: www.athina984.gr.

that China has disregarded in its dispute with the Philippines in the South China Sea. Therefore, one cannot expect China to support Greece on this count in the framework of their ostensibly friendly—and ambiguous—political relationship.

While there are some signs of a shift in discussions about the benefits of connectivity and friendly relations with Beijing to the idea of potential dependence on China, the related debate is still rather subdued and mostly takes place behind closed doors. Government officials are fully aware of controversial issues, such as developments in Hong Kong, human rights violations in Xinjiang, tensions over Taiwan, accusations leveled against Huawei in relation to 5G, and the global standoff between the US and China, but they would rather stay out of related discussions. As for problems brewing in Piraeus for some time and coming to the surface in 2020, the official narrative is that COSCO's investment is a successful project with a positive impact on the Greek economy, even though credible figures substantiating this assertion are hard to come by. The most vocal opponents against China are local trade unions, vested interests in Piraeus, and media outlets leaning toward opposition parties.

Overall, there seems to be a lack of understanding of the precise economic and political benefits that can arguably be drawn from China, as well as the pitfalls in such a cooperation. This can be explained by the fact that there is no structured public debate on potential dependence on China—or lack thereof. The general public is unaware of the associated risks, and the political elite does not seem to be in a position to assess them properly.

Latvia: No direct dependence, but a case of break-up anxiety

UNA ALEKSANDRA BĒRZIŅA-ČERENKOVA

LATVIAN INSTITUTE OF INTERNATIONAL AFFAIRS (LIIA)

Summary

Although no direct or noticeable dependence on China in the economic, political, or security domains exists in Latvia, Latvian foreign policy stakeholders are careful to stay within the confines of a position coordinated by Brussels and not go beyond it to avoid burning bridges with China, believing that a provoking policy would bring tribulations rather than benefits to the Baltic country. In this regard, the "wait and see" position of Latvia is closer to that of its northern neighbor Estonia rather than its southern neighbor Lithuania. In sum, the Latvian approach can be characterized as a case of "break-up anxiety"—the early hopes placed on the relationship with China via post-2012 cross-regional formats remain unfulfilled, accounting for no tangible dependence, but the fear of anticipated and unforeseen negative effects that a pronounced disengagement could hold prevents the country from making a clean break from the "16+1" and the Belt and Road Initiative (BRI).

Dashed hopes of deeper economic engagement, but no dependence

When China first proposed a wide cooperation platform involving 16 European countries, known as Cooperation between China and Central and Eastern European Countries ("16+1"), Latvia had high hopes for the economic benefits the platform could bring to the country's exporters, transit sector (notably around the Port of Riga), and regions in need of foreign investment. Given the extremely low baseline, the development was viewed as positive during the optimistic period peaking in 2016. The country had more than doubled its exports to China, from EUR 47 million in 2012 to EUR 120 million in 2016 (though admittedly the number still remained low in general

terms, representing only 1.15% of all exports that year).¹ During this period, foreign policy planners in Latvia had placed a significant emphasis on China as an economic partner for the country. However, after the Latvian capital Riga hosted the nationally much anticipated "16+1" Leaders' Summit in 2016, the pledges and plans left the political establishment and business circles underwhelmed, marking the steady decrease in momentum ever since, as well as a gradual abandonment of the China opportunity story by foreign policy stakeholders. By 2021, exports to China had dropped to 0.95% of Latvia's total exports: exports to China had only grown by EUR 37 million in comparison to 2016. Slow growth in exports to China and the much faster pace of rising exports to other countries accounted for the drop in proportion.

As a result, it is safe to say that Latvia is not dependent on China either economically or politically. Albeit a signatory to the BRI since 2016, the first of the Baltic states to join China's call,² the country is currently not implementing any China-financed or BRI-related projects, in infrastructure or otherwise, nor does it harbor any public debt to the PRC. Overall, Latvia is exhibiting a decreasing interest in China's cross-regional initiatives, including both the BRI and the "16+1". Moreover, Latvia's national security outlook is clearly rooted in NATO and the transatlantic link—and increasingly so, in light of the growing threat Russia has demonstrated to regional security. When in doubt, the US security path is being chosen—as a case in point, Latvia opted for what was effectively a promise to keep Chinese companies out of its national 5G networks by signing a Joint Declaration on 5G Security with the US, and it has so far kept that promise.³

Import-related dependence on China also does not ring loud within Latvian policy circles or public debate. China's weight in Latvian imports—similar to Latvia's exports to China—is low, standing at 4.41% in 2021. The Covid-19 crisis has not triggered a broad discussion on import dependence on China in pharmaceutical goods. Interestingly, China's pressure on Lithuania, exercised via multinational companies that have a share in China's market and whose value chains Lithuanian companies are part of,⁴ has not yet led to a state-wide reassessment of Latvia's indirect dependencies on China.

If no dependence in the economic, political, or security domains exists, what then accounts for the careful approach that Latvia is currently taking toward China? One could argue that it is connected to the lack of outwardly China-critical voices among the various policy stakeholders. There appears to be a certain limited spectrum of

1. All export data from: "Eksports un imports pa valstīm, valstu grupām un teritorijām (KN 8 zīmēs) 2005 – 2022", Oficiālais statistikas portāls, available at: <https://data.stat.gov.lv>.

2. Hu Y. and Wang Q., "Latvia Becomes First to Link with Belt and Road Initiative in Baltic Sea Area", *China Daily*, November 4, 2016, available at: <https://europe.chinadaily.com.cn>.

3. "Joint Statement on United States-Latvia Joint Declaration on 5G Security", U.S. Department of State, February 27, 2020, available at: <https://2017-2021.state.gov>.

4. A. Žebrauskienė, "Kinija Lietuvos verslą bando spausti per užsienio partnerius: gresia prarasti užsakymus", *Delfi.lt*, December 16, 2021, available at: www.delfi.lt.

opinions among stakeholders, ranging from calls for a more values-based and distanced China policy to cautioning against making an enemy out of China. Yet none of them are pursuing an approach akin to the one pioneered by the Lithuanian Ministry of Foreign Affairs in 2021. China is a peripheral topic on the Latvian political scene, and when a conversation does take place, it centers on the wider geopolitical risks of drawing the full-scale wrath of a rising superpower. Moreover, the state actors connected to the transit and export industries also point to the local economic realities, stating that although there is no industry-level dependence on China on a national scale, the state nevertheless has a lingering responsibility to the few companies that do conduct significant business in or with China, not least because these companies explored the Chinese market at the encouragement of the Latvian state back when its outlook on "16+1" was still optimistic. Industrial players have also taken note of China's weaponization of indirect dependence against Lithuania in 2021. This discussion, however, has not yet amounted to any meaningful reflection on indirect dependencies. Latvian public opinion also seems to back a more cautious position. A European-level comparative public opinion poll established that Latvia was the only EU country to have a predominantly positive view of China in 2020, with about 43% of respondents having positive views of China and scoring high on hopes of economic engagement.⁵

Stakeholders: Different concerns, similar deductions

Ultimately, stating that policy planners and pragmatic industry representatives are in opposing camps, with the former group calling for less China and the latter group advocating ongoing engagement, would be an oversimplification. Rather, Latvian foreign policy planners have a cost-benefit calculation in mind when negotiating the future path of national policy on China. First of all, the public seems to consider China a distant issue, and there is no domestic pressure to go above and beyond the joint EU position on China, in both the values-based and economic domains: "While Latvians fear potential risks, at the same time they also recognize the potential benefits of cooperation with China".⁶

Secondly, actors in the logistics and transportation sectors, both private and those with some degree of state ownership, including ports, railways, stevedores, etc., have difficulty letting go of the "China dream". In particular, the ports, most notably the Freeport of Riga, as well as Latvian Railways, are still making the argument of prioritizing business interests over geopolitics, having heavily invested in China during

5. R. Q. Turcsányi, M. Šimalčík, K. Kironská, R. Sedláková *et al.*, "European Public Opinion on China in the Age of COVID-19", *CEAS*, 2021, available at: <https://ceias.eu>.

6. S. Struberga, "The Unknown Other? Perceptions of China in Latvia", *CHOICE*, May 13, 2020, available at: <https://chinaobservers.eu>.

the period of optimism toward the country (2012 through 2016) in order to make up for the steadily decreasing transit flow from Russia.

Thirdly, as mentioned above, the case of neighboring Lithuania has shown that countries can still fall prey to indirect dependence. Like Latvia, Lithuania has practically no direct dependencies on China, yet it has still faced significant costs since the country's spat with the PRC escalated in 2021—so much so that "the Ministry of Foreign Affairs has opened a hotline for Lithuanian companies facing economic pressure from China".⁷ The economic measures were "mostly levied in an unofficial manner",⁸ including pressuring multinationals to cut Lithuania out and sparking an EU-wide discussion on European solidarity and the appropriate response to China's coercive measures (refer to the next chapter in this report on Lithuania for more information).

At the end of the day, what prevents Latvia from disengaging from China-led formats is its low-profile foreign policy, outsourcing the problematic issues surrounding China to Brussels and calling for a more active EU stance rather than making decisions on the national level—Latvia's limited foreign policy resources have historically mostly been concentrated on the transatlantic area. A radio interview with Minister of Foreign Affairs Edgars Rinkēvičs illustrates this course: "We follow several principles in our China policy. First of all, we have always supported the [approach] that only together can the European Union reach any tangible result—economically or politically. Secondly, the human rights aspect is quite serious. We have supported many joint EU decisions on sanctions, including talking about it in international organizations. We know that one of the cornerstones of our policy that Lithuania has also approved is the so-called One China policy. That is what we're sticking to. But of course, everything that has been mentioned here, on human rights in Uighur-inhabited regions, the Hong Kong situation—these things cause concern, they will be discussed".⁹

The future: Cautious direction change, no sudden movements

There is no overall direct dependence of Latvia on China economically, politically, or in the security domain. The relationship in the economic domain had sparked Latvian curiosity and interest in the early 2010s, but no major developments followed, as China's presence in FDI, imports of Latvian goods, or as a transit partner remained minuscule—so much so that a series of analytical articles on one of the most read internet news sites in Latvia, Delfi.lv, published under the heading "Why the Chinese Are (Not) Coming", asked: Why is China ignoring Latvia?¹⁰ Even though the early hopes

7. V. Macikenaite, "China Pulls the Economic Coercion Card Against Lithuania", *CHOICE*, December 20, 2021, available at: <https://chinaobservers.eu>.

8. *Ibid.*

9. A. Tomsons, E. Liniņš and E. Unāma, "Notikumumu eskalācija Kazahstānā. Krievijas ultimāts NATO. Ķīnas faktors", *LSM*, January 5, 2022, available at: <https://lr1.lsm.lv>.

10. A. Kārkluvāls, "Ķīna (ne)nāk: Kāpēc ignorē Latviju", Delfi.lv, available at: www.delfi.lv.

placed on the relationship remain unfulfilled, the fear of anticipated and unforeseen negative effects that a pronounced disengagement could hold prevents the country from making a clean break from China's cross-regional formats of the "16+1" and the BRI. For the lack of a better term, the current Latvian approach could be characterized as a case of "break-up anxiety".

Still, the state of limbo cannot last forever. Increased distancing in Latvia's policy toward China is inevitable for several reasons. First of all, no palpable dependence on China means there is virtually no business lobby working to slow the distancing process down. Second, Latvia's primary security guarantor, the United States, is pursuing a zero-appeasement approach toward China and expects its European partners to do the same—and unlike with China, Latvian dependencies on the United States are real and tangible, particularly in the security domain. Third, the European Union, the central pillar of Latvian foreign policy, is also gradually toughening its stance on China in an attempt to shake its dependence and insulate the bloc from China-associated risks. Latvia, which is used to conveniently falling back on Brussels when it comes to uneasy decisions, will be bound to comply. And finally, Russia's invasion of Ukraine and the perception of China's discursive support for Russia's worldview risks leaving Latvia and China on different sides.

Ultimately, Latvia should not be expected to become a frontrunner on values-based policies in the near future. Latvian foreign policy stakeholders differ in their opinions on the scope of distancing from China, but they do seem to share some degree of pragmatism. Unlike for Lithuania, China's actions appear too far away to be taken personally in Latvia. Unless China openly and fully sides with Russia's position on Ukraine, a slow separation is more likely than a sudden break-up.

Lithuania: Illusory (in)dependence in the diplomatic showdown with China

KONSTANTINAS ANDRIJAUSKAS

INSTITUTE OF INTERNATIONAL RELATIONS AND POLITICAL SCIENCE (IIRPS),
VILNIUS UNIVERSITY

Summary

As a result of attempts to radically review its relationship with China, Lithuania has recently become an outlier in Europe. Due to Beijing's retaliatory, multi-dimensional pressure campaign against the southernmost Baltic state, its case is particularly illustrative of the types of negative repercussions that dependence on Chinese political, diplomatic, and economic decisions might actually bring. Lithuania's relations with China have grown increasingly strained since 2019, even becoming a notable campaign issue in the October 2020 parliamentary elections. The question of dependence on China has indeed been an important feature of both the Lithuanian debates leading to the review of and the corresponding shift in its foreign policy since the end of 2020. The ongoing bilateral diplomatic showdown, which has broadened to affect Lithuanian economic partners, thus has much to do with Vilnius's largely preventive attempts to reduce its economic reliance on China and the latter's campaign that aims to showcase that this would be neither practical nor entirely possible.

Introduction

Over the last year, Lithuania has gradually become an outlier in Europe as far as bilateral relations with China are concerned. In spring 2021, it became the first and thus far the only country to leave the China–Central and Eastern European Countries cooperation framework (also known as 16/17+1), calling for the other eleven EU members to follow suit in order to deal with Beijing together and equally as a whole Union under the 27+1 formula. Soon after, Lithuania acknowledged plans to deepen its non-official relationship with Taiwan by exchanging representative institutions. The resultant Taiwanese Representative Office in Vilnius, active since mid-November, was

the first such institution to open in an EU capital in almost two decades, with an important twist of carrying the Chinese-language name of “Taiwan” rather than “Taipei”, as has become customary in Europe and elsewhere.

In a somewhat belated reaction to these developments, by the end of summer 2021 China resorted to a multi-dimensional pressure campaign against Lithuania comprised of diplomatic, economic, and discursive means. These included a bilateral recall of ambassadors and a unilateral downgrading of the official relationship to the level of *chargé d'affaires*—both rarely seen in Beijing’s foreign policy practice—, a freeze on almost all Lithuanian exports, the cessation of negotiations over further free trade agreements, the cancellation of freight trains passing through the country, and most uniquely, disruptions of imports to China by multinational companies whose products contain Lithuanian components. Most notable on the discursive front is a series of editorials by the *Global Times*, the CCP’s particularly jingoistic tabloid, calling in August 2021 for Russia and Belarus to join efforts with China to punish Lithuania,¹ and later initiating a whole-scale smear campaign against Vilnius.

Thus, the Lithuanian case study is particularly instructive of the types of negative repercussions that dependence on Chinese political, diplomatic, and economic decisions might *actually* bring. As will be showcased below, Lithuania’s perception about imminent threats associated with such dependence and a related belief in a comparatively lower degree of dependence and therefore Vilnius’s more pronounced willingness to review its relationship with China were important factors behind the continuing diplomatic showdown. Since the review in essence began two years before the current lowest point in the bilateral relationship, it is imperative to trace the topic of dependence in Lithuanian debates on China back to the initial boost that was provided in early 2019.

2019–2020: Lithuania takes stock of dependence on China

The beginning of Lithuania’s change of heart on China can be clearly associated with the landmark National Threat Assessment published by the country’s intelligence bodies in February 2019, which identified for the first time Chinese espionage activities as posing a threat to Lithuanian national security. Lithuania’s dependence on China was not explicitly mentioned as an issue in this document. However, the assessment implied that the sense of personal gratitude and obligation created by receiving gifts,

1. “China, Russia Can Cooperate to Punish Lithuania: Global Times Editorial”, *Global Times*, August 11, 2021, available at: www.globaltimes.cn.

paid trips, and other services is among the most important means used by the Chinese intelligence services to influence and recruit Lithuanian citizens.²

Subsequent annual threat assessments have become increasingly vocal on the issue of dependence on China. Without mentioning China outright, the 2020 edition highlighted the fifth-generation (5G) communication technology and "supply chain violations" (indirect attacks against a selected target through its supplier networks, products, or services) as new risk factors for national security, emphasizing trustworthiness of providers as a key requirement. China was explicitly addressed as a country that increases its geopolitical influence and creates preconditions for vulnerability abroad through economic leverage, technological advantage, and dominance in strategic sectors.³ The 2021 National Threat Assessment, based on the analysis of the previous year, introduced pandemic-related mask and vaccine diplomacy conducted by China worldwide.⁴ More emphatically than in its previous iterations, the document states that "Chinese attempts to gain access to critical infrastructure [...] would further enable China to advance dependency on its technology, to carry out intrusive cyber operations [...], and would build its potential to undermine critical infrastructure in case of crisis".⁵

It is imperative to emphasize that such perceptions of China and dependence on it have not been confined to Lithuania's military and intelligence sectors. The corresponding shift in popular opinion and attitudes among the economic and particularly political elites can be traced back to an infamous August 2019 incident, when pro-Beijing protesters, including Chinese diplomats, for the first time expressed themselves openly in such a fashion by attempting to disrupt a Hong Kong support rally in downtown Vilnius.⁶ The incident was widely interpreted as validating the points that had been made by the country's intelligence agencies some six months earlier, and produced a certain chill in bilateral relations that extended to the start of the pandemic and the final stages of Lithuania's electoral cycle the following year.

By mid-2020 China had gradually entered pre-election political debates in Lithuania. The most important early example of this was an op-ed published in one of the country's leading news portals. Although inspired by Beijing's recent decision to apply national security legislation in Hong Kong, it actually amounted to a full

2. "National Threat Assessment 2019", The State Security Department of the Republic of Lithuania and the Second Investigation Department under the Ministry of National Defence, February 2019, p. 33, available at: www.vsd.lt.

3. "National Threat Assessment 2020", The State Security Department of the Republic of Lithuania and the Second Investigation Department under the Ministry of National Defence, February 2020, pp. 35, 66–67, available at: www.vsd.lt.

4. "National Threat Assessment 2021", The State Security Department of the Republic of Lithuania and the Second Investigation Department under the Ministry of National Defence, March 2021, pp. 14–17, available at: www.vsd.lt.

5. *Ibid.*, p. 65.

6. M. Aušra, "Chinese Demonstration in Vilnius Unmasks Beijing's Reach into Lithuania – LRT Investigation", *LRT English*, October 9, 2019, available at: www.lrt.lt.

indictment against the assertive turn in China's domestic and foreign policies. The op-ed called for Lithuania to decidedly choose between liberal democratic allies and a "totalitarian and predatory Chinese communist regime" that, among other things, was charged with using its political, economic, and technological leverage against the rest of the international community.⁷ Notably, the piece was co-authored by two prominent members of the then-opposition Homeland Union—Lithuanian Christian Democrats, one of the country's two largest political parties. By the end of the year, one of the co-authors would become Lithuania's minister of foreign affairs and the other, his deputy.

The October 2020 parliamentary elections brought to power forces that represent the right of the political spectrum, including the leading Homeland Union, the socially liberal Freedom Party, and the Liberal Movement/Union, which finds itself ideologically lodged in between the first two. Tellingly, their triple coalition agreement pledged that the new government would carry out a "values-based foreign policy", stating explicitly that it "will actively oppose any violation of human rights and democratic freedoms, and will defend those who are fighting for freedom around the world, from Belarus to Taiwan".⁸

The analysis of the three partners' election programs reveals a clear predominance of the Homeland Union's agenda in the new government's foreign policy outlook, including toward China. Besides presenting a "values-based foreign policy", the party explicitly stated that "Lithuania should not find itself in a situation where Chinese investments and economic dependence will start to affect the country's political decisions".⁹ In order to address these challenges, it pledged to further strengthen Lithuanian screening of foreign investments in strategic sectors and critical infrastructure. Since the beginning of 2021, the country's foreign policy has been remarkably consistent with such ambitious goals, including those pertaining to reducing dependence on China. In a nutshell, although the issue of dependence on China had become increasingly noticed by the previous government, it took the new administration to act on respective measures that were deemed preventive as much as defensive.

Lithuania's preventive campaign against dependence on China in 2021

After being sworn in at the close of 2020, Lithuania's eighteenth government immediately started work on reviewing its relations with China. In addition to the political-diplomatic elements of this review, mentioned above, namely withdrawal from

7. M. Adomėnas and G. Landsbergis, "Lithuania – It's Time for Choosing", 15min English, June 11, 2020, available at: www.15min.lt.

8. A. Sytas, "Lithuania to Support Those "Fighting for Freedom" in Taiwan", Reuters, November 9, 2020, available at: www.reuters.com.

9. T. Sajunga-Lietuvos krikščionys demokratai, "2020 m. Seimo rinkimų programa: Duokime Lietuvai daugiau jėgos", 2020, p. 64, available at: <https://tsajunga.lt>.

the 17+1 initiative and deepening non-official contacts with Taiwan, it declared plans to further diversify its foreign policy in the Asia-Pacific by opening embassies in South Korea, Singapore, and Australia. Although China has not been explicitly mentioned in this context, such diversification clearly implied the goal of addressing potential economic dependence associated with Lithuanian exports to the largest market in Asia. In mid-2021, Lithuania's foreign minister confirmed new priorities by saying that his country's most important partner in Asia is Japan.¹⁰

In the meantime, the Lithuanian Seimas (parliament) addressed potential dependence on Chinese technology solutions by attempting to block the controversial company Nuctech from installing its equipment in the country's critical infrastructure,¹¹ and, more importantly, by actually banning the better-known Huawei from developing a local 5G network.¹² The latter law was a result of a Memorandum of Understanding on 5G Security signed with the US in mid-September 2020.¹³ In addition, the fact that various Lithuanian governmental institutions, including those working with sensitive data, widely use Chinese surveillance equipment, made by such controversial companies as Hikvision, Dahua Technology, and DJI, has increasingly attracted media and also official scrutiny. As if that was not enough, the Lithuanian defense ministry made headlines worldwide by recommending consumers to avoid using Chinese smartphones due to their inbuilt censorship capabilities.¹⁴

In a curious fashion, the narrative about threats associated with dependence on China has become an important feature of Lithuania's foreign policy rhetoric when addressing its numerous allies and partners. Despite certain political tensions and disagreements on a local scale between the Seimas and the cabinet on one side and the presidency on the other, both of the country's most important foreign policy makers—the minister of foreign affairs and the president—clearly agree that the EU must strengthen its economic resilience and reduce trade and investment dependence on China.¹⁵ Despite its vocal commitment to the 27+1 formula, however, Lithuania has largely acted on its own while creatively but genuinely mixing normative and security-based arguments to support these decisions. Lithuania's justifications behind the review and later calls for democratic solidarity have actually transcended the EU by

10. Embassy of the Republic of Lithuania, "Foreign Minister of Japan T. Motegi visits Lithuania", July 5, 2021, available at: www.urm.lt.

11. "Lithuania Blocks Chinese Scanning Equipment on National Security Grounds", *Reuters*, February 17, 2021, available at: www.reuters.com.

12. BNS, "Lithuania Bans 'Unreliable' Technologies from Its 5G Network", *LRT English*, May 25, 2021, available at: www.lrt.lt.

13. U.S. Department of State, "United States – Republic of Lithuania Memorandum of Understanding on 5G Security", September 17, 2020, available at: <https://2017-2021.state.gov>.

14. A. Sytas, "Lithuania Says Throw Away Chinese Phones Due to Censorship Concerns", *Reuters*, September 22, 2021, available at: www.reuters.com.

15. BNS, "Landsbergis Calls for 27+1 Format in EU's Relations with China", *Delfi.en*, September 4, 2021, available at: www.delfi.lt; BNS, "EU Should Move Manufacturing out of China, Says Lithuanian President", *LRT English*, October 6, 2021, available at: www.lrt.lt.

extending to the entire Western world. Tellingly, one of the key amendments to Lithuania's National Security Strategy made in mid-December 2021 addressed China and resulted in a whole new, separate paragraph dedicated to its challenge. The document explicitly states that "in Europe, the People's Republic of China strengthens its position mainly by creating economic and technological dependence. [...] It sets up prerequisites for impeding the Western countries' economic and technological progress, eroding their unity and lessening their independence, and spying on them. Therefore, all of these trends are threatening the security of the whole democratic world".¹⁶ In the meantime, Lithuania itself has to withstand China's multi-dimensional pressure campaign. Despite officials' technically correct rhetoric about the country's much lower level of dependence on China in comparison to most other economies worldwide, Beijing's retaliation has proven to be painful, as shown by the latest available economic data and shifting reactions of Lithuanian stakeholders. Although China denied the existence of an official embargo, its customs data showed a more than 90% drop in shipments from Lithuania in December 2021 as compared to both November 2021 and December the previous year. Notably, sales of high-tech lasers, Lithuania's sector of pride and one of the top export items to China that was expected to be immune from Beijing's ire, tumbled accordingly.¹⁷

Even more significantly, several European multinational companies reported that China blocked their imports merely because of Lithuanian components, while German companies went as far as pressuring the authorities in Vilnius to back down.¹⁸ Such indirect economic statecraft, predictably denied by Beijing, is globally unprecedented and particularly threatening for a small and open economy that largely depends on foreign investments. Despite alleged wavering reported by prominent Western media outlets,¹⁹ both the EU and the US outwardly expressed support for Lithuania. Brussels in particular adopted a proposal for an aptly named Anti-Coercion Instrument and finally launched a case against China at the World Trade Organization, due to the fact that Chinese measures essentially targeted the whole of the EU's single market.²⁰ The obvious problem for Lithuania is that before either of these come into effect, if ever, the damage would continue to accumulate further. The country's financial regulator estimated that Chinese restrictions on Lithuanian businesses might lead to its GDP growth decreasing by 0.1 to 0.5 percentage points in 2022 and by 0.3 to 1.3 the

16. Lietuvos Respublikos Nacionalinio saugumo strategija, amendments adopted on December 16, 2021, available at: <https://e-seimas.lrs.lt>.

17. F. Bermingham, "Lithuanian Exports Nearly Obliterated from China Market Amid Taiwan Row", *South China Morning Post*, January 21, 2022, available at: www.scmp.com.

18. A. Sytas and J. O'Donnell, "German Big Business Piles Pressure on Lithuania in China Row", *Reuters*, January 21, 2022, available at: www.reuters.com.

19. D. Sevastopulo, R. Milne, K. Hille and H. Foy, "US Wades into Spat between China and Lithuania over Taiwanese Office", *Financial Times*, January 21, 2022, available at: www.ft.com.

20. European Commission, "EU Refers China to WTO Following Its Trade Restrictions on Lithuania", January 27, 2022, available at: <https://trade.ec.europa.eu>.

following year.²¹ It is no wonder that in these circumstances domestic cracks in Lithuania's review of its relationship with China have recently widened, with the presidency openly criticizing the naming controversy,²² and the population being overwhelmingly against the policy in question.²³

The rather unforeseen silver lining is that Russia's full-scale invasion of Ukraine has highlighted China's insincere if not outright disruptive role in the global international order from the perspective of Lithuanian officials,²⁴ somewhat emboldening the country and justifying its previous actions as a result. In addition, certain concerns expressed in private conversations with Lithuanian decision-makers about the potential for Chinese pressure to impact Lithuania's participation in multilateral organizations have yet to be realized. Quite to the contrary, since mid-2021 Lithuania has secured the privilege of hosting the 2023 NATO summit and was for the first time elected to the UN Human Rights Council for the three-year period of 2022–2024. As time wears on, Lithuania should gradually recover from the current economic shock, particularly considering its rich experience of being targeted by similar Russian and Belarusian pressure campaigns, but outside assistance from the rest of the EU, the US, and democratic partners in the Indo-Pacific, including Taiwan, would surely facilitate the process. After all, supporting Lithuania in these trying circumstances is objectively in the interest of all of these actors, as each of them may eventually find themselves in a similar position.

21. J. Deveikis, "China Sanctions vs Taiwan Investments – Lithuania's Central Bank Weighs Economic Impact", *LRT English*, January 21, 2022, available at: www.lrt.lt.

22. BNS, "Allowing Taiwan to Open Office under Its Name Was a Mistake – Lithuanian President", *LRT English*, January 4, 2022, available at: www.lrt.lt.

23. LRT.lt and BNS, "Most Lithuanians Critical of Vilnius' China Policy – Survey", *LRT English*, January 12, 2022, available at: www.lrt.lt.

24. M. Martina and H. Pamuk, "Lithuania Says EU Should Scrap Summit with China", *Reuters*, March 16, 2022, available at: www.reuters.com.

The Netherlands: Still assessing Dutch dependence on China

XIAOXUE MARTIN

CLINGENDAEL INSTITUTE

Summary

"Dependence on China" has become a hot topic in public policy debates in the Netherlands over the last five years. Moreover, as Dutch perceptions of China have grown significantly more negative overall, dependence on China is increasingly framed as a problem. More and more areas of possible Dutch dependence on China have been pointed out and are almost reflexively viewed in a negative light, regardless of the exact size and strategic relevance of the dependence. As such, the Netherlands is currently in the "problem identification phase", while the formulation of solutions to address the problem is still in progress.

Introduction

Over the last five years, the notion of dependence on China in the Netherlands has grown from a non-issue into one of significant concern in the public consciousness and public policy debates. Like in many other European countries, the coronavirus pandemic and the trade war between the US and China played an important role here. The war in Ukraine has further underlined the downsides of dependence on non-EU countries, as Europe struggles with its dependence on Russian gas. In objective terms, dependencies on China have also grown over the years, leading to more attention. This chapter will analyze these developments by reviewing how the Dutch government, political parties, and the public at large discuss and debate dependence on China. It will demonstrate that the Netherlands is currently in the "problem identification phase" of dependence on China, while the formation of solutions to address the problem is still in progress.

The Dutch government: Starting to assess dependencies

The first step is to examine the Dutch government's approach to dependence on China by reviewing government policies and documents.

Before 2019, relations between the Netherlands and China were defined by a Dutch policy note published in 2013. Its title can be translated as "Dutch China-Policy: Investing in Values and Business", and it is indicative of the document's business-heavy focus.¹ Though it noted China's growing influence on the world stage, dependencies were only mentioned twice when discussing overall interdependence between China and the world. The document mostly focused on emphasizing the need to increase ties with the country.

In 2019, a repositioning of the Dutch government was clearly communicated with the publication of the policy note "The Netherlands and China: A New Balance".² This document showed much greater awareness of possible strategic dependencies on China, explicitly touching upon the issue several times. For example, the document states that "we must guard against unilateral strategic dependencies and not accept actions that put European and Dutch companies at a competitive disadvantage. This requires a new approach: open where possible, protective where necessary, and based to a greater extent on reciprocity". It mentions the need to avoid dependencies related to national security and the functioning of the democratic legal order, as well as the economy. Specifically, it notes the strategic risk of becoming dependent on China for key technologies, critical raw materials, investment, higher education, and the possibility to access and enter China. Dependence is mainly framed as an economic and national security issue, with a focus on unilateral strategic dependencies.³

For solutions, the government seeks to operate at the EU level, as well as with "like-minded partners in North America, Asia and Oceania".⁴ The Netherlands thus pursues EU cohesion in response to dependence on China. It also acknowledges the need, though difficult, to further map Dutch strategic dependencies in general.⁵ It frames this as being in alignment with the Dutch push for "open strategic autonomy"

1. F. Timmermans and L. Ploumen, "Het Nederlandse China-beleid: Investeren in Waarden en Zaken", Government of the Netherlands, November 4, 2013, available at: www.tweedekamer.nl.

2. "The Netherlands and China: A New Balance", Government of the Netherlands, May 15, 2019, available at: www.government.nl.

3. For the impact on Dutch national security, see also the annual reports by the General Intelligence and Security Service of the Netherlands: "Jaarverslag 2020", AIVD, 2020, available at: www.aivd.nl.

4. "The Netherlands and China: A New Balance", *op. cit.*

5. For example, see T. de Bruijn, "Reactie op de motie van de leden Alkaya en Weverling (Kamerstuk 35570-XVII-26), de motie van het lid Sjoerdsma c.s. (Kamerstuk 35663-15) en de motie van het lid Brekermans (Kamerstuk 21501-02-2383) inzake strategische afhankelijkheden", Government of the Netherlands, November 22, 2021, available at: www.tweedekamer.nl.

for the Netherlands and the EU. National instruments are mainly and intentionally designed to be “country-neutral”, meaning they do not specifically target China.⁶

As a testament to the government’s efforts to gain greater insight into dependencies, the Dutch Ministry of Foreign Affairs has commissioned research on the topic. For example, it requested a report on EU–China relations and the importance for the Netherlands of a united European approach to China from the Advisory Council on International Affairs (AIV).⁷ The report discussed the need to make Europe as “geopolitically independent as possible”, both from China and the US. Among other things, it noted strategic dependence on Huawei and ZTE—and indirectly on China—for 5G as a major security risk. The report also advised the Dutch government to acknowledge the strategic significance of economic interdependence for its mitigating impact on conflict, “while Washington exerts pressure on its NATO allies to sever specific economic and technological ties with a geopolitical rival to reduce strategic vulnerability”, a recommendation that the Dutch cabinet of ministers indeed agreed with.⁸ An example of this interdependence and American pressure to reduce Dutch technological ties with China can be found in the Trump administration’s efforts to block the export of Dutch company ASML’s most advanced extreme ultraviolet (EUV) lithography machine to China over security concerns.⁹ The Dutch government subsequently did not renew ASML’s export license. As the company has a near monopoly in the lithography industry, China is dependent on it for chip manufacturing technology. This case underlined the need for the Netherlands to become more autonomous from not only China, but also the US.

Another relevant commissioned research project analyzed Dutch import and export dependence on China, Russia, and the US.¹⁰ It showed that China has become a more important source of goods and destination for exports for the Netherlands. Between 2015 and 2019, imports of Chinese goods grew from EUR 3.9 billion to EUR 42.3 billion, representing almost 10% of total Dutch imports in 2019. Furthermore, while 2.3% of the exports of goods produced in the Netherlands went to China in 2015, this grew to 3.4% in 2019, making China the sixth-largest export destination. The research underlined that indirect economic dependencies through international value

6. For example, see the instruments “Defence Industry Strategy”, Government of the Netherlands, November 2018, available at: www.government.nl; “Uitvoeringswet screeningsverordening buitenlandse directe investeringen”, April 2020, available at: <https://wetten.overheid.nl>.

7. “China and the Strategic Tasks for the Netherlands in Europe”, Advisory Council on International Affairs, June 2019, available at: www.advisorycouncilinternationalaffairs.nl.

8. “Kamerstuk 35207-2: Brief van de Minister van Buitenlandse Zaken”, Tweede Kamer der Staten Generaal, September 9, 2019, available at: <https://zoek.officielebekendmakingen.nl>.

9. A. Alper *et al.*, “Trump Administration Pressed Dutch Hard to Cancel China Chip-Equipment Sale: Sources”, Reuters, January 6, 2020, available at: www.reuters.com.

10. N. Aerts *et al.*, “De Nederlandse import- en exportafhankelijkheid van China, Rusland en de Verenigde Staten: Analyse van de bilaterale investerings- en handelsrelaties in goederen en diensten”, CBS, December 10, 2020, available at: www.cbs.nl; “Importafhankelijkheid van China, Rusland en de VS”, CBS, November 20, 2019, available at: www.cbs.nl.

chains are unavoidable for the Netherlands, as an open economy positioning itself as the gateway to Europe. These indirect dependencies add to the complexity of the issue for the Netherlands, and further bolster those seeking greater EU cooperation in the face of growing dependencies.

Dutch politics: Taking aim at China-related dependencies across the board

The discussion on dependencies on China is more dynamic—and heated—in Dutch politics, as shown by an analysis of the Dutch national elections in 2021 as well as more general political debates. As China's soft power in the Netherlands has declined over the last few years, it has become more and more common for Dutch politicians to be China-critical, and thus also more critical of China-related dependencies.¹¹ In the Dutch elections in 2021, "China" became a much more important topic of discussion than in previous elections. Many of the election programs of established parties noted the need to become less dependent on China, mainly in relation to the Covid-19 pandemic and the dependence on China for medical supplies and other strategic products.¹²

However, the parties do not agree on the ways to address this issue. While the more centrist parties advocate a united European approach such as collaboration on industrial policy, right-wing Eurosceptic parties like Forum voor Democratie argue against greater EU cohesion and for import barriers. There was also no consensus on the necessary extent of cooperation with non-EU countries like the US against Chinese dependencies. Nine months after the elections, a coalition was formed by the VVD, D66, CDA, and ChristenUnie—the same formation that had governed the Netherlands for the four previous years. In its pro-EU coalition agreement, China is only explicitly mentioned once, without reference to dependencies.¹³ Still, the document does address dependencies more broadly, stating that one of the new coalition's five main lines of foreign policy is "reducing our dependence on others for strategic goods and raw materials".

Outside of election cycles, dependence on China remains a hotly debated topic in Dutch politics. This is illustrated by a parliamentary motion by VVD's Ruben Brekelmans, demanding the government to reduce strategic dependencies on China

11. T. Dams *et al.*, "China's Soft Power in Europe: Falling on Hard Times", ETNC, April 2021, available at: www.clingendael.org.

12. The topic featured in the election programs of the political parties VVD, CDA, D66, GroenLinks, ChristenUnie, PvdD, FvD, and SGP. The parties PVV, SP, and PVDA, as well as the smaller political parties, did not include the topic in their election programs. "Partijen en verkiezingsprogramma's Tweede Kamerverkiezingen 2021", Parlement.com, available at: www.parlement.com.

13. "Looking Out for Each Other, Looking Ahead to the Future", Government of the Netherlands, January 10, 2022, available at: www.government.nl.

more rapidly.¹⁴ Brekelmans called for an overall strategy to reduce dependencies, noting that while there are already some initiatives to address dependencies, these are not yet connected. Of the 150 members of parliament, 141 voted in favor, with only the nine members of the SP voting against. Specific issues of dependencies that have been discussed in Dutch politics range from the manufacture of medical goods¹⁵ to natural resources,¹⁶ technological development,¹⁷ higher education,¹⁸ investments,¹⁹ the green transition toward renewable energy,²⁰ and more. The debate has focused mostly on identifying the extent of possible dependencies, and it is moving toward formulating policy changes to address them.

The sentiment in the debate is often: we were naïve for too long, and acted too late. There is a tendency to look to the US to see if the Netherlands should adopt similar policies against dependence on China.²¹ A good example here is the green energy transition and the current dependence on China for the necessary raw materials.²² Some ten to fifteen years ago, Europe dominated the production chains of solar panels. However, China managed to overtake this position through upscaling and subsequent lower prices. Now, however, much of the polysilicon needed to produce solar panels comes from Xinjiang, China. This has become increasingly problematic due to accusations of forced labor in the region and the Dutch parliament's adoption in February 2021 of a non-binding motion labeling Chinese government policies in

14. In reaction, the government responded that care should be taken regarding reducing strategic dependencies, and that there is not yet a need for a more rapid reduction of strategic dependencies. See T. de Bruijn, "Reactie op de motie van de leden Alkaya en Weverling (Kamerstuk 35570-XVII-26), de motie van het lid Sjoerdsma c.s. (Kamerstuk 35663-15) en de motie van het lid Brekelmans (Kamerstuk 21501-02-2383) inzake strategische afhankelijkheden", Government of the Netherlands, November 22, 2021, available at: www.tweedekamer.nl.

15. B. Knapen and T. de Bruijn, "Antwoord op vragen van het lid Kerseboom over de Nederlandse houding t.o.v. China", Ministry of Foreign Affairs, October 6, 2021, available at: www.tweedekamer.nl.

16. B. Knapen and T. de Bruijn, "Antwoord op vragen van het lid Kerseboom over de Nederlandse houding t.o.v. China", *op. cit.*

17. A. Weverling, "Vragen van het lid Weverling over 'het bericht: 'Brits Parlement overtuigd van samenwerking tussen Huawei en China'", House of Representatives, October 14, 2020, available at: www.tweedekamer.nl.

18. "Verslag van een schriftelijk overleg over het rapport Clingendael: China's invloed op onderwijs in Nederland: een verkenning – China", *Parlementaire Monitor*, December 19, 2020, available at: www.parlementairemonitor.nl; I. van Engelshoven, "Samenwerking met China op het gebied van onderwijs en wetenschap", Ministry of Education, Culture, and Science, December 18, 2020, available at: www.rijksoverheid.nl.

19. S. Kaag and S. Blok, "Beantwoording Kamervragen over artikel 'Behind China's Decade of European Deals, State Investors Evade Notice'", Ministry of Foreign Affairs, October 26, 2020, available at: www.rijksoverheid.nl.

20. T. van den Nieuwenhuijzen, "Vragen van het lid Nieuwenhuijzen over de productie van zonnepanelen met Oeigoerse dwangarbeid", House of Representatives, March 22, 2021, available at: www.tweedekamer.nl.

21. F. Grapperhaus, "Antwoord op vragen van de leden Yesilgöz-Zegerius en Ladders over het bericht 'Vrees voor Chinese spionage via douanescanners in haven Rotterdam'", Ministry of Justice and Security, April 19, 2021, available at: www.tweedekamer.nl.

22. S. Kaag and S. Blok, "Antwoord op vragen van het lid Agnes Mulder over het bericht 'Nederlandse zonnepanelen komen van Chinese bedrijven die worden verdacht van dwangarbeid'", Ministry of Foreign Affairs, May 18, 2021, available at: www.tweedekamer.nl.

Xinjiang as “genocide”. This dependence of the Dutch energy transition on China has led to outrage from several Dutch parties including GroenLinks, a green party that in 2013 still obstructed the imposition of European import tariffs on Chinese solar panels.²³ It led to questions as to whether the Netherlands, like the US, should consider blocking the imports of solar-panel products manufactured in Xinjiang. There is thus some political aversion against dependence on China stemming from ideological and human rights considerations, but most of the arguments focus on the economic and security perspective.

Dutch media and public opinion: A similar problematization of dependence on China

There has been a high level of interplay between Dutch media and public opinion, and political debates on dependence on China. The topics debated in parliament have therefore usually also been a part of the public debate, each feeding and interacting with the other. Like in politics, the Dutch public has only recently become aware of the issue, with media attention on possible unwanted dependencies on China increasing in the last few years. Previously, dependence on China was initially mostly discussed as an issue experienced in other countries, such as in Africa and Asia as a result of Chinese infrastructure investments and loans under the Belt and Road Initiative.²⁴ Key topics in the problematization of dependence on China in the Netherlands, or “wake-up calls”, have been the US–China trade war,²⁵ 5G,²⁶ rare earth materials,²⁷ the export of ASML’s EUV machine,²⁸ the human rights situation in China,²⁹ the coronavirus pandemic and related disruptions in supply chains,³⁰ and more recently, the dispute between China

23. B. Eickhout, “GroenLinks is tegen importheffing op Chinese zonnepanelen”, *GroenLinks*, June 4, 2013, available at: <https://groenlinks.nl>.

24. “China belooft miljardensteun aan Afrika voor aanleg ‘Nieuwe Zijderoute’”, *NOS*, September 3, 2018, available at: <https://nos.nl>.

25. “Nederlandse economie loopt gevaar door handelsoorlog”, *RTL Nieuws*, August 6, 2019, available at: www.rtlnieuws.nl.

26. P. Winterman, “Nederland heeft veel te verliezen rondom 5G”, *AD*, April 10, 2019, available at: www.ad.nl.

27. “We zijn op een hele onverantwoorde manier afhankelijk van China”, *KRO NCRV*, 2021, available at: <https://kro-ncrv.nl>.

28. E. Hermandides, “China en VS ruziën over export van chipfabriek van Nederlandse fabrikant”, *Trouw*, January 18, 2020, available at: www.trouw.nl.

29. “In onze China-politiek moeten we kiezen: geld of geweten?”, *De Telegraaf*, November 17, 2020, available at: www.telegraaf.nl; M. Vlaskamp, “Hoelang lukt het de EU nog om Beijing als partner te beschouwen?”, *De Volkskrant*, March 22, 2021, available at: www.volkskrant.nl.

30. “Nog jarenlange medicijntekorten als gevolg van coronacrisis”, *NU.nl*, April 2, 2020, available at: www.nu.nl; M. Kuiper and M. van Bokkum, “Europa wil voor medicijnen minder afhankelijk zijn van Azië. Toch maar weer zelf maken?”, *NRC Handelsblad*, February 26, 2021, available at: www.nrc.nl.

and Lithuania.³¹ Media coverage on the topic is generally negative, but the debate on how to address dependencies has not yet been settled.

An example that provides a useful illustration is the debate on the use of Chinese technology for Dutch 5G networks. Research by the Clingendael Institute showed that of the 23,000 Dutch respondents surveyed, 64% agreed that “to stay independent of Chinese technology, we must do everything we can to keep the production of crucial technology in Europe or bring it back to Europe”.³² Meanwhile, opinions were more ambiguous on the use of Chinese technology in the Netherlands. While 43% of the respondents agreed that the Netherlands should not buy equipment for its telephone networks from Chinese companies, because the Chinese regime might use it for espionage, 36% felt neutral about the issue. When asked their opinions about avoiding having a Chinese phone because the Chinese government could use it for espionage, only 27% agreed. Another 41% disagreed and were thus open to Chinese phone brands, while 32% felt neutral. Respondents who saw Chinese investments primarily as an economic opportunity were less inclined to ban Chinese technology.

Conclusion

This chapter has shown that Dutch dependence on China has grown from a non-issue into a hot topic in public policy debates. There have been several “wake-up calls” behind this change, from the debate on 5G to the coronavirus pandemic and the export of ASML’s EUV machine. Dutch dependence on China has featured in the discussions of the Dutch government, political parties, and the public at large, usually negatively, as several areas of dependencies have come to light. As such, the Netherlands is currently in the “problem identification phase”, in which dependence is problematized and the Netherlands is seeking to gain more insight into its dependencies. While China is an important focus in this debate, dependencies on other countries like Russia and the US are also explored. The search for solutions to address the problem is still in progress, with the Dutch government seeking measures at the EU level to pursue open strategic autonomy. In this process, it is crucial that dependence on China is viewed realistically, and that solutions are formed based on factual assessments rather than unfounded alarmism.

31. “Peking test met Litouwenrel ook de rest van de EU”, *Het Financieele Dagblad*, February 11, 2022, available at: <https://fd.nl>.

32. B. Dekker *et al.*, “Telephones Yes, Networks No: Dutch Attitudes Towards Chinese Technology”, Clingendael, December 2020, available at: www.clingendael.org.

Poland: The hidden debate about dependence on China

JUSTYNA SZCZUDLIK

POLISH INSTITUTE OF INTERNATIONAL AFFAIRS (PISM)

Summary

The issue of Poland's dependence on China is not a topic that is high on the country's agenda, at least in the public domain. The possible reason is an assumption that rather shallow economic bonds between the two countries make Poland immune to potential coercion, and that China—unlike Russia—is not an imminent hard security threat for Poland. China's recent unprecedented informal economic sanctions on Lithuania and multinationals, as well as Russia's invasion of Ukraine with Beijing's explicit endorsement for Moscow, may nevertheless change Poland's debate about dependence on China.

Introduction

Poland's public debate about dependence on China is negligible or invisible at best. This debate is very general, without clearly pointing out or naming China. Dependence on China is mostly discussed as a potential threat for Poland, rather than one that already exists. What is more, dependence is seen rather as a problem for the whole of the EU. The reason seems to be the fact that Poland–China bilateral economic cooperation is rather shallow (though imports from China accounted for 15% of total Polish imports in 2021). In the Polish case, the multifaceted security issue is a predominant driver of the dependence debate. However, when it comes to China, the notion of security is defined differently than in the case of Russia, which is the biggest physical and even existential threat for Poland. So far, China is not seen as an imminent hard security threat, but rather as a potential challenge in the information and economic spheres.¹ Russia's aggression toward Ukraine and China's endorsement of Moscow, including its demands to change the European security architecture, may modify this assessment. When it comes to participants in this debate, apart from

1. See the remarks by Krzysztof Szczerski, minister in the Chancellery of the President, during an online conference about Poland–China economic cooperation, April 19, 2021, available at: www.facebook.com.

decision-makers, experts, and the media, one may distinguish—especially in recent months—lobbying groups such as business circles and the agricultural sector. Their pressure on the Polish authorities highlights elements of Poland’s modest economic dependence on China.

Dependence considerations in the bilateral agenda: Investment, 5G, trade, and Russia

A shifting debate on Chinese investment

Although the current debate on dependence is not very visible, the discussion as such started in 2017, when the Polish government decided to change its approach toward Beijing from enthusiastic to more cautious. The best example of this change was Poland’s new stance on Chinese investments. In a nutshell, Poland is open for Chinese investments, but highlights that projects must not be entirely financed and/or controlled by Chinese investors. Infrastructure investments in particular must be carried out with caution, and with a predominance of Polish capital. This modification was a result of lessons learned from other countries where China controls majority stakes (such as the Port of Piraeus) and/or is interested in taking over high-tech companies and engaging in critical infrastructure (e.g., the case of Germany’s Kuka). In other words, Poland admits that there is an untapped potential of investment exchange with China. China’s investments in Poland are negligible. The cumulative value of Chinese direct investment is only EUR 233 million, which constitutes 0.1% of total FDI in Poland. Also, Polish direct investments in China are minuscule, with a stock of EUR 214 million (0.9% of Polish investments abroad).² In short, Poland does hope for more Chinese investment, but at the same time it faces a dilemma over the potentially negative consequences of the infiltration of Chinese capital into the Polish market, including into critical infrastructure.

5G as a security issue

The debate about potential dependence on China is mostly visible when it comes to 5G, a topic also covered by the Polish media.³ The Polish authorities are aware that China’s involvement in 5G may pose a threat, making the country vulnerable to

2. All data (2020) from the Polish National Bank, available at: www.nbp.pl. The Polish National Bank methodology does not include investments by Chinese companies registered outside the PRC or doing business not directly from China. Chinese companies often invest from the Netherlands and Luxembourg. This is because of tax solutions favorable to international corporations. The European headquarters of groups from America or Asia are often located there. In the case of Poland, total investment stock from Luxembourg and the Netherlands is around EUR 71.5 billion, or 7.5% of total FDI.

3. See Alicja Bachulska, “Poland: Between Indifference and Sensationalism”, in I. Karásková, A. Bachulska, T. Matura and M. Šimalčík, *Careful or Careless? Debating Chinese Investment and 5G Technology in Central Europe*, AMO, May 2021, pp. 25–34.

Chinese pressure. These threats include industrial espionage, attacks that could disrupt and harm the country's economy, external control over 5G and supply chains, and manipulation that impedes on the privacy and individual liberties of citizens. Also, the fact that China is significantly strengthening its ties with Russia raises concerns that Chinese companies' access to sensitive data may also mean the possible transfer of such data to Moscow.⁴

In September 2020, the first draft amendment proposal of the National Cybersecurity System (NSC) was released.⁵ The NSC is the implementation of the EU's Network Information Security (NIS) Directive. From the very beginning of the 5G debate, the Polish government has underlined that it would not adopt any discriminatory measures against any foreign company and that no one would be excluded.⁶ This approach is consistent with Poland's policy on China, which is based on keeping channels open with Beijing in order to reap economic benefits, while simultaneously maintaining close ties with the US and staying in the EU's mainstream. The Polish approach is not to be openly confrontational on China. In the case of 5G, the idea is to adopt a law that will not explicitly exclude Chinese companies, but set up conditions with a high threshold that Chinese suppliers could not meet.

However, the process of amending the NSC is rather bumpy, and until now the NSC has not been amended. This has resulted in a suspension of the 5G auction on the distribution of frequencies. New amendments have introduced the notion of "high-risk supplier", which implies the possibility to exclude companies from the market. The amendments explain that the "minister responsible for digitalization recognizes the hardware and software supplier as a high-risk vendor if that vendor poses a serious threat to national defense, security, public order, or people's life and health". This decision would lead to an official ban and/or withdrawal of products, services, and processes that are already in use. A company may be considered a high-risk vendor if it poses a threat to Poland's obligations to its allies, has an unclear ownership structure, and is located in a non-EU and non-NATO member country, or in a state that interferes in economic freedom.

The fact that the law has not been adopted yet indicates that there are some doubts about China's reaction to this de facto ban. There are media speculations that President Duda may veto this law.⁷ Pressure from Polish lobbying groups, mostly business and agriculture circles, has also recently become apparent. Business circles have raised concerns regarding the economic cost of banning Huawei. It is argued that without Chinese companies, the 5G network would be expensive, as Chinese vendors offer high-quality and cost-effective products. Moreover, recently, representatives of

4. "U.S.-Poland Joint Declaration on 5G", September 2, 2019, available at: www.gov.pl; M. Morawiecki, "All of Europe Must Stand with America on 5G", *The Daily Telegraph*, July 15, 2020.

5. The legislation process is available here: <https://mc.bip.gov.pl>.

6. "Czaputowicz: wyzwaniem w relacjach polsko-chińskich brak zrównoważonej współpracy gospodarczej", *Polish Press Agency*, July 9, 2019.

7. M. Zatoński, "Pałacowe przepychanki o chińskie 5G", *Puls Biznesu*, September 12, 2021.

the agricultural sector have asked the Polish government not to exclude Chinese companies from the 5G rollout, as they are concerned about the possibility of retaliation from China. They are worried that the PRC may introduce market barriers for Polish exports of agricultural products (7% of Poland's total exports to China in 2020).⁸ They refer to Chinese lobbying groups, which are warning about economic consequences for banning Huawei, including losses for Polish exports but also the possible suspension of the sale of drugs, mostly APIs (active pharmaceutical ingredients). Indeed, around 80% of APIs used in drugs sold in Poland (not necessarily produced in Poland, in line with a broader European problem made evident since the outbreak of the Covid-19 pandemic) comes from China.⁹

Potential trade dependencies?

The pressure from the agricultural sector raises the issue of trade in Poland's debate about potential dependence on China. Despite the fact that Poland-China trade relations are not deep, those who export to China are concerned about potential losses that may result from China's retaliatory action (Lithuania is a good case study). In 2021, Polish exports to China were around EUR 3 billion, or 1.07% of Poland's overall exports. What is more, due to a huge trade deficit on the Polish side (roughly EUR 39.5 billion in 2021¹⁰), for years the government has been trying to expand exports to China, negotiating better market access with the Chinese authorities and looking for products that might be attractive to Chinese consumers (agriculture, furniture, luxury products such as yachts, etc.). One of the main reasons why Poland remains guarded about its cautiousness on China (announced in mid-2017) is because the hope of tapping the potential for economic cooperation is still alive. This includes expanding trade, mostly in the form of Polish exports, but also reaping benefits from China-Europe cargo trains that pass through and/or terminate in Poland. This hope was behind a change of approach toward the Comprehensive Agreement on Investment (CAI)—on which Poland was negative at the end of 2020, but has been rather positive since mid-2021. It is argued that if China's promises under the CAI are kept, it may narrow Poland's huge trade deficit with China, notably by lifting non-tariff barriers to the Chinese market in areas such as furniture, cosmetics, and agricultural products.¹¹ Economic goals were also behind President Duda's visit to China in early February 2022.

Aside from direct Poland-China trade relations, it is worth mentioning indirect dependence through Germany. Germany is Poland's biggest trading partner, and Poland is a supplier of components that are used in final products manufactured in

8. S. Ruszkiewicz, "Antychińska ustawa do kosza? W tle rolnicy i telefon do biura PiS na Nowogrodzką", November 20, 2021, available at: www.wp.pl.

9. P. Słowik and S. Jadczyk, "Będzie 'lex anty-Huawei'? To oznaczałoby gospodarczą wojnę z Chinami", September 12, 2021, available at: www.wp.pl; P. Słowik, "Polski pacjent w szponach Chin. Dlaczego rynek leków tak bardzo jest uzależniony od Pekinu?" *Gazeta Prawna*, July 6, 2019.

10. Stats available at : www.stat.gov.pl.

11. J. Szczudlik, "Poland's Stance on CAI: No Need for Haste", *Asia Europe Journal*, October 7, 2021.

Germany and then exported to China (among other destinations). However, Poland's indirect dependence via German value chains is ultimately not very significant. According to calculations by Jakub Jakóbowski (based on OECD data from 2018), the value-added on Polish goods integrated into Germany's exports to China is around EUR 1.17 billion.¹²

Since the Covid-19 outbreak, and after purchasing Chinese medical products needed for combating the new virus, the Polish authorities have raised concerns about Poland's, but mostly Europe's, dependence on products manufactured outside Europe (though without naming China). In fact, this refers not only to value chains but also to imports from China. In the case of Poland, with its imports of EUR 42.5 billion in 2021, the PRC may potentially use this dependence—e.g. via limiting its sales—to hurt the country. However, this topic is not publicly debated as a source of vulnerability for Poland per se, but rather as an EU-wide issue. In May 2020, Prime Minister Morawiecki said in an interview for *La Stampa* that “the pandemic made us aware of the importance of having our own safe production lines for the pharmaceutical industry, medical equipment, and laboratories”.¹³ In October 2020, the prime minister's office then posted on Twitter: “Europeanization of production after the Covid-19 pandemic—i.e., attracting to Poland and various European countries those parts of production that were taken outside Europe—is a very important pillar of the economic recovery in the EU”.¹⁴

The Russia factor

A fourth topic in the dependence debate with regard to China is Russia, and Russia's increasingly close relations with China. This dimension is purely security-oriented. There are comments by Polish authorities that mention China and Russia together as undemocratic, authoritarian countries that strive for global domination and are perceived as threats. In the aforementioned interview for *La Stampa*, Prime Minister Morawiecki, answering a question on whether Russia and China use the weaknesses of other countries, especially during the pandemic, to promote their propaganda, responded that: “We must be extremely vigilant that no one will take advantage of the moment of weakness caused by the pandemic and the impending economic crisis to break up our alliances and jeopardize our security. [...] We cannot be naïve in believing that Russia's and China's rationales to provide other countries with assistance were entirely altruistic”.¹⁵

12. See analysis by J. Jakóbowski, available at: https://twitter.com/J_Jakobowski/status/.

13. F. Sforza, “Il premier polacco: ‘Mosca ci ha occupato e l’Europa ha perso la memoria dei nostri eroi’”, May 7, 2020, available at: www.lastampa.it.

14. See <https://twitter.com/PremierRP/status/>.

15. F. Sforza, *op. cit.*

More precisely, a China–Russia “alliance” poses a real threat to the telecommunications system in Poland.¹⁶ Experts indicate that Chinese intelligence agencies cooperate closely with their Russian counterparts. What is more, Chinese companies are in fact transmission belts of the authoritarian PRC government that cooperate closely with Russia. This implies a threat of the transfer of sensitive data (e.g., via 5G networks) to Moscow, allowing the country the possibility to destabilize the situation in Poland.¹⁷

EU level: China appears between the lines of the debate on EU strategic autonomy

The question of dependence on China is rather more visible in the remarks of Polish decision-makers when it comes to the European Union as a whole. It is worth focusing on Poland’s debate about the country’s stance on the EU’s strategic autonomy. Poland’s non-paper weighing in on the “strategic autonomy” debate (published on September 16, 2021)¹⁸ mentions China explicitly three times, framing it as a participant of megatrends, such as the US–China rivalry and the rising role of Asia, that may have a great impact on the EU, including Poland. The document also highlights the fact that there is a more visibly aggressive policy by non-democratic states, e.g., Russia (China was not mentioned), and the fact that there are different interests between the EU (including Poland) and China and Russia.

However, the document contains several indirect comments about dependence on China (without directly mentioning this country). It is argued that, generally, the concept of strategic autonomy should increase the EU’s capacity to designate, pursue, and achieve political goals and reduce dependence on non-EU stakeholders that do not respect European values and standards. The EU should protect the interests of European companies against unfair practices by third-country companies. What is more, the document underlines the need to make value chains more resilient, diversify them, and relocate them to the EU, especially in the case of strategic sectors. The emphasis should be put on sectors such as pharmaceuticals, photovoltaics, microelectronics, hydrogen technologies, batteries, chemicals, telecommunications, biotechnology, and renewable energy. There is a need to accelerate investment in research and innovation to reduce the technology gap between the EU and the current technological leaders. The EU should secure access to strategic raw materials, including by developing multilateral relationships with producers who respect the rules of the free market, increasing the EU’s own production, extraction, or recovery. The document also highlights that there is a need to strengthen the EU’s production

16. S. Czubkowska, “Stany chcą dać grosza Polsce. Za wykluczenie Huawei z 5G”, November 17, 2021, available at: www.spidersweb.pl.

17. P. Słowik, “‘Lex anty-Huawei’. Chińskie zagrożenie jest większe, niż się nam wydaje”, September 17, 2021, available at: www.wp.pl.

18. More information at: www.gov.pl.

capacity for APIs needed for the production of generic drugs, as well as new kinds of APIs. The EU should also strengthen its resilience to external threats, mostly in cooperation with like-minded countries (US, NATO), including those from Asia such as Australia, Japan, and South Korea.

Perspectives

The recent China–Lithuania dispute, as well as Russia's invasion of Ukraine, may have an impact on Poland's changing debate about dependencies. In the case of Lithuania, Beijing shows that minuscule economic ties do not mean a narrow space for retaliation. China is ready to use indirect dependencies (via value chains) to hit any country that angers it. Huge imports from China also seem to be a serious vulnerability. In fact, the real "depth" of economic ties and whether threats would be implemented do not matter much—there is a growing uncertainty around doing business in/with a country being targeted by China. Potential investors may see the targeted country as a problematic partner, thinking twice about whether their existing investments in China will be affected, and potentially forgoing, limiting, or withdrawing investments in countries that run the risk of attracting China's ire.

In the case of Russia, China's diplomatic and political support for Russia's assault confirms an alignment of the two countries that poses a serious threat for Poland's economic and hard security. If China opts to provide material—i.e., economic and military—support for Russia and/or to circumvent sanctions on Russia, etc., China will confirm its explicit participation in Russia's *de facto* aggression against the whole of Europe and Moscow's attempt to revise the European security architecture. Even if China does not provide Russia with material support, Beijing's unprecedented, illicit coercion against Lithuania and its stance on Russia and the current, hasty process of Russia's global decoupling provide sufficient evidence to suggest that a real debate in Poland about dependence on China and how to deal with it should commence as soon as possible.

Portugal: The “sounds of silence” to keep China close are based on more than dependence

CARLOS RODRIGUES
UNIVERSITY OF AVEIRO

Summary

The notion of dependence has not been a driving factor in shaping Portugal’s relationship with China. The Portuguese authorities, however, held concerns about such a dependent relationship at the outset of the Covid-19 pandemic. Chinese state-owned enterprises have indeed invested in significant critical Portuguese infrastructure, including energy, banking, and insurance. While this has elicited a sense of dependency in some of the public discussions on China, it has not driven policy. At the aggregate level, Portugal’s dependence on China in trade and investment is relatively marginal, whereas structural dependence draws much more clearly from relations with EU partners. From a height of enthusiasm on China, Portuguese officials have now gone largely into “silent mode”, but, in the context of the “universalistic” tradition in foreign affairs, this is driven more by a desire to maintain a good and close relationship with China in an increasingly complex geopolitical environment.

Portugal’s dependence on China: A misperception?

Portugal, via Prime Minister António Costa, was one of the first EU countries to raise public concerns about the vulnerabilities and risks inherent in an arguably excessive dependence on a single supplying country. In March 2020, prompted by increasing imports of Covid-19-related goods produced in China, the head of the government claimed that “Europe and Portugal should position themselves in order to produce internally much of what they used to import from China”.¹ He added: “the biggest reflection we have to make is that today we cannot have supply chains as extensive and as dependent on a single country, as is the case with China. This is the biggest

1. Radio Renascença, April 3, 2020, available at: <https://rr.sapo.pt>.

lesson we can draw from the pandemic crisis". Like every other nation in the world, Portugal was faced with a lack of alternatives to China's "global factory" and its dominant role in a wide array of supply chains, namely those needed to match the urgent material requirements to deal with the surging pandemic.

Still, how deep does Portugal's dependence on China go when considering the whole picture, beyond the specifics of Covid-19? Taking the perspective of trade (Tables 1 and 2 below), the statistics provide a first and clear indication that China ranks very modestly as a market for Portuguese exports—the fifteenth-largest destination in 2020, representing 1.1% of total exports.²³ Accounting for approximately 4.5% of total imports, China climbs up the ranking as the sixth-largest supplier. Although far from negligible, the import trade flows do not compare to the overwhelming position of the EU in Portugal's trade portfolio.

Table 1. Portuguese export volume (select countries)

| Country | 2018 | | 2019 | | 2020 | |
|----------------------|-------------------|------|-------------------|------|-------------------|------|
| | x1000 € | Rank | x1000 € | Rank | x1000 € | Rank |
| Total exports | 57 849 992 | | 59 902 810 | | 53 757 393 | |
| Spain | 14 666 088 | 1 | 14 811 173 | 1 | 13 636 222 | 1 |
| France | 7 333 965 | 2 | 7 746 238 | 2 | 7 300 311 | 2 |
| Germany | 6 687 985 | 3 | 7 182 471 | 3 | 6 378 669 | 3 |
| United Kingdom | 3 675 128 | 4 | 3 628 796 | 4 | 3 062 165 | 4 |
| USA | 2 872 842 | 5 | 3 036 164 | 5 | 2 670 414 | 5 |
| China | 657 834 | 13 | 601 926 | 14 | 567 377 | 15 |

Source: INE, National Statistics Office.

Table 2. Portuguese import volume (select countries)

| Country | 2018 | | 2019 | | 2020 | |
|----------------------|-------------------|------|-------------------|------|-------------------|------|
| | x1000 € | Rank | x1000 € | Rank | x1000 € | Rank |
| Total imports | 75 439 246 | | 79 977 128 | | 68 145 568 | |
| Spain | 23 770 093 | 1 | 24 405 981 | 1 | 22 089 346 | 1 |
| Germany | 10 419 459 | 2 | 10 604 411 | 2 | 9 087 999 | 2 |
| France | 5 794 450 | 3 | 7 851 079 | 3 | 5 086 143 | 3 |
| The Netherlands | 3 980 512 | 5 | 3 975 079 | 5 | 3 766 565 | 4 |
| Italy | 4 079 981 | 4 | 4 109 341 | 4 | 3 551 362 | 5 |
| China | 2 349 904 | 6 | 2 953 062 | 6 | 3 067 218 | 6 |

Source: INE, National Statistics Office.

2. Instituto Nacional de Estatística, available at: www.ine.pt.

3. Still, a few sectors find in China a very important market, as is the case, for instance, of natural stone products (China is second only to France).

Accordingly, based on raw trade statistics, if a relation of strong dependence is to be considered, it would not concern China but rather EU countries like Spain, Germany, or France.⁴ Nevertheless, the overall public perception contradicts the numbers and stands firm on the assumption of a great deal of dependence upon China. This perception cannot be seen as being stirred solely by the role played by Chinese exports in the pandemic context. Rather, it draws on two major factors: firstly, the heedless transposition to the national context of the consensual view on China's overwhelming global influence on supply chains, affecting production, distribution, and consumption in a wide range of economic sectors; secondly, and most importantly, the consideration of recent episodes marking Portugal–China bilateral relations, namely Chinese investment flows and the Panda Bond subscription of RMB 2 billion.

In the first instance, disturbances in production of vital sectors such as the automotive or textile industries, due to shortages in the supply of China-made basic components or materials, are affecting the Portuguese economy. This disturbance, which can indeed be seen as indirect, does not reveal any trace of a dependence specific to Portugal. The same, obviously, cannot be said for the second instance. From 2011 onward, Portugal became a prominent recipient of Chinese direct investment (more than EUR 9 billion accumulated through 2020). Although far from the FDI amounts with origins in countries like the Netherlands, Luxembourg, or Spain (Table 3),⁵ the targets, as well as the timing, of Chinese investments established a very strong sense of dependence in the Portuguese mindset.

Table 3- FDI in Portugal (stock, December 2020)

| Country | 2020 | |
|------------------|--------------|------|
| | % | Rank |
| Total FDI | 100.0 | |
| The Netherlands | 20.8 | 1 |
| Spain | 20.6 | 2 |
| Luxembourg | 18.2 | 3 |
| France | 7.9 | 4 |
| United Kingdom | 6,2 | 5 |
| Germany | 3.5 | 6 |
| Switzerland | 2.0 | 7 |
| China | 1.8 | 8 |

Source: Banco de Portugal.

4. In 2020, Spain and Germany taken together represented EUR 11.2 billion of Portugal's total EUR 14.4 billion trade deficit. The Portugal–China trade balance amounted to approximately EUR 2.5 billion in favor of China.

5. The position of the Netherlands and Luxembourg as origins of FDI flows can be overestimated, as they often channel FDI with origins in other countries, namely from outside the EU, including China. See F. Lima, F. Pinheiro, J. Falcão Silva and P. Matos, "Foreign Direct Investment–Using Network Analysis to Understand the Position of Portugal in a Global FDI Network", *IFC Bulletin*, No. 52, 2020.

In fact, state-owned enterprises like China Three Gorges and State Grid, and private conglomerates such as Fosun, acquired dominant positions in several Portuguese companies, some of them operating in strategic and sensitive sectors (e.g., energy, banking, and insurance).⁶ Chinese capital was indeed very welcome in a country in serious financial and economic trouble and facing the draconian conditions imposed by the “troika”, i.e., the European Commission, the European Central Bank, and the International Monetary Fund. Moreover, in May 2019, Portugal was the third EU member state and the first eurozone country to issue RMB-denominated sovereign bonds, so-called Panda Bonds, which many would view as a clear and additional sign of dependence. A good illustration of this overall perception is given by João Duque, a Portuguese professor of economics, who considers Portugal to be very dependent on China, “which not only bought Portuguese debt bonds on a large scale but also secured its position of power by acquiring companies”. In his words, “Portugal cannot position itself against the Chinese expansionist policy”.⁷

Still, while acknowledging the power accrued by Chinese investments and debt operations, it is hard to file Sino-Portuguese relations among any set of particular cases in the globalized web of interdependences. They are as strong as in many open economies striving in the global goods, services, and financial markets. Despite the prime minister's remarks in the early days of the pandemic, the position of the Portuguese government seems to match this assertion. As Foreign Minister Augusto Santos Silva explains: “I would understand concerns about a possible overdependence of our economy on a single national origin of foreign capital or excessive indebtedness to a single credit provider. But none of that happens. In industry or services, Portugal today has Chinese capital as well as Spanish, French, German, British, American, Japanese, or Singapore capital”. He adds: “When present in ‘natural monopolies’, it is subject to strict public regulation. When investing, it submits to rules, for example, labor and competition. When it competes for concessions, it does so in open and regulated competition. And, of course, it benefits when it commits to the future of national companies, not just wanting to dismember them or transform them into mere branches”.⁸

The “sounds of silence” in Portugal's official discourse...

In this context, aside from a few piecemeal, low-impact events, silence has followed the lively public and political debate that centered around the role played by Chinese exports in the early stages of the fight against Covid-19. Interestingly, though, dependence on China was used to legitimate and drive a major objective of the

6. C. Rodrigues, “Chinese Investment in Portugal: Gaining Access to Cutting-Edge Knowledge and Extending Global Influence”, in J. Seaman, M. Huotari and M. Otero-Iglesias (eds.), *Chinese Investment in Europe: A Country-Level Approach*, ETNC-European Think-tank Network on China, 2017.

7. More informations at: www.dw.com.

8. *Jornal de Negócios*, December 18, 2018.

Portuguese Presidency of the Council of the EU in the first semester of 2021: rapprochement with India. "In the context of the deepening of the EU's relations with Asia, we will pay particular attention to relations with India", as can be read in the Presidency's official program.⁹ Diana Soller, a Portuguese researcher at Nova University, refers to India as a "possible source for diversification, particularly in the context of a rising demand for markets not fully taken by China". Moreover, she highlights the "important role Portugal can play in this context, due to its historical links with New Delhi".¹⁰

It should be noted that the Presidency's official program, strangely enough, sidelined China, as evidenced by a simple count: mentions of China appear only twice in the document, the first to refer to a Conference of the Parties (COP15) of the Convention on Biological Diversity, scheduled for October 2021 in Kunming, and the second to highlight the "finalisation of negotiations on the Agreement on Investment and the implementation of the Geographical Indications Agreement with China".¹¹ In fact, China's downgrading in this document concurs with a broader downgrading of China in Portuguese official discourse. This is significant when recalling the recent past, which was characterized by frequent, mostly enthusiastic, public statements on a vast array of issues of interest to bilateral relations (e.g., participation in the BRI, particularly in its maritime flank).

The Portuguese authorities' silence on China was broken in March 2021, however, to take a very critical view on the new editorial directions and orientations given to reporters of the Portuguese section of TDM, or Teledifusão de Macau, the largest broadcaster for the special administrative region (SAR), according to which TDM "is an information and dissemination body of the Central Government of the PRC and the Macau SAR" and its reporters would stick to the promotion of "patriotism, respect, and love for the motherland and the Macau SAR".¹² Portuguese Foreign Minister Augusto Santos Silva emphatically reacted by stating that "[the] Basic Law is very clear in guaranteeing freedom of the press and, therefore, in the same way that Portugal scrupulously respects the Basic Law in Macao, Portugal hopes that the People's Republic of China will also scrupulously respect the Basic Law in Macao, namely, in the area of press freedom".¹³ This statement was made during a NATO foreign ministers' summit in Brussels and while Portugal held the Presidency of the Council of the EU, giving it particular resonance in international spheres.

9. Program for the Portuguese Presidency of the Council of the European Union, 2021, available at: www.2021portugal.eu.

10. *Diário de Notícias*, January 23, 2021.

11. Program for the Portuguese Presidency of the Council of the European Union, 2021, available at: www.2021portugal.eu.

12. *Rádio Televisão Portuguesa*, March 15, 2021, available at: www.rtp.pt.

13. *The Macao News*, available at: <https://macaonews.org>.

Mr. Santos Silva's assertion, seen by some as an unusual "strongly-worded rebuke to Beijing",¹⁴ taken together with the silence that succeeded China-related effusiveness, may be seen as underpinning the idea of a waning Portugal–China relationship. Nevertheless, this idea is largely based on speculation. A purposeful illustration is the argument produced by an overly anti-China Portuguese columnist, José Esteves, according to whom the "honeymoon between Portugal and China is over".¹⁵ The evidence he provides is the difference in "tone" between two phone calls received by Portuguese President Marcelo Rebelo de Sousa in May 2020: the first one, on May 1, from Donald Trump; the second one, a week later, from Xi Jinping. According to the columnist, the press release concerning Trump's call was "much more cordial and signaling a more effective and friendly relationship". In turn, the official note on Xi's call, according to Esteves, shows that the Portuguese president "abstains from adjectives in the conversation he had with his Chinese counterpart, which is rare in Marcelo Rebelo de Sousa and, thus, cuts with the usual style adopted by the Portuguese president in this type of informative notes". An additional touch allegedly evidencing a "humanly icy, politically suspicious" talk was the "lack of a single reference to the 'Silk Road' [...], speaking only of cooperation in vague terms and within the framework of multilateralism".

On grounds other than dependence...

Perhaps in a less speculative manner, when trying to explain the apparent change in the Portuguese way of relating to China, one cannot neglect the effect, on the one hand, of an overall change in the EU's position toward China, and, on the other, of the US's pressure on Portugal to pick a side, i.e., to choose between NATO and China.¹⁶ A small country, even one viewed by some as a "special friend" of China in Europe in the recent past, would hardly come through unscathed. However, it becomes hard to envisage any radical change, as some appear to be upholding. In fact, amid the "silent mode", there are signs that, perhaps enveloped by a less enthusiastic discourse than in the past, the Portuguese government is eager to maintain a good, stable, and close relationship with China. Sound indications of this are given by recent reports on contacts held between Augusto Santos Silva and his Chinese counterpart, Wang Yi, in July last year, under the framework of the first round of the Portugal–China Strategic Dialogue. The Portuguese minister was quoted as saying that "hailing the long-standing friendship between Portugal and China, [...] the Portuguese market will always welcome

14. J. Menezes, "Macau Media 'Gag' Forces Portugal Out of Its Shell to Issue Stinging Rebuke to China over Its Obligations", *Hong Kong Free Press*, March 27, 2021.

15. J. Esteves, "Portugal/China: Marcelo sem Xi coração", *SOL*, May 10, 2020.

16. C. Rodrigues and J. Tavares da Silva, "China and the US: A 'Universalistic' Approach to Get Along with Both Powers", in M. Esteban and M. Otero-Iglesias (eds.), *Europe in the Face of US-China Rivalry*, ETNC-European Think-tank Network on China, 2020.

Chinese enterprises and hopes to further cement ties between the two sides and deepen cooperation in the post-pandemic era".¹⁷

Ultimately, Portugal's eagerness to keep China as a relevant partner is not grounded in any direct dependence, be it related to trade or investment. Rather, it draws on the persistent attachment to a foreign policy tradition whose guiding principles are based on multilateralism and, as argued elsewhere,¹⁸ on the "universalistic", bridge-building approach to world affairs, deeply rooted in the five-century-old legacy of Portuguese maritime discoveries. This enables the maintenance of good relations with every nation in the world, namely major rival powers, and explains a lot of the current state of affairs *vis-à-vis* China. Mr. Santos Silva sums it up quite purposefully: "We are friends and partners of China, but we are not allies".¹⁹

17. *China Daily*, July 24, 2021, available at: www.chinadaily.com.cn.

18. C. Rodrigues and J. Tavares da Silva, *op. cit.*

19. *Semanário Sol*, December 3, 2018.

Romania: The narrative of dependence on China, in line with European discourse and actions

IULIA MONICA OEHLER-ȘINCAI

Summary

The EU's tougher stance toward China has become evident since 2019, and it intensified throughout the Covid-19 crisis, when vulnerabilities posed by dependencies on strategic imports and disruptions in supply chains were revealed. Simultaneously, Romania's relationship with China has also changed radically. Key national political leaders have emphasized more and more resolutely that Romania should not go too far in the area of cooperation with states situated outside the area of Euro-Atlantic values. Starting in 2020, the narrative has moved toward pointing directly at a (mistaken) dependence on China and the need to halt or reverse it. This narrative has been accompanied by concrete steps in the specific strategic sectors of nuclear energy and technology, where access for Chinese companies has practically been blocked. In Romania as in Europe, a clear differentiation of external partners into two categories, like-minded and non-like-minded, is more evident today than at any point in the last three decades. This obvious way toward a new Cold War hides pitfalls on both sides.

The national context and the European narrative of dependence on China frame the Romanian debate

The EU has forged a new political discourse based on the concept of open strategic autonomy and reframing relationships with countries such as China in more complex terms, combining partnership with competition and systemic rivalry. The new, more assertive EU posture (reflected among other things by its industrial, trade, Indo-Pacific, and connectivity strategies and policies) is meant to: (1) combat so-called unfair and coercive practices; (2) safeguard European interests and values; and (3) vigorously defend multilateralism.

Within the scope of this new discourse, identifying Europe's strategic dependencies on foreign actors has become an increasingly common theme, noting in particular various dependencies on China¹ and energy dependence on the Russian Federation.² The complementary theme of finding ways of reducing and even eliminating these dependencies is also present, which foreshadows more concrete actions of coordination with like-minded partners, in order to distance themselves further from China and Russia, until recently veritable strategic partners of the EU.

National context: Differentiation between like-minded and non-like-minded actors

In Romania, starting in 2019 (the year of the EU–China Strategic Outlook), a new trend has begun to emerge in the political discourse. This is consistent with the European narrative and at the same time in congruence with Romanian foreign policy priorities. In the opinion of President Klaus Iohannis, Romania “does not belong to the space of values promoted by China and should not go too far in the field of cooperation with states situated outside the area of Euro-Atlantic values³”. It is worth noting that in 2019, two major MoUs were signed with the US under the aegis of the Liberal president, one in August on 5G technologies “in line with the rule of law principles”, another in September on strategic civil nuclear cooperation.

Subsequently, the Covid-19 pandemic revealed the vulnerabilities in global supply chains and the risks associated with excessive dependence on limited import sources. As a direct consequence, since 2020, the need to reduce the dependence on extra-EU sources by means of diversification of key supply chains at the European level has become a leitmotiv. The European discourse was taken up immediately in Romania. The Romanian minister of economy at that time (a Liberal, as the Social Democratic government had been replaced by the Liberal one in November 2019) declared that “dependence on China has been a mistake and this must stop”.

All of this is in line with the more assertive EU posture, including the resolution on a new EU–China Strategy voted by the European Parliament in September 2021.

In 2021, Romania fully accepted and took on board the concepts of strategic resilience and open strategic autonomy as being consistent with its own priority of distancing itself from China. For the Romanian minister of foreign affairs, Bogdan Aurescu, strategic resilience means “to be as little dependent as possible, and if possible to be not at all dependent on actors outside your system of alliances, outside

1. European Commission, “Strategic Dependencies and Capacities – Accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions”, Brussels, SWD(2021) 352 final, May 5, 2021.

2. European Commission and High Representative of the Union for Foreign Affairs and Security Policy, “Joint Communication to the European Parliament, the European Council and the Council on EU-Russia Relations – Push Back, Constrain and Engage”, Brussels, JOIN(2021) 21 final, June 16, 2021.

3. Most quotations in the present chapter are the author's translations from Romanian.

your value system, and who might try, as we have already seen, in some situations, to use the advantage of some sources of production in order to obtain other advantages in the area of foreign policy or in the area of security policy”.

In such declarations, the differentiation between like-minded and non-like-minded actors is evident. China and the Russian Federation are included in the latter category. These two countries are the most quoted in statements. At the same time, many declarations do not refer directly to a specific actor but to the larger, general category of non-like-minded countries. Internal vulnerabilities generated by overreliance on extra-EU sources are associated with dependencies on China and the Russian Federation, while cooperation with like-minded partners, including the EU, the US, and NATO in general is strongly encouraged.

For Romania, dependence seems to be an issue only in relation with non-like-minded actors. This differentiates it somewhat from the discourse of EU institutions and other EU member states, which also take into consideration dependence on like-minded actors and intend to diminish it, in favor of stronger European production capacities.

Romania's treatment of dependence in general and that on China in particular

There are various categories of dependence on imports from countries outside the EU evident in Romania, such as raw materials,⁴ critical products like semiconductors,⁵ food and agricultural products,⁶ or active pharmaceutical ingredients.⁷

Some of these dependencies have always been apparent, especially those related to national and regional security, as well as strategic imports (energy, technology). Others have been made evident by the Covid-19 crisis (medical and personal protective equipment and active pharmaceutical ingredients). There is also a third distinct category of dependencies reflected by detailed statistics, and there is less awareness about them, as indicated by the statistical section of this chapter.

4. Government Program 2020–2024, available at: <https://media.hotnews.ro>.

5. Romanian Government, “Florin Spătaru, ministrul economiei, la reuniunea informală COMPET de la Lens, Franța: România este una dintre țările UE care participă activ la identificarea de soluții pentru reducerea dependențelor de produse critice” [Florin Spătaru, Minister of Economy, at the COMPET informal meeting in Lens, France: Romania, is one of the EU countries actively participating in the identification of solutions to reduce dependence on critical products], press release, February 1, 2022, available at: www.economie.gov.ro.

6. “România, tot mai dependentă de alimentele din străinătate” [Romania, increasingly dependent on food from abroad], *Profit*, January 26, 2022; “România devine dependentă de importurile de alimente. Fost ministru al Agriculturii: ‘Intrăm în zona unui risc major’” [Romania is becoming dependent on food imports. Former minister of agriculture: “We are entering a high-risk area”], *DIGI24*, January 28, 2022.

7. Please consult: www.zf.ro.

Romanian politicians, professional associations, and experts are mindful of the dependence issue. Their opinions on various factors leading to import dependence are revealed in the mass media. However, in the local context, in which most large producers are international investors (first and foremost from the EU) rather than national companies, not everything can be solved internally. This may primarily explain why there is a lack of coordinated efforts by Romanian authorities and professional associations to comprehensively study all particular dependencies at the national level and present targeted solutions.

Romania (as well as the whole of the EU) is not only dependent on China for certain categories of imports, but also on the Russian Federation, the United States, Japan, South Korea, and others.⁸ What seems to matter is whether a given partner is considered to be like-minded or not. Dependence on like-minded partners seems more acceptable, as Romania cannot avoid certain dependencies, particularly as it has deindustrialized in many areas, including critical industries such as pharmaceuticals (where raw materials for “made in Romania” medicines come from imports).

Moderate to low import dependence on China, in tandem with the trend toward eliminating dependence in critical sectors

In aggregate terms, Romania’s dependence on China is only marginal, and it is much less dependent on China as compared to other EU member states. There are specific sectors where it is dependent on China, but these are few and are not critically important. This section throws more light on these aspects.

Dependence on trade with China

One key element of the Romanian debate on China is import dependence. China is Romania’s largest import partner outside the EU, and Romania runs a high trade deficit with China (higher than with all other extra- and intra-EU trade partners). In fact, solving the trade deficit issue appears as a more pressing issue than the quest for strategic autonomy itself insofar as it is more tangible and politically expedient. The trade deficit with China before the Covid-19 crisis (EUR 3.7 billion in 2019) represented around 22% of Romania’s total trade deficit, but imports from China only amounted to EUR 4.5 billion in 2019, or 5.3% of the country’s total imports for the year. In 2020, the deficit with China increased to EUR 4.4 billion approximately (imports of EUR 5.1 billion and exports of EUR 0.7 billion), 24% of the total trade deficit.

8. Please consult: <https://ec.europa.eu>.

In the EU, Romania is a marginal trader with China (0.3% of the total EU exports and 1.3% of the total imports).⁹ In recent years, the EU imported around 22% of its total imported goods from China (Romania only around 5% of its total imports) and exported 10% of its total exported goods to China (Romania only 1% of its total exports). The EU recorded a cumulative trade surplus of around EUR 200 billion in 2019 and 2020, while the trade deficit with China stood at around EUR 180 billion.

Upon closer examination of 3,002 product categories imported by Romania from China in 2019, China covers more than half of Romania's extra-EU imports of 836 products.¹⁰ For 93 of these products, China's share surpasses 50% of both extra- and intra-EU imports, making China the main import partner worldwide for these product categories, not only at the extra-EU level.¹¹

Regarding exports, China receives over 50% or more of Romania's total (extra- and intra-EU) exports in only 22 product categories out of 1,458.¹²

Companies present in Romania, especially multinationals, do not trade for the sake of China but are driven by the logic of profit maximization. In essence, they follow one basic economic rule, namely "import cheaply and sell expensively". At the same time, economic actors export to markets where they can be more competitive. In specific situations, it is the responsibility of governments to intervene in order to ensure that trade relationships built by private companies do not negatively affect national interests. This could include trade in critically important raw materials, goods, and technologies, for instance. The Covid-19 pandemic and global value chain disruptions have shown much more clearly than the previous crisis of 2008–2009 that free-market capitalism is going through a process of in-depth transformation. Globalization governed by rules has become a priority. China's rise is one key determinant of this shift, among many others, and since 2018–2019, China has been openly designated within the category of non-like-minded actors by Western countries. Doing business as

9. In terms of exports, Germany accounts for almost 50% of the total, France 10%, and the Netherlands and Italy 7% each. For imports, due to the "Rotterdam effect" (the great bulk of the goods imported outside the EU pass through the Netherlands, and even if most of them are re-exported, they are recorded as an integral part of the Dutch trade balance), the Netherlands accounts for 24%, Germany 21%, and France and Italy almost 9% each. Please consult: Eurostat, "International Trade in Goods", 2021, available at: <https://ec.europa.eu>.

10. The author of the calculations regarding China's shares in Romanian imports is Lucas Erlbacher, Associate Fellow at the Austrian Institute for European and Security Policy, author of the Austrian chapter. His database is built upon the BACI database for 2019 (HS6 REV. 1992). Please consult: www.cepii.fr.

11. Shares higher than 90% are recorded for: 860500 - Railway or tramway coaches; passenger coaches, luggage vans, post office coaches and other special purpose railway or tramway coaches, not self-propelled (excluding those of heading no. 8604); 844511 - Textile machinery; carding machines for preparing textile fibers; 392094 - Plastics; plates, sheets, film, foil and strip, of phenolic resins, non-cellular and not reinforced, laminated, supported or similarly combined with other materials; 630232 - Bed linen; of man-made fibers (not printed, knitted or crocheted). More informations at: <https://wits.worldbank.org>.

12. Two of them with a share of 100% (290890 - Phenol or phenol-alcohol derivatives; containing only nitrated or nitrosated groups, their salts and esters; and 261610 - Silver ores and concentrates) and six between 90% and 100%. More informations at: <https://wits.worldbank.org>.

usual with China is no longer the norm, and in this reality itself lies the very need to reduce dependencies on China.

Reducing dependence and the inclination toward eliminating cooperation with China in key sectors

Romanian industries have moved to respond to the dependence narrative by seeking to diversify their supply chains. As Mihai Ionescu, president of the National Association of Romanian Exporters and Importers (ANEIR) explains, “at the Romanian level, we initiated several projects through which we try to produce a series of materials and products on a national level where we were dependent on the Chinese market, both for national and European needs. We act on two fronts, to find European sources of supply and to try to solve on a national level a series of supply needs with raw materials and equipment”.¹³

In spite of these views, however, the real threats for and weaknesses of the Romanian economy are not so-called dependence on China, but rather factors such as Romania’s own low level of competitiveness, the closure of key factories, and the decrease of the highly qualified workforce due to the “brain drain”. It is worth mentioning that Chinese investment in Romania is around EUR 1.1 billion, representing only 1.2% of the total FDI stock.¹⁴ Most of the recent investments are due to Chinese acquisitions of Western European companies with branches in Romania, not as a direct acquisition of Romanian companies or as greenfield investment.

Beyond this broad picture, the question of dependence on China in strategic sectors such as energy and technology has been raised in Romania as a source of concern from the standpoint of national security. The cornerstone of the initiatives taken by Romania in this regard was represented by the presidential meeting of August 20, 2019, in Washington, DC, between Donald Trump and Klaus Iohannis. The Joint Statement noted that both sides “seek to avoid the security risks that accompany Chinese investment in 5G telecommunications networks” and “the United States and Romania recognize that energy security is national security”.¹⁵

The energy projects with China outlined until 2015–2016, estimated at around EUR 10 billion, have never materialized. The most relevant case is that of the nuclear power facility of Cernavoda. After signing an MoU in 2016 and a preliminary construction agreement with the China General Nuclear Power Corporation (CGN) in May 2019, Romania officially canceled the agreement with CGN, at the request of the majority shareholder of Nuclearelectrica, namely the Ministry of Economy, in June 2020. In

13. “Ce măsuri ia Guvernul? China a provocat României în 2019 cel mai mare deficit comercial dintre statele partenere în comerțul internațional: 22% din întregul deficit de 17 mld. euro, adică 3,7 mld. euro. Apoi urmează Ungaria, cu un deficit de 2,7 mld. euro”, *Ziarul Financiar*, June 13, 2020.

14. Banca Națională a României, “Investițiile străine directe în România în 2020”, 2021, available at: www.bnr.ro.

15. Please consult: www.presidency.ro.

October of that year, a draft agreement on the same project was signed with the United States and greenlighted by the European Commission a month later. The agreement was ultimately approved by Romanian President Klaus Iohannis in July 2021, and since then China no longer has access to the Romanian nuclear energy sector.¹⁶

The rollout of 5G is another area where Romania demonstrated a clear reticence to move forward with Chinese technology at the behest of the United States. After signing an MoU with the US in August 2019 stipulating that 5G networks have to be “constructed based on free and fair competition, transparency, and the rule of law”, with “trusted and reliable vendors”¹⁷, Romania adopted the Law no. 163 of June 11, 2021, which would effectively bar Huawei and other Chinese vendors from the country's 5G rollout, though the text does not mention China or any Chinese company explicitly.¹⁸

President Iohannis has repeatedly stated that he is in favor of building Romania's 5G network with NATO partners,¹⁹ and this law effectively enables cooperation with like-minded actors, to the detriment of Huawei.

Concluding remarks

Romania has fully accepted and adopted the concepts of *strategic resilience* and *open strategic autonomy* for the EU. However, it is not in the category of countries with a strong industry, with strong national companies active in global value chains, in technology and knowledge, which can mostly contribute to these goals. It is a strong supporter of the EU discourse in this regard, but not a game changer.

The Romanian narrative on dependence is derived from the European one and has remained in line with it. The narrative on solutions for diversification is also strongly correlated with EU initiatives. Bucharest has aligned with the European discourse for reasons of solidarity, as well as economic, political, social, technological, and security-related considerations.

At the same time, differentiating countries into two categories, like-minded and non-like-minded, associated with declarations such as those mentioned at the beginning, heralds the exclusion of China from economic cooperation. China is definitely more competitive than EU partners in various fields of activity, and if economic cooperation in bilateral Romanian-Chinese relations is eliminated, then opportunity costs might increase significantly. If this trend is recorded at the European

16. This brief analysis represents the synthesis of the following sources: www.ans.org, www.energy.gov, www.digi24.ro, <https://economie.hotnews.ro>.

17. Please consult: www.romania-insider.com and <https://media.hotnews.ro>.

18. Please consult the Law 163/11 June 2021, published in the *Official Gazette of Romania* No. 590/11 June 2021, available at: <http://legislatie.just.ro>.

19. “DECIZIE Parlamentul a adoptat legea 5G, care exclude companii precum Huawei. A fost însă prelungit termenul de folosire a tehnologiilor neconforme cu noile norme”, *Profit*, June 7, 2021.

level as well, this could encourage China to get even closer to partners considered by the Europeans as “non-like-minded”, which would strengthen economic relations between countries situated on the other side of the barricade. A new Cold War has to be avoided in spite of everything.

In general, Romanian decision makers, mass media, and experts point to import dependence on China, even if this is much lower than the EU average. At the same time, dependence in the fields of energy, investment, technology, knowledge, politics, or geopolitics is negligible, especially if the elimination of cooperation with China in key national security sectors such as energy and telecoms infrastructure is taken into account.

In the majority of sectors where Romania is dependent on imports, it can diminish this dependence only if it increases its role in European value chains and if it organizes its production and distribution processes better. In this regard, part of the solution is active participation in European industrial alliances such as the European Battery Alliance, the European Raw Materials Alliance, the European Clean Hydrogen Alliance, the industry-led Automotive Skills Alliance, and the European Alliance on Processors and Semiconductor Technologies, in which it has already shown interest. At the same time, the political statements in the direction of reducing overdependence on China have been accompanied by specific programs to finance and stimulate domestic production. For instance, the program for SMEs, namely IMM Invest (under the aegis of the Ministry of Finance) supported and continues to back the activity of small and medium-sized businesses in Romania.

Romania has used European arguments to distance itself from its most important Asian trading partner in favor of cooperation with like-minded partners. More than European influence, it is the strategic partnership with the US that seems to have motivated Romania. With Washington seen as a guarantor of security in the Eastern neighborhood, this trend will only deepen in light of the war in Ukraine and its complex geopolitical dynamics.

Spain: A recent, crisis-led public debate on dependence on China

MARIO ESTEBAN & UGO ARMANINI

ELCANO ROYAL INSTITUTE

Summary

Dependence on China is a recent element of the Spanish public debate, triggered by Chinese purchases of Spanish public debt during the eurozone crisis and reignited by the Covid-19 pandemic. This debate focuses on the resilience of supply chains and overdependence on a single supplier and has internalized geopolitical risks such as the US–China rivalry. Although a certain lack of trust toward China permeates this debate, dependence on this country is not a decisive element of the public debate given a sense of limited bilateral dependence. Dependence is mainly considered at the EU level, and Spain is following a Europeanist approach to tackle the issue.

Introduction

Covid-19 has fostered the Spanish debate on dependence by evidencing some vulnerabilities of supply chains and has put China in the spotlight as one of Spain's major suppliers. This chapter explores the way dependence on China is addressed in Spain based on the analysis of parliamentary debates and documents and statements from government officials and business actors.

This issue signals a break from the past and has only gained visibility over the past decade. It touches upon overdependence and resilience of supply chains and reflects partly both the lack of trust toward China and Spain's reaction to the global geopolitical challenges it faces. Dependence on China has not become a predominant element of the public debate given a sense of limited bilateral dependence. This issue, like dependence on other great powers such as the US and Russia, is mostly considered at the EU level, and Spain is turning to a Europeanist approach to manage it.

An emerging issue within a broader strategic debate

Dependence on China and the potential pressures and vulnerabilities it may generate is a recent element in the Spanish public debate. Traditionally, the emphasis was on the bilateral economic relationship and how to boost economic exchanges with China in order to attain levels achieved by other major EU economies, like France or Germany. Despite complaints about the bilateral trade deficit, the expected solution was an increase in Spanish exports to China, not a reduction of Spanish imports, as reflected in the first three official plans for the Asia-Pacific region over the period 2000–2012.¹

The first visible reference to the issue of dependence appeared following the eurozone crisis and the Spanish financial crisis in the early 2010s with regard to the share of Spanish public debt held by China and China's outward investments, which were commonly overestimated. In particular, concerns were raised about possible vulnerability to Chinese political pressure, as investors from China are identified as representing or depending on a political system with different interests and values that make them problematic.² Although Spain never used its veto or its national investment screening mechanism against Chinese FDI, the Spanish authorities' informal rejection of Chinese tentative propositions prevented a series of acquisitions, including that of Red Eléctrica de España by State Grid Corporation of China, that of CESCE—a public insurance firm—by Fosun, and that of Repsol and Canal de Isabel II by China Investment Corporation.³ These concerns are limited to strategic sectors, as the Spanish authorities continue to welcome Chinese investment in general. At the same time, later Chinese engagement in some critical Spanish infrastructure, namely container and dry ports in Bilbao, Valencia, Madrid, and Zaragoza, did not generate specific concerns.⁴ The US–China trade war and Covid-19 have raised the profile of dependence on China in the public debate and reframed and consolidated nationwide thinking on Spanish and European strategic dependence and autonomy.⁵

1. Government of Spain, Ministry of Foreign Affairs, *Plan marco Asia Pacífico 2000-2002*, 2000, p. 12, 37, available at: <https://static.casaasia.es>; Government of Spain, Ministry of Foreign Affairs and Co-operation, *España hacia Asia y el Pacífico: Plan de Acción 2005-2008*, 2005, available at: <https://politica-china.org>; Government of Spain, Ministry of Foreign Affairs and Co-operation, *Plan Asia Pacífico 3: 2008-2012*, 2008, available at: <https://static.casaasia.es>.

2. M. Otero-Iglesias, "How Much Spanish Sovereign Debt Does China Hold?", Elcano Royal Institute blog post, December 17, 2014, available at: <https://blog.realinstitutoelcano.org>.

3. M. Esteban and M. Otero-Iglesias, "Chinese Investment in Spain: Open for Business, But Not at Any Price", in J. Seaman, M. Huotari and M. Otero-Iglesias (eds.), *Chinese Investment in Europe: A Country Level Approach*, 2017, Paris, European Think-tank Network on China (ETNC), p. 145, available at: <https://media.realinstitutoelcano.org>.

4. China Global Television Network, "Noatum Ports to Boost China-Spain Maritime Cooperation", State Council Information Office of China, August 22, 2018, available at: <http://english.scio.gov.cn>.

5. Government of Spain, *2021-2024 Foreign Action Strategy*, 2021, pp. 68–69, 87, available at: www.exteriores.gob.es; Spanish Economic and Social Council, *La Digitalización de la Economía*, 2021, p. 141, available at: www.ces.es; Spanish Institute for Strategic Studies, Spanish Committee of the World Energy Council & Spanish Energy Club, *Energía y Geoestrategia 2021*, 2021, p. 355, available at: www.ieee.es.

A focus on supply chains driven by mistrust and geopolitical constraints

Covid-19 has twice highlighted Spain's dependence on foreign trade—first regarding medical products, and then with the shortages experienced during the economic recovery, including semiconductors crucial for the automotive industry, a key sector of the Spanish economy. The public debate has emphasized the critical nature of these industries and their vulnerability to foreign overdependence, with a double reflection: on Asia in general and the resilience of global supply chains, and regarding overdependence on China in particular. In both cases, the key issue is the supply chains of Spanish companies which, for now, seek to maintain their links with their key strategic Chinese partners. However, the issue of dependence on China has been progressively internalized and featured in statements from Spanish ministers, like María Reyes Maroto, minister of industry, trade, and tourism, in several national plans and strategies, like the Strategic Plan for Health Crisis Prevention proposed by the Spanish Socialist Workers' Party, or the most recent Spanish Strategy for External Action.⁶ China is never mentioned explicitly in the latter, but official statements by Spanish Minister of Foreign Affairs José Manuel Albares Bueno have linked the issue of strategic autonomy with dependence on China for pharmaceutical goods, for example.⁷ At the national and EU levels, this has been echoed by Spanish business representatives and associations, especially coming from the health and automotive sectors, both deeply affected by supply shortages, which have also discussed the issue in parliamentary debates.⁸

The specific case of 5G and the securitization of dependence on Chinese providers translates two particularities associated with China in the Spanish public debate: the awareness of geopolitical risks connected with bilateral cooperation in strategic sectors in a context of intensified US–China rivalry, and the fact that China is perceived as a less reliable and trustworthy partner than Spain's traditional partners.⁹ This is reflected in the preliminary draft bill of the 5G Cybersecurity Act, which addresses the issue of

6. Government of Spain, *2021-2024 Foreign Action Strategy*, 2021, pp. 68–69, 87; M. Jesús Pereira, "Reyes Maroto: 'Tenemos que dejar de contar turistas para pensar en la rentabilidad'", *ABC de Sevilla*, September 20, 2021, available at: <https://sevilla.abc.es>; PSOE, "El PSOE demanda un Plan Estratégico Nacional de prevención para crisis sanitarias, en coordinación con la UE", July 27, 2020, available at: www.psoe.es.

7. "Albares defiende que Europa necesita una 'fuerza de reacción rápida' en defensa para alcanzar la 'autonomía estratégica'", *Europa Press*, September 29, 2021, available at: www.europapress.es.

8. "Foro Tendencias 2021: Un año marcado por el coronavirus", *PRISA*, September 21, 2021, available at: www.prisa.com; Spanish Senate, Ecological Transition Committee, *Diario de sesiones del Senado*, No. 192, April 12, 2021, p. 45, 50, available at: www.senado.es.

9. Government of Spain, Ministry of Industry, Trade, and Tourism, *Directrices Generales de la Nueva Política. Industrial Española 2030*, 2019, p. 12, available at: www.mincotur.gob.es.

foreign interference and supply chain vulnerabilities.¹⁰ Article 11 provides criteria for risk analysis likely to apply to Chinese suppliers, including: links between suppliers and their supply chains with third countries' governments; the structure of corporate and governing bodies; the capacity of a third country to exert pressure on the suppliers' business and location; and the political regime and cyber-defense policy of this country. Covid-19 and the anticipated digital and green transitions may have spotlighted Spanish demand for strategic goods, but it is likely that the dependence narrative is mainly driven by changing perceptions and emerging mistrust toward China. After all, trade patterns like the increasing share of Spanish imports from China, or high dependence in antibiotics (particularly the case of Chloramphenicol) or critical raw materials such as rare earths have long predated this debate.

At the same time, the securitization of foreign dependence and geopolitical considerations still leave space for a "positive agenda" in Spain–China relations regarding dependence on China for securing international public goods. In particular, the Spanish authorities commonly acknowledge that China's action is crucial for climate change given its contribution to greenhouse gas emissions, as mentioned in the latest Spanish Foreign Action Strategy and statements from José Manuel Albares Bueno and Arancha González Laya, former Spanish minister of foreign affairs.¹¹ As the latter argues, climate change should constitute a "systemic space" of cooperation with China, along with cooperation on global financial stability, international trade, development cooperation, or global health.¹²

A sense of limited bilateral dependence and the adoption of an EU-level perspective

Despite Covid-19, the notion of dependence on China remains marginal in the Spanish public debate, except for Vox, the third-largest party in the Spanish parliament, which has links with the US alt-right, and which is by far the most vocal in parliamentary and public interventions on the problematic nature of China's authoritarian communist system.¹³

10. Government of Spain, Ministry of Economic Affairs and Digital Transformation, *Borrador de Anteproyecto de Ley sobre Requisitos para garantizar la seguridad de las redes y servicios de Comunicaciones electrónicas de quinta generación*.

11. Government of Spain, *2021-2024 Foreign Action Strategy*, 2021, p. 85. Spain, Congress of Deputies, Foreign Affairs Committee, *Diario de sesiones del Congreso de los diputados*, No. 467, August 30, 2021, p. 11, available at: www.congreso.es.

12. "Spain is back": An interview with Arancha González Laya", *ECFR*, March 2021, available at: <https://ecfr.eu>.

13. These have covered a broad range of topics, like dependence on China regarding rare earths or 5G equipment. Vox has also called for a review of Spain's and the EU's China policy. See for example: Vox, *Proposición no de Ley por la que se insta al Gobierno a llevar a cabo todas las acciones pertinentes para impedir la participación de proveedores tecnológicos chinos en la red 5G de España, dado el riesgo que lo*

Otherwise, dependence on China does not appear as a controversial issue in foreign policy debates.

The Spanish authorities are aware that their country's limited links with China mitigate the risks of economic coercion. In this respect, some controversial decisions taken in Spain should be seen in a more complex light than the simple fear of economic retaliation from Beijing. The highly mediatized decision by parliament in 2014 to overturn universal jurisdiction for Spanish courts, which in particular followed a ruling by the Spanish National Court that indicted former Chinese presidents and high-level officials for genocide and human rights violations, is one such example. Indeed, at the time, voices inside the ruling Popular Party were already advocating for reversing the Spanish universal jurisdiction policy, and Spain was also under pressure from the US and Israel to do so. Therefore, that decision should not be viewed as solely a result of bending to Chinese pressure.¹⁴ This sense of limited dependence is consistent with data on investment, as Chinese investment flows to Spain remain at relatively low levels, and with the perception of public opinion, which maintains neutral attitudes toward bilateral economic relations.¹⁵ On the other hand, the Spanish economy has accumulated several strategic dependencies on China. The Spanish authorities have not yet publicized systematic assessments of import dependencies on China. However, dependence on rare earths has already been internalized, and in the absence of a Spanish framework, business associations, for example, refer to EU-level data including the European Commission's critical raw materials list.¹⁶ Exploratory research has been conducted in the Spanish literature by Lucía Salinas Conte and published by the Elcano Royal Institute.¹⁷ Following the methodology developed by the Henry Jackson Society, Lucía Salinas Conte has identified strategic dependencies that give China the ability to significantly impact the overall availability in Spain of some twenty

anterior supone para la Seguridad Nacional española, Congress of Deputies, January 22, 2021, pp. 2–9, available at: www.congreso.es; Vox, *Proposición no de Ley relativa a revisar en profundidad nuestro comercio con la República Popular China, para que se debata en la Comisión de Industria, Turismo y Comercio*, Congress of Deputies, June 2020, pp. 24–27, available at: www.congreso.es.

14. A. Kassam, "Spain Moves to Curb Legal Convention Allowing Trials of Foreign Rights Abuses", *The Guardian*, February 11, 2014, available at: www.theguardian.com.

15. M. Esteban, *España ante la rivalidad estratégica entre China y Estados Unidos*, Elcano Royal Institute, 2021, p. 24, 26, available at: www.realinstitutoelcano.org; M. Esteban, U. Armanini, R. Q. Turcsányi, M. Šimalčík, K. Kironská and R. Sedláková, *Spanish Public Opinion on China in the Age of COVID-19: Facing COVID-19's Negative Impact*, Central European Institute of Asian Studies, 2020, p. 4, 8, available at: <https://ceias.eu>.

16. Spanish Association of Automotive Suppliers (Sernauto), "Iniciativas europeas y españolas sobre materias primas críticas", November 2020, available at: www.sernauto.es; Spanish National Association of Manufacturers of Capital Goods (Sercobe), "Lista de Materias Primas Críticas: actualización 2017", October 4, 2017, available at: www.sercobe.es; European Commission, *Critical Raw Materials Resilience: Charting a Path towards Greater Security and Sustainability*, COM(2020) 474 final, September 3, 2020, p. 3, available at: <https://eur-lex.europa.eu>.

17. L. Salinas Conte, "La dependencia de China en las cadenas de suministro españolas", *Analyses of the Elcano Royal Institute* (ARI), nº102/2021, Elcano Royal Institute, 2021, available at: www.realinstitutoelcano.org.

critical goods, i.e., goods with critical applications in critical infrastructures, industries, and core technologies of the fourth industrial revolution.¹⁸ This qualitative definition of critical goods is in line with the EU's assessment of strategic dependencies, but also with Spain's conception of strategic sectors that are listed, for example, in its investment screening mechanism, revised amid the pandemic.¹⁹ The twenty-two aforementioned critical goods include pharmaceutical products, raw materials, and electronic components. This leaves open the question of indirect dependence. Preliminary analysis based on OECD aggregated data shows limited Chinese value added embodied in imports from Spain's five main trade partners (France, Germany, Italy, the UK, and the US), but disaggregated data also show high dependence in some pharmaceutical products, for example.²⁰

Conversely, dependence on the Chinese market is not yet an apparent element in the Spanish public debate, be it as an export market or in terms of access to technology and innovation. This is not to say that these two elements are irrelevant. With the notable exception of agricultural products, China remains a secondary export market compared with Spain's traditional EU partners, the US, and the UK.²¹ In fact, China itself has been identified as a key destination for export diversification and the internationalization of the Spanish economy, and Spain remains committed to increasing its exports and investments in the country. However, over the last few years, the Spanish authorities and business sector have integrated the geopolitical risks stemming from US–China tensions and the defensive stance of the EU in its bilateral relations with China. In that regard, although they have not been publicly commented upon, it is likely that China's sanctions against Lithuania, which have received substantial media coverage, are closely monitored by the Spanish authorities.²² This risk perception appears even more acute in terms of technological cooperation in key sectors for the green and digital transitions, like telecommunications and clean energy. The debate around Chinese 5G technology has acted as a signal and questioned the sustainability of technological partnerships with Chinese firms.

18. J. Rogers, A. Foxall, M. Henderson and S. Armstrong, *Breaking the China Supply Chain: How the "Five Eyes" Can Decouple from Strategic Dependency*, The Henry Jackson Society, 2020, available at: <https://henryjacksonsociety.org>. This report by the Henry Jackson Society identifies a strategic dependence on China if: a country is a net importer of a category of goods, with more than 50% coming from China, which itself controls more than 30% of global trade of that good. The research conducted by Lucía Salinas Conte uses an amended methodology which considers cases where China controls more than 50% of global trade of a given good (the two other elements remain unchanged).

19. Government of Spain, State Agency of Official State Gazette, Real Decreto-ley 8/2020, de 17 de marzo, de medidas urgentes extraordinarias para hacer frente al impacto económico y social del COVID-19, BOE-A-2020-3824, *Boletín Oficial del Estado*, No. 73, March 18, 2020, available at: www.boe.es.

20. OECD, Trade in Value Added database, available at: www.oecd.org.

21. Government of Spain, Ministry of Industry, Trade, and Tourism, *Informe Mensual de Comercio Exterior Diciembre de 2021, 2022*, p. 19, available at: <https://comercio.gob.es>.

22. L. Proto, "¿Crees que la dependencia de Rusia es mala? Prepárate para la que nos espera con China", *El Confidencial*, February 2, 2022, available at: www.elconfidencial.com.

In fact Spain's dependence on China is mainly framed at the EU level, with concerns over the EU's "vulnerability" and "enormous dependence on very limited sources of supply" and calls for European strategic autonomy.²³ The sense of limited bilateral dependence, and the absence of an explicit debate on indirect dependence on China, do not prevent Spanish officials and the business sector from understanding that this issue affects the EU's economy and strategic sectors, and that adequate responses are needed at the European level. It also signals the Europeanist approach that Spain favors to manage the challenges that arise in its relations with China. EU projects are identified as key drivers for the development of Spain's technological and industrial capacities, and Spanish authorities and business associations support initiatives to develop and reduce the foreign dependence of European industry in strategic sectors like the pharmaceutical industry, semiconductors, or batteries.²⁴ At the same time, any possible leverage Spain may have on China will be through the EU, as China is looking for friendly partners to oppose decoupling trends, and the Chinese authorities count on Spain to promote greater trust and wider cooperation between China and the EU.²⁵ Spain's emphasis will therefore be on dealing with China at the EU level and shaping the EU's China policy. Media coverage also partly disseminates this EU-level perspective, for example, by connecting the issue of shortages in Spain, in the EU, and in other member states, and by outlining European initiatives as a response, although it may have conveyed a more acute sense of direct dependence, especially during the shortages of medical supplies during the initial stages of the pandemic.²⁶

23. "Impulsar el comercio exterior será prioridad para Exteriores, dice González Laya", *EFE*, January 27, 2021, available at: www.efe.com.

24. A. G. Encinas, "Debemos trabajar para traer nuevos modelos de Renault a Castilla y León", *El Norte De Castilla*, November 9, 2020, available at: www.elnortedecastilla.es; Government of Spain, Presidency of the Government, "Reyes Maroto solicita a la Comisión Europea que agilice los instrumentos para impulsar la fabricación de semiconductores en Europa", September 29, 2021, available at: www.lamoncloa.gob.es; O. Rodríguez, "Industria y Ciencia ya estudian las propuestas para producir microchips en España", *El Independiente*, June 22, 2021, available at: www.elindependiente.com; Spanish Chemical Industry Federation (FEIQUE), "La Estrategia Farmacéutica Europea, oportunidad para recuperar el terreno perdido en investigación frente a EEUU y Asia", November 26, 2020, available at: www.feique.org.

25. Government of Spain, Presidency of the Government, "Sánchez y Xi Jinping apuestan por el multilateralismo para hacer frente a los desafíos globales", May 26, 2021, available at: www.lamoncloa.gob.es; Mission of the People's Republic of China to the European Union, "State Councilor and Foreign Minister Wang Yi Speaks by Phone with Spanish Foreign Minister Arancha González Laya", May 13, 2020, available at: www.mfa.gov.cn.

26. L. Pellicer, "Bruselas buscará alianzas fuera de la UE para romper su dependencia industrial de Asia en sectores clave", *El País*, May 4, 2021, available at: <https://elpais.com>; E. G. Sevillano, "Por qué España está sin mascarillas cuando lo peor de la crisis no ha llegado", *El País*, March 19, 2020, available at: <https://elpais.com>.

Conclusion: Pushing for European strategic autonomy

Dependence on China has only recently entered the Spanish public debate, fostered by global and geopolitical crises like the eurozone crisis, Covid-19, and US–China geopolitical competition. Although this is not a major issue in the public debate, since the sense of bilateral dependence remains limited, it is likely to stay, as the Spanish authorities have endorsed more securitized approaches and because defining dynamics like US–China competition will persist. In the short term, this will likely not entail radical changes for Spanish supply chains, be it significant reshoring or rapid diversification. Spanish support for EU-level initiatives in favor of strategic autonomy may be a more immediate and tangible response, especially in strategic sectors like health or the digital economy, and in areas where European industry may achieve a global competitive advantage.

Sweden: Free trader with growing security concerns

VIKING BOHMAN & FRIDA LINDBERG
SWEDISH NATIONAL CHINA CENTRE

Summary

The Swedish government is of the view that it needs China in order to create jobs and maintain economic growth, and that China is an "indispensable partner" in addressing global challenges such as climate change. The government believes that it has few alternatives to engaging with China in these areas. This perceived state of economic and political reliance is not presented as a problem per se, but rather as an unavoidable fact. There are no indications that Sweden will abandon its pro-free trade positions or its resolute opposition to any tendency toward protectionism in the European Union. Nonetheless, this approach is increasingly being coupled with a recognition of the security risks associated with economic flows, especially inward investment, but also with the supply of critical raw materials such as minerals and rare earth metals. Sweden's nascent interest in its potential economic vulnerabilities does not necessarily mean that it has a full understanding of its dependence on China. We provide guidance on a study that could provide such knowledge.

Why dependence matters

This chapter reviews the Swedish government's perception of its dependence on China as presented in official documents and media content. *Perceived* dependence is important because it can condition policy decisions. For example, a policymaker who believes that Sweden is highly dependent on China, and that the costs of opposing Beijing would be high, is likely to be more prone to adapt, avoid, or self-censor decisions that could lead to a reaction from China. On the other hand, a policymaker who underestimates or is unaware of a dependence could engage in overly daring decision-making on issues related to China. In the latter case, the decision-maker might also fail to address or alleviate a dependence with a bearing on national security.

Therefore, to make sound policy decisions, it is important to have an accurate understanding of a country's dependence that is as free as possible of over- or underestimations. We cannot make such detailed estimations in this limited study.

Instead, we explore the government's perceptions of its dependence in order to identify knowledge gaps and lay the groundwork for future studies. We also present questions that could guide an in-depth study of Sweden's dependence on China.

What is dependence?

Our understanding of dependence draws on the work of James A. Caporaso.¹ We posit that three conditions must be met for state A to be dependent on state B.

- 1. A needs something that B has.** This could be goods such as oil, rare earth metals, or semiconductors that can be transferred from B's possession to A. It might also be something more abstract, such as A's access to B's markets, or a desired behavior such as a reduction in B's greenhouse gas emissions.
- 2. A's ability to access alternatives is limited or costly.** A may need a specific type of product controlled by B to carry on its economic activity. If alternative suppliers—C and D—are easy to access, however, A may reroute its supply chains in cases of disruption at little cost. By contrast, in situations where there are no alternative suppliers or products, or where the switching costs in both time and resources are high, a state of dependence exists. The same principle is applicable to more abstract objects, such as market access and greenhouse gas emissions.
- 3. B exercises some level of control over the object.** For example, if B owns oil reserves, raw materials, or leading semiconductor manufacturers—or controls the territory on which these goods are produced—then B will in most cases be able to restrict A's access to these goods. Similarly, if B has a strong governance system, it will in most cases be able to restrict the access of A's companies to its market and the greenhouse gas emissions of its industries through legislation or policy guidance.

The purpose of this definition is merely to provide a starting point to guide and structure our investigation of the Swedish government's view of its dependence on China. We have intentionally excluded a direct analysis of aspects related to "interdependence". In other words, we do not discuss China's dependence on Sweden, although this would be an important topic for a study that seeks to fully understand Sweden's dependence on China.

1. J. A. Caporaso, "Dependence, Dependency, and Power in the Global System: A Structural and Behavioral Analysis", *International Organization* 32, No. 1, 1978, pp. 19–22.

A note on methodology

Guided by this three-pronged definition, we have reviewed government policy documents to explore Sweden's perception of its dependence on China. We selected documents published between 2017 and 2021 that address government policy related to China at the highest level, such as press releases, annual statements of foreign policy, and government reports.² While our primary concern is the government's view, we have also studied items published in the media in 2020 and 2021 to briefly map out the general direction of public discourse.³

Sweden believes that it needs China to create jobs and growth, and to address global challenges

The government's white paper on China published in 2019, which is sometimes described as Sweden's "China strategy", estimates that 25,000 people in Sweden work in Chinese-owned companies. It states that it is becoming "increasingly important" for Swedish companies to have access to China's market, technology, and innovation, and that it is "essential" for Swedish companies to establish a presence in the education, research, and innovation environments there.⁴

In an interview in early 2021, Trade Minister Anna Hallberg said that "China is becoming increasingly important for Sweden's growth and therefore for our welfare". She stated that over 100,000 jobs in Sweden "depend" on the economic relationship with China due to trade and investment.⁵

The perceived need for cooperation with China is even clearer with regard to global challenges. The government's 2021 annual "statement on foreign policy" notes that there are "global challenges that we can *only* address together with China—such as climate change, health, and a functioning and fair free trade order" (emphasis added).⁶

2. The review included 14 items.

3. To identify relevant items, we used the Swedish database Mediearkivet (Retriever). Searches included variations of the terms "China" and "dependence", together with the names of the prime minister, the foreign minister, and the trade minister.

4. Ministry for Foreign Affairs, *Approach to Matters Relating to China*, Government Communication 2019/20:18, pp. 11, 18–19, available at: www.government.se.

5. F. Öjemark, "Ministern: EU-avtalet gynnar svenska bolag", *Dagens Industri*, February 12, 2021, available at: www.di.se.

6. Ministry for Foreign Affairs, Statement of Foreign Policy by Foreign Minister Ann Linde, February 24, 2021, p. 5, available at: www.regeringen.se.

Sweden believes that it has few alternatives to China

The 2019 white paper states that China is an “*indispensable* partner in the response to global challenges” (emphasis added). China is seen as having a “key role” in addressing climate change. The document also points out that “without China’s participation the goals of the Paris Agreement will not be achievable”.⁷

On the economic side, there is no equivalent statement to the effect that China is “indispensable”. However, government statements describe how Swedish jobs depend on China, which is considered “increasingly important” to the Swedish economy and a “leading technological power”. This suggests that China is considered a partner that would be very hard to replace.⁸

Sweden does not view its reliance on China as a problem per se...

The government rarely portrays Sweden’s reliance on China as a problem. Instead, it is presented as a mere statement of fact and appears to be viewed as an unavoidable consequence of free trade. Occasionally, reliance on China is used to emphasize the benefits of economic openness. In December 2021, Foreign Minister Ann Linde argued that it is not feasible to end trade with China, and that Sweden has “a great amount of interest in having a functioning trade with China. Sweden is incredibly dependent on exports”.⁹

In April 2021, Hallberg was asked about the potential dangers associated with maintaining economic openness regarding China. She responded that “one must remember that Chinese investments in Sweden have contributed to so much good: innovation, jobs. We would perhaps not even have any Volvos rolling on the streets today if we did not have the Chinese owners”.¹⁰ There has been no official articulation of the potential dangers associated with becoming “too dependent” on trade with China, or of how China might be able to exercise control over trade flows in a way that could be detrimental to Swedish interests.

7. Ministry for Foreign Affairs, *Approach to Matters Relating to China*, Government Communication 2019/20:18, pp. 17, 6.

8. *Ibid.*, p. 13.

9. T. Larsson Hultin, “Ann Linde: Omöjligt att sluta handla med Kina”, *Svenska Dagbladet*, December 24, 2021, available at: www.svd.se.

10. A. Larsson, “Tuff start för Sveriges handelsminister Anna Hallberg”, *Göteborgs-Posten*, April 17, 2021, available at: www.gp.se.

...But there are concerns about dependence in some areas

Official statements suggest that Sweden is cautious when it comes to measures that could restrict free trade but is increasingly recognizing national security risks in some areas of economic exchange. In his 2021 annual statement on EU policy, EU Minister Hans Dahlgren recognized that Europe should strengthen its resilience in “areas that are vital to our security” but added that “the pursuit of strategic autonomy in some areas should take place without the EU [...] turning inwards. Our open economy serves us well”.¹¹ A further indication of a shift in attitude was Linde’s statement to an annual security conference in January 2022. In laying out Sweden’s approach to China, she said that the benefits for national security should be “central”, while the benefits for society should be “taken into consideration”.¹²

Sweden has adopted new legislation to implement EU regulation 2019/452 on the screening of foreign direct investment (FDI). In a further step in this process, a government inquiry has proposed a Swedish system to screen FDI in businesses where their “activities or technology are essential for security or public order”.¹³ Sweden has also excluded Huawei and ZTE from the rollout of the 5G telecommunications network, and the responsible security and military authorities have explicitly stated that “the Chinese party-state and intelligence agency can influence and exert pressure” on Huawei and ZTE in a way that could be harmful to Swedish security.¹⁴

This vigilance regarding foreign investment is partly reflected at the trade level. In line with the European Commission’s Communication on critical raw materials resilience, the FDI screening system is set to include businesses where their operations concern “critical raw materials” such as metals and minerals.¹⁵ In January 2022, Minister for Business, Industry, and Innovation Karl-Petter Thorwaldsson expressed clear concerns regarding Sweden’s and Europe’s dependence on China for minerals. He said that “geopolitically, we give China as much power over minerals as we have given Russia over natural gas, so this is in every way dangerous and bad for

11. Prime Minister’s Office, Statement on Government EU Policy 2021 by the Minister for EU Affairs Hans Dahlgren, January 20, 2021, available at: www.regeringen.se.

12. Ministry for Foreign Affairs, Speech by Minister for Foreign Affairs Ann Linde at the 2022 Folk och Försvar (Society and Defence) Annual National Conference, January 17, 2022, available at: www.regeringen.se.

13. Ministry of Justice, SOU: 2021:87. *Granskning av utländska direktinvesteringar [Investigation of foreign direct investment]*, November 1, 2021, available at: www.regeringen.se.

14. Post- och telestyrelsen, “Beslut om godkännande av sökande samt tillkommande villkor i auktion av frekvensbanden 3,5 GHz och 2,3 GHz”, October 20, 2020, available at: <https://pts.se>.

15. Ministry of Justice, SOU: 2021:87. *Granskning av utländska direktinvesteringar*, November 1, 2021, p. 348, available at: www.regeringen.se; European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, “Critical Raw Materials Resilience: Charting a Path towards Greater Security and Sustainability”, Brussels, September 3, 2020, available at: <https://eur-lex.europa.eu>.

Europe". When asked about whether China's dominance in this area could be harmful, he suggested that China's control over rare earths could put Sweden "in the hands of a foreign interest that we in Sweden and the EU do not want to be".¹⁶

More critical views appear in the public discourse

Concerns about the risks of becoming dependent on China or specific Chinese operators are more salient in the media than government in statements. To give just two examples, concerns have been raised about Volvo Cars' dependence on its Chinese owner, Geely, and about the extensive Chinese investment in Swedish wind power.¹⁷ Sweden's leading pro-business newspaper, *Dagens Industri*, wrote in September 2021 that Volvo needed to "come home" due to security concerns and "the political climate we are entering" as a result of the rivalry between the US and China. Commenting on the wind power issue, one expert noted that China could "use the influence to exert pressure on Sweden" if its share of electricity production in Sweden increased further.¹⁸

Going forward

Sweden has been reluctant to accept the notion of "strategic autonomy" and insists that the concept should not alter the EU's approach to economic openness.¹⁹ There are no indications that Sweden will abandon its pro-free trade positions or its resolute opposition to any signs of protectionism. In January 2022, EU Minister Dahlgren said that "there are now tendencies in the union [...] toward [...] protectionism. This is the wrong way to go. The government is clear in its pursuit to defend the EU's openness to the world".²⁰ However, this approach is increasingly coupled with a recognition of the security risks associated with economic flows, especially regarding inward investment.

This nascent interest in potential economic vulnerabilities does not mean that Sweden has a full understanding of its dependence on China. For instance, Sweden has not to our knowledge conducted any comprehensive stocktaking of its reliance on China for critical raw materials or other strategically important goods.

16. *Agenda. Ålska gruvor*, SVT, January 23, 2022. 09:15 pm, available at: www.svtplay.se.

17. K. Pihl, "Karin Pihl: Farligt att Kina äger svenska vindkraftverk", *Göteborgs-Posten*, November 16, 2021, available at: www.gp.se.

18. L. Lund and D. Costantini, "Så blev ett statsägt kinesiskt bolag storägare av svensk vindkraft", *Dagens Nyheter*, November 17, 2021, available at: www.dn.se.

19. C. Håkansson, "European Strategic Autonomy: Engaged, Drawing Red Lines. A View from Stockholm", in J. Lewander (ed.), *Strategic Autonomy: Views from the North*, Swedish Institute for European Policy Studies, 2021, available at: www.sieps.se.

20. Prime Minister's Office, Statement on Government EU Policy 2022 by the Minister for EU Affairs Hans Dahlgren, January 26, 2022, available at: www.regeringen.se.

Based on our three-pronged definition of dependence, we recommend a study on Sweden's dependence to answer the following questions:

- 1.** In which areas, sectors, or industries of critical importance to Swedish interests is there a reliance on or need for China? Why are these areas of critical importance to Swedish interests?
- 2.** What is the magnitude of the reliance on China in these areas of critical importance to Swedish interests? For example, what percentage of Sweden's imports of a certain good comes from China?
- 3.** To what extent does China control the products, commodities or other goods or objects that Sweden needs or desires?
- 4.** How likely is it that China would use this control in a way that could harm Swedish interests?
- 5.** What would be the specific consequences for Swedish interests if China used this control in such a way?
- 6.** How could these consequences be mitigated by Sweden's access to alternative partners or substitutes?

UK: Vulnerability or politics? “Strategic dependence” and the China debate

TIM SUMMERS
CHATHAM HOUSE

Summary

The idea that the UK is unhealthily “dependent” on China in some areas has become a notable part of the UK’s China policy debate, repeated by Foreign Minister Liz Truss. The idea first emerged in discussions of Huawei’s role in the development of 5G and critical national infrastructure, while the onset of Covid-19 sparked a wider discussion of issues of dependence in supply chains. The dependence “meme” has more recently featured in other areas, including education ties between the UK and China. However, the concept lacks clear definition, and it seems that the notion of “strategic dependence” is being brandished as much for political expediency in pursuit of a hawkish turn in China policy as a serious policy question in and of itself.

Introduction

The notion that the UK is unhealthily “dependent” on China in some areas has become a notable part of the UK’s China policy debate. The idea was first introduced into policy discussions by a number of politicians, lobby groups, and media commentators across the political spectrum, and subsequently adopted by Liz Truss as secretary of state (Cabinet minister) for international trade and repeated after she became foreign secretary in September 2021. For example, in her October 2021 speech to the Conservative Party Conference, Truss said that “it is important we trade with China, but we must make sure it is reliable trade, that it avoids strategic dependency, and that it does not involve the violation of intellectual property rights or forced technology transfer”.¹

1. The speech, delivered on October 3, 2021, available at: <https://beijingtobritain.substack.com>. See also B. Riley-Smith, “Liz Truss: Britain Cannot Be Dependent on China”, *The Telegraph*, October 22, 2021. Truss has repeated the phrase a number of times since, including in parliament.

The emergence of this discussion about “dependence” took place in the context of a growing and more critical debate about China in British policy circles. The earlier declaration of a global strategic partnership for the twenty-first century by the two governments during President Xi Jinping’s October 2015 visit to the UK (the so-called “golden era”) saw official, commercial, and societal relations between the two countries intensify. Of particular note were major Chinese investments in the UK, including the ongoing expansion of Huawei’s long-standing investments in the country and the agreement that China General Nuclear Power Group (CGN) would invest alongside Électricité de France in the Hinkley Point C nuclear power plant, relatively positive British responses to Chinese policies such as the “Belt and Road” connectivity initiative, and a further growth in trade volumes, student numbers, and education and research exchanges.

The policy debate began to shift, however, in 2018, coinciding with a turn to an overt US policy of strategic rivalry with China. During then-Prime Minister Theresa May’s visit to China in January 2018, an element of policy caution was injected into the government’s rhetorical response to the Belt and Road Initiative.² Throughout that year, government references to concerns about the South China Sea, China’s approach to what was described as the “rules-based order”, and cyber security became more frequent. The sense of a rebalance in the UK’s approach to China was accelerated in 2019, propelled partly by reports of human rights abuses in Xinjiang (northwest China), and the government and political opinion makers became increasingly critical of Beijing after protests erupted in Hong Kong in June 2019. A further shift in the tone of the policy debate occurred in spring 2020 after Covid-19 spread to the UK, prompting outspoken criticism of China for “allowing” the coronavirus to spread.³

5G and “dependence” on Huawei

The issue that really brought the more specific question of “dependence” onto the agenda was the debate about whether Chinese telecoms company Huawei should be allowed to continue to play a role in the development of the UK’s 5G network. That debate grew from 2018 onward, intensifying through 2019. Successive governments had welcomed Huawei’s investment in the UK for two decades, and in the midst of the growing political controversy around Huawei, the government made it known at several points in 2019 that it would still allow Huawei to expand its presence into the provision of 5G equipment in the UK. Although the government assessment was that any risks

2. T. Summers, “Imagining Brexit: The UK’s China Policy After the Referendum”, in M. Reilly and Chun-yi L. (eds.), *A New Beginning or More of the Same: The European Union and East Asia After Brexit*, New York: Palgrave Macmillan, 2021.

3. T. Summers, “UK: Sharpening the China Debate Amid Covid-19”, in *Covid-19 and Europe-China Relations*, European Think-tank Network on China, 2020.

from the use of Huawei equipment could be managed,⁴ an increasing number of critical voices argued that there were significant national security risks from allowing a Chinese company to provide such equipment, and even that “dependence” on that company could facilitate excessive Chinese control or influence if bilateral relations were to sour.⁵

In addition to media coverage, the Huawei issue was debated in parliament on several occasions, with a number of parliamentarians linking Huawei not just to technology-related national security risks but suggesting that there was a wider problem of dependence or inability of the UK to meet its own tech needs. In January 2020, the government again confirmed that it would permit Huawei equipment to be used in the 5G network, though with limits on its market share. However, as political pressure grew further—in particular from the US (both Trump and Pompeo lobbied the British government on the issue) and some members of parliament from the ruling Conservative Party—the government eventually announced a *volte face*, in July 2020, requiring Huawei equipment to be removed from the 5G network by 2027. In explaining the government’s decision, then-Secretary of State for Digital, Culture, Media, and Sport Oliver Dowden said that Huawei and other Chinese-owned vendors were “high risk”. He noted that new US sanctions imposed in May 2020 created “uncertainty [...] around Huawei’s supply chain”, meaning that the UK needed to find alternative, more secure, and more resilient options for 5G, in spite of the increased costs. From a more strategic perspective, Dowden added that “countries around the world, not just in the United Kingdom, have become *dangerously reliant* on too few vendors”.⁶ The message was that dependence on a Chinese company in this area was to be avoided.

Defining “strategic dependence”

Among those lobbying strongly for a more restrictive approach to Huawei throughout this debate was the conservative advocacy group the Henry Jackson Society (HJS), and a subsequent report issued by the group in May 2020 addressed the question of “strategic dependency” in more detail. China was the clear focus of the analysis, which covered the dependence not just of the UK, but of the other “Five Eyes” countries too. Coming in the midst of the Covid-19 crisis, the report noted vulnerabilities in personal protective equipment, which it characterized as “strategic commodities”. It also highlighted similar “strategic dependencies” in some minerals and pharmaceutical

4. This was confirmed at the time, and has been reiterated since by former business secretary, Vince Cable. See for example: www.euractiv.com.

5. For example, C. Parton, “Why China’s Huawei Should Not Be Allowed in UK 5G Telecoms”, *Financial Times*, December 6, 2018.

6. Statement to Parliament, July 14, 2020, available at: www.gov.uk (emphasis added).

products, deploying what the authors described as a “new definition for ‘strategic dependency’”, which effectively equates dependency with the volume of imports.⁷

Whatever the merits of its methodology, this report proved influential, being mentioned a number of times by politicians and in a prominent analysis on the UK–China relationship published in the *Financial Times*,⁸ which highlighted the HJS conclusion that the UK was “strategically dependent” on China for 229 of 831 categories of traded goods. (The *Financial Times* did not highlight examples.) The same article also included trade data that indicated the beginnings of a widening British trade deficit with China in 2020. (Subsequent data shows the very substantial scope of this through 2020 and 2021.)⁹ Although previously many in the UK had not accepted the rather Trumpian view that trade deficits are by their nature undesirable, this trend heightened a sense in the UK’s public policy debate of insecurity and economic dependence on China.

Higher education

The idea that the UK was in a state of unhealthy economic dependence on China has remained part of policy discussions. Another area where the “dependence” meme has become more prominent is in discussions of education ties between China and the UK. Ever since the UK’s student visa regime was liberalized in the early 2000s, at the same time as more Chinese were looking to “go out” for business, study, and travel, the number of Chinese students in the UK has grown rapidly. In 2020–21 there were 216,000 Chinese students in higher education in the UK (compared to 89,540 in 2014–15).¹⁰ This means that Chinese students have occupied a growing proportion of both overseas and total student numbers at British universities, even more so since Brexit, when the number of European students fell. In addition to tuition fees, research

7. J. Rogers, A. Foxall, M. Henderson and S. Armstrong, “Breaking the China Supply Chain: How the ‘Five Eyes’ can Decouple from Strategic Dependency”, available at: <https://henryjacksonsociety.org>. The report says that “strategic dependency is identified when a country is a net importer of a particular good, it imports more than 50% of its supplies from China, and China controls more than 30% of the global market of that particular good” (p. 5). The reasons for choosing these thresholds are unclear, as is the sensitivity to adjustments in these percentages. This definition was subsequently used in a report from Merics, again without justification; M. J. Zenglein, “Mapping and Recalibrating Europe’s Economic Interdependence with China”, available at: <https://merics.org>. The emphasis on exports and imports ignores the complexity of supply chains and questions of ownership and management of production networks, as well as notions of criticality, elasticity of demand, availability of alternative suppliers, etc. This is therefore a highly problematic way of attempting to measure “strategic dependence”.

8. J. Ford and L. Hughes, “UK-China Relations: From ‘Golden Era’ to the Deep Freeze”, *Financial Times*, July 14, 2020, available at: www.ft.com.

9. L. Ashworth, “Chinese Exports to Britain Surge to Record £63.5bn”, *The Telegraph*, February 11, 2020.

10. Erudera College News, “216,000 Chinese Students Choose UK for Higher Education Due to Visa Restrictions in US”, May 21, 2021, available at: <https://collegenews.org>.

commissioned by the China-Britain Business Council has highlighted how these “education exports” have contributed more widely to the British economy.¹¹

However, a number of reports, including the *Financial Times* article cited above, have highlighted specific tertiary institutions that have over a quarter of tuition fees from China-domiciled students.¹² The idea that these student numbers, along with funding for research, represents unhealthy financial dependence for British universities has been taken up by a number of commentators, such as member of parliament Tom Tugendhat and the conservative policy group Onward, who have argued that this dependence gives China leverage to influence academic debate in the UK.¹³ While the number of Chinese students has indeed grown substantially, Chinese funding for research so far only accounts for a small percentage of the total.¹⁴

Discussion

The case of education provides a good example of the political nature of the debate about dependence. The number of Chinese students had grown over a long period of time, and statistically there is nothing fundamentally new about any “dependence” on Chinese students in the last couple of years. What has changed is that this “dependence” is now being painted by a growing number of those engaged in the policy debate as unhealthy or problematic, a potential vulnerability rather than an opportunity for these universities to grow or to use fee income from Chinese students to support other activities (in the absence of sufficient public expenditure on universities), or as a platform for engaging with new ideas and new perspectives or promoting the UK’s soft power and influence. In other words, for a growing number of commentators, the volume of Chinese students has become a threat, rather than an opportunity.

More broadly, the existence of external “dependence” is a truism for the UK, which has long developed an open economy marked by significant trade and investment flows, in the context of a period of globalization from the 1970s onward which has been shaped by a deepening division of labor and the outsourcing of manufacturing and resource extraction to developing economies. In other words, the world’s economy has globalized to feature multiple dependencies and interdependencies, of which the UK is a significant part. At the same time, China’s

11. China-Britain Business Council, “UK Jobs Dependent on Links to China: CBBC Report with Cambridge Econometrics”, July 14, 2020, available at: www.cbcc.org.

12. The *Financial Times* article lists the Royal College of Art, the universities of Glasgow, Liverpool, Sheffield, and Heriot-Watt, the Glasgow School of Art, Imperial and University College London, the University of Manchester, and the University of the Arts London.

13. T. Tugendhat, “China Links Pose a Threat to Academic Freedom in Britain”, *Financial Times*, June 20, 2021.

14. For discussion of one example, see T. Summers, “Did China Buy Cambridge?” *Pearls & Irritations*, July 16, 2021, available at: <https://johnmenadue.com>.

economy has grown many times over, while its share of global manufacturing of goods has grown even more rapidly (though that share may now have peaked).

Therefore, for the UK to avoid external dependence in technology or other areas would require a fundamental revolution in the nature of the British and global economies. Arguably Brexit marked a rejection of the previous model and a desire to turn inward (though the advocates of "Global Britain" might claim something different), but delivering this in an economically productive way would be extremely costly. The ideas that underpin Brexit are often seen as sharing some similarities with those that drove Trump's 2016 election victory in the US, and the idea that "dependence" on imports is to be minimized is one that features both in the HJS analysis of "strategic dependency" and in Trump's desire to reduce the US's trade deficits. In response, the political direction of travel in the UK is toward a greater degree of "protectionism" and industrial policy in an effort to enhance indigenous capabilities and reduce external dependence.

When it comes to "dependence" on China, these insecurities about relationships with the global economy are overlaid with a geopolitical turn that has shifted the broader balance of British perceptions from seeing China as more opportunity than threat to more threat than opportunity.¹⁵ As noted above, this coincided with a turn to a hostile China policy on the part of Washington, and followed reactions to developments in Hong Kong in 2019 and 2020 and a wider sense of heightened authoritarianism under Xi Jinping.¹⁶ The notion of unhealthy "dependence" on China is one element of these more negative views of China in the UK's China debate: for example, Huawei has gone from being a (positive) source of investment and technological cooperation (in the period up to 2020) to being a (negative) threat to British national and economic security; and rather than being seen as a source of revenue and new ideas as well as a way for the UK to spread its soft power, the number of Chinese students in the UK is being painted by the most vocal critics as a potential threat to British values and interests.

These trends are not set in stone, though at the time of writing there is limited debate about the ways in which engagement with China in education, technology, or industry might benefit the UK more than harm it. Balancing this with the increasingly cacophonous politics around China will be one of the major challenges for the British government over the coming years. What appears to be missing from the debate about "strategic dependence" is in-depth efforts to address the question of strategic dependence in a comprehensive way, or to broaden it beyond dependence on China (and Russia). The government has not yet set out clear definitions of what sectors

15. For an account of the earlier period, see S. A. W. Brown, *Power, Perception and Foreign Policymaking*, London: Routledge, 2018.

16. T. Summers, H. Man Chan, P. Gries and R. Turcsanyi, "Worsening British Views of China in 2020: Evidence from Public Opinion, Parliament and the Media", *Asia Europe Journal*, 2021, available at: <https://link.springer.com>.

might be at risk of “strategic dependence” and how this might be defined. Instead, this ambiguity over what constitutes “dependence” and the focus on China suggest that the notion of “strategic dependence” is being brandished as much for political expediency in pursuit of a hawkish turn in China policy as a serious policy question in and of itself.

