National Perspectives on Europe's De-risking from China

Lead editors: Patrik Andersson, Frida Lindberg

Editorial working group: Bernhard Bartsch, Una Aleksandra Bērziņa-Čerenkova, Andreea Brinza, Lucas Erlbacher, Miguel Otero-Iglesias, John Seaman, Plamen Tonchev, Mariana Trifonova

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A Report by the European Think-tank Network on China (ETNC)
June 2024

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Swiss Forum on Foreign Policy (Foraus), Switzerland
Lau China Institute, King's College London, United Kingdom

List of authors

Konstantinas Andrijauskas, Institute of International Relations and Political Science (IIRPS), Vilnius University
Bernhard Bartsch, Mercator Institute for China Studies (MERICS)
Raigirdas Boruta, Institute of International Relations and Political Science (IIRPS), Vilnius University
Andreea Brinza, The Romanian Institute for the Study of the Asia-Pacific (RISAP)
Raoul Bunskoek, Clingendael Institute
Nicola Casarini, Instituto Affari Internazionali (IAI)
François Chimits, Mercator Institute for China Studies (MERICS)
Alexander Davey, Mercator Institute for China Studies (MERICS)
Victor De Decker, Egmont Royal Institute for International Relations
Lucas Erlbacher, Austrian Institute for European and Security Policy (AIES)
Mario Esteban, Elcano Royal Institute
Andreas B. Forsby, Danish Institute for International Studies (DIIS)
Rudolf Fürst, Institute of International Relations (IIR)
Yang Jiang, Danish Institute for International Studies (DIIS)
Liisa Kauppila, Finnish Institute of International Affairs (FIIA)
Vera Kranenburg, Clingendael Institute
Ingvars Kudeikins, Latvian Institute of International Affairs (LIIA)
Celine Leurs, Clingendael Institute
Helena Löfgren, Swedish National China Centre, Swedish Institute of International Affairs (UI)
Tamás Matura, Corvinus University of Budapest
Nick Nieschalke, Austrian Institute for European and Security Policy (AIES)
Miguel Otero-Iglesias, Elcano Royal Institute
Astrid Pepermans, Egmont Royal Institute for International Relations
Carlos Rodrigues, University of Aveiro
Martin Šebeňa, Central European Institute of Asian Studies (CEIAS)
John Seaman, French Institute of International Relations (IFRI)
Elina Sinkkonen, Finnish Institute of International Affairs (FIIA)
Matej Šimalčík, Central European Institute of Asian Studies (CEIAS)
Tim Summers, Lau China Institute
Justyna Szczudlik, Polish Institute of International Affairs (PISM)
Plamen Tonchev, Institute of International Economic Relations (IIER)
Mariana Trifonova, Economic Policy Institute (EPI)
Richard Turcsanyi, Central European Institute of Asian Studies (CEIAS)
Claudia Wessling, Mercator Institute for China Studies (MERICS)

Introduction: National perspectives on Europe's de-risking from China

Compiled by **Patrik Andersson** and **Frida Lindberg**, Analysts, Swedish National China Centre, Swedish Institute of International Affairs, with support from the editorial working group

The "de-risking" of relations with China has become an organizing principle for the European Union (EU) since it was first put forward by President of the European Commission Ursula von der Leyen in March 2023. As is often the case with the EU, however, what is said in Brussels is not always understood in the same way across the continent. This report of the European Think-tank Network on China (ETNC) analyses how 21 EU member states and the United Kingdom view de-risking from a national context. Each chapter is written by China experts who broadly set out to address the same set of questions with respect to their own country:

- What is the country's standpoint on the EU's approach to de-risking?
- Which China-related risks is that country most concerned about?
- Has the country's standpoint on de-risking resulted in any concrete measures?
- How does that standpoint affect the country's views on or approach to China?

The origin of "de-risking" in Europe

In recent years, the risks associated with growing dependencies on China and how to reduce them have been a recurring topic of debate on Europe's relations with China. The United States and its partners have pushed to reduce reliance on China in various fields, citing national security concerns, among other things.[1] The debate on the role of Chinese suppliers, notably Huawei and ZTE, in the build out of Europe's 5G telecommunications networks in 2019 was perhaps the first clear sign of unease over China's increasing presence in critical infrastructure, where Chinese companies had for some years been acquiring significant stakes in major European assets from ports to electricity grids.[2] The Covid-19 pandemic brought to light supply chain vulnerabilities and dependencies, especially with regard to China, where European countries had become heavily reliant on China for supplies of items such as masks and respirators.[3] When Russia's full-scale invasion of Ukraine exposed the costs of overreliance on Russia for gas supplies, the EU became increasingly concerned about the risks of economic dependence on other potential geopolitical rivals, such as China.[4] The de-risking concept is now couched in a broader, nominally country-agnostic discussion on economic security, on which the European Commission drafted a strategy in June 2023. By strengthening the EU's economic foundation and competitiveness, mitigating risks, and collaborating with as many nations as possible to address common issues and goals, the strategy sets out a common framework for achieving economic security.[5]

President von der Leyen announced the EU's intention to reduce its economic dependence on China in March 2023.[6] In a speech to mark the launch of the EU's de-risking policy, she stated that "[…] it is neither viable – nor in Europe's interest – to decouple from China. Our relations are not black or white – and our response cannot be either. This is why we need to focus on de-risk – not de-couple".[7] The idea behind de-risking is to strike a better balance between taking advantage of opportunities and controlling risks.[8] Later, at the 24th EU-China Summit in Beijing in December 2023, von der Leyen defined de-risking as: "about managing the risks we see, addressing excessive dependencies through diversification of our supply chains […] and thus increasing our resilience. And this is not exclusive to China. It is about learning the lessons from both the global Covid-19 pandemic and Russia's energy blackmail. […] In light of increased geopolitical frictions, it is important for us to strengthen and diversify our supply chains".[9]

Rather than entirely reconstructing economic interactions to remove any possible risks, de-risking has been suggested as an alternative to de-coupling. De-risking can therefore be viewed as risk mitigation or risk management.[10]

China's response to the EU's de-risking strategy

Following the emergence of de-risking in March 2023, Chinese experts initially highlighted some positive consequences for China. For example, some Chinese analysts viewed the de-risking approach as a way forward for cooperation with China in certain fields that are considered less "risky".[11] In the months that followed, however, these more optimistic views receded. Some Chinese researchers expressed the view that the purpose of the de-risking approach was "de-Chinaization".[12] This is in line with the reactions of the Chinese authorities. Former foreign minister Qin Gang, for instance, said that "if the EU seeks to decouple from China in the name of "de-risking", it will decouple from opportunities, cooperation, stability, and development".[13] Similarly, a Chinese official has argued that the de-risking or decoupling approach to China was a way for the West to impede the regular functioning of international supply chains.[14] China argues that the US is influencing Europe's de-risking, and it has therefore attempted to reverse Europe's efforts.[15] China's foreign ministry has stated that "China is not a source of risk, but a staunch force for preventing and defusing risks".[16] Along with the former Chinese Ambassador to the EU, Fu Cong, China's state media has questioned the EU's approach to the handling of the security issues arising from its trade with China, on the one hand, while working to preserve such economic relationships, on the other.[17]

An indicator of China's policy response to de-risking could be how it reacts to the EU's plan to impose tariffs on Chinese electric vehicles (EV), announced in June 2024. China's Ministry of Commerce has warned that "China will take all necessary measures to firmly safeguard the legitimate interests of Chinese enterprises".[18] Potential targets mentioned by government and industry sources include EU pork, dairy products, large-engine cars, and aircraft.[19] In January 2024, China launched an anti-dumping probe into imports of EU-made brandy, widely perceived as retaliation against the EU's investigation into Chinese EV subsidies.[20] In particular, the move disproportionately impacts France, which accounts for nearly all EU brandy exports to China. Paris has been a vocal supporter of the Commission's investigation into EV subsidies and a proponent of adopting corrective tariffs.

Striking a balance between opportunities and risks

While trying to lessen its dependency on China and associated vulnerabilities in a number of areas, the EU is fully aware that engaging with China is essential to combat certain global challenges, most notably climate change, but also other issues.[21] Chinese foreign direct investment (FDI) in Europe is increasingly concentrated on greenfield investments in the mobility ecosystem. Chinese battery and EV producers are investing in many countries across the EU.[22] Greenfield investments could be beneficial for the EU for achieving its 2030 net-zero technology manufacturing goals, creating jobs and potentially generating economic spillover for local economies. However, these investments also come with potential risks, which include increased reliance on Chinese companies for the acquisition of vital goods and technologies.[23] Indeed, dependence on China for certain mineral raw materials is becoming increasingly obvious, in particular the highly processed materials and components embedded with these materials, such as refined lithium, battery anode materials and permanent magnets. Europe is also reliant on China for solar panels, as approximately 95 percent of the solar panel modules installed in the EU come from China.[24]

De-risking in Europe: debates, concerns and measures

Several themes emerge when comparing how the countries in this report view the EU's approach to de-risking, the risks (or absence of risks) associated with their ties with China and the concrete measures taken by their respective governments.

The de-risking narrative

While de-risking narratives in the EU have thus far focused on China, they are often contextualized in broader discussions on economic security. These discussions are not limited to China but also raise concerns about other countries such as the United States and especially Russia. De-risking is debated publicly in some countries, while in others it is either a non-topic or discussed behind the scenes. Countries vary in their understanding and interpretation of the concept, as well as in how they distinguish it from de-coupling.

Where de-risking is not the talk of the town

In **Latvia**, **Greece**, **Romania**, **Ireland**, **Bulgaria**, **Portugal, Slovakia**, **Austria**, **Poland** and **Hungary**, there has been little or no discussion about de-risking. The reasons for this absence vary. In some countries, political leaders are reluctant to discuss the issue due to concerns about harming relations with China. In others they are indifferent because they do not perceive themselves to be overly exposed to China.

In **Portugal**, the lack of a de-risking debate aligns with the broader trend of avoiding sensitive China-related topics to prevent tensions in bilateral relations. Similarly, in **Greece**, there is a desire to preserve amicable relations with China, alongside a deficit in expertise on Chinese affairs, among other factors. In **Romania**, the absence of a de-risking debate is attributed to a lack of tradition of debating foreign policy issues more generally. In **Poland**, the de-risking debate predominantly takes place away from the public eye. When economic risks are discussed in public forums, they are often not framed explicitly under the label of de-risking.

In certain countries, the debate on de-risking has been limited because other issues are considered more urgent. In **Ireland**, for instance, attention is focused on domestic matters and other international issues, such as the conflicts in Ukraine and Gaza, relegating de-risking discussions to the sidelines. This is also the case in **Slovakia**, where reliance on Russia for energy is regarded as a far more pressing concern than China-related risks. In **Romania** and **Latvia**, the absence of de-risking debates is linked to the low dependency on China, meaning that de-risking is not prioritized in those countries.

De-risking vs decoupling: a meaningful distinction?

The shift in rhetoric from decoupling to de-risking is considered meaningful in some countries, while it is believed to have made little practical difference in others. In the debate in the **United Kingdom**, for instance, the distinction between decoupling and de-risking appears to be poorly understood, and it is unclear whether a meaningful differentiation even exists. In the **Swedish** public debate, the distinction between these concepts is often blurred, although a clear differentiation is made in political rhetoric, which aligns with the official view of the European Commission. In **Hungary**, where there has been limited debate about de-risking and decoupling, political leaders appear to have made little distinction between the two concepts. They portray both as attempts by the US and policymakers in Brussels to contain and isolate China. In **Germany**, by contrast, the rhetorical shift from decoupling to de-risking has had a practical impact, reducing the pressure on German companies to disengage from China or to justify why they remain active in the country.

Overall, the shift from decoupling to de-risking appears to have been embraced in many countries, at least rhetorically. Political leaders in countries such as **Greece**, **Italy**, **Belgium**, **Ireland** and **Sweden** have made statements in support of de-risking while clarifying that their countries are not interested in decoupling from China.

One probable reason why many countries prefer de-risking over decoupling is the relative ambiguity and flexibility of the de-risking concept. While countries can choose to "selectively" or "partially" decouple from China, the concept is often discussed and understood in binary terms – you either engage with China or you do not. De-risking, by contrast, is focused on *managing* the risks of engagement with China, which seemingly allows opportunities for actors to claim that any number of measures constitute de-risking. Some may even argue that *excluding* China from their supply chains could also introduce risks, as seen, for instance, in **Germany**.

Figure 1. Position and role of select European countries in relation to de-risking from China. Source: Editors' compilation based on the analysis presented in the chapters of the report

Early Advocates	Endorsers/ Followers	Cautious Adopters	Opponents
• Czechia	• Belgium	• Austria	• Hungary
• Denmark	• Finland	• Bulgaria	
• France	• Latvia	• Germany	
• Italy	• Poland	• Greece	
• Lithuania	• Romania	• Ireland	
• Netherlands	• Sweden	• Portugal	
• UK		• Slovakia	
		• Spain	

The different roles and stances on de-risking

The countries covered in this report have taken different positions and played different roles in relation to de-risking. These roles are not mutually exclusive, and a country's stance might evolve over time.

Early advocates

Several countries, such as **France, Italy, Czechia**, **Denmark** and **the United Kingdom**, had already taken substantive measures aimed at reducing China-related risks several years before the concept of de-risking was introduced at the EU level.

One of these forerunners – **Lithuania** – acted in response to the economic coercion it experienced following the "Taiwan affair". Lithuanian leaders have argued that the country had already partially decoupled from China when de-risking was introduced at the EU level. Early Lithuanian measures included withdrawal from the "16+1 initiative", blocking Chinese investment in critical infrastructure and excluding Huawei equipment from its 5G networks.

Some early advocates, such as **Czechia,** appear to have followed the lead of the United States or responded to US pressure to decouple from China. The **United Kingdom** and **Denmark** have also adjusted their stances and reduced their exposure to China in response to US pressure and domestic concerns voiced by specific parliamentarians.

France has long advocated for more robust economic security tools at the EU level, calling for a joint European investment screening process as early as 2010. In its pursuit of greater strategic autonomy for Europe, Paris has also driven the development of European industrial policy, which began to take shape in 2019 to enhance the EU's technological competence and competitiveness in strategically important industries. In 2022, France used its EU Council presidency to push forward the development of defensive tools such as the anti-coercion instrument, as well as other measures like the anti-foreign subsidy measures and the International Procurement Instrument, aimed at correcting market distortions that have led to growing dependencies, particularly on China.

Likewise, **the Netherlands** has been an early adopter of risk-reducing measures, implementing several initiatives years before the EU introduced the concept of de-risking. Since 2018, the government has intervened to prevent a number of Chinese takeovers, and in 2019, the Dutch semiconductor company ASML was prohibited from exporting its most advanced chip-making technology to China. The Dutch 2019 China Strategy essentially embodies the principles of de-risking with its motto: "open where possible, protective where necessary".

Notably, some EU countries have had investment screening mechanisms in place for several decades. Although these mechanisms may not have been designed with China in mind, they provided countries with a different base from which to react and respond to the EU's FDI screening mechanism, which became fully operational in 2020.

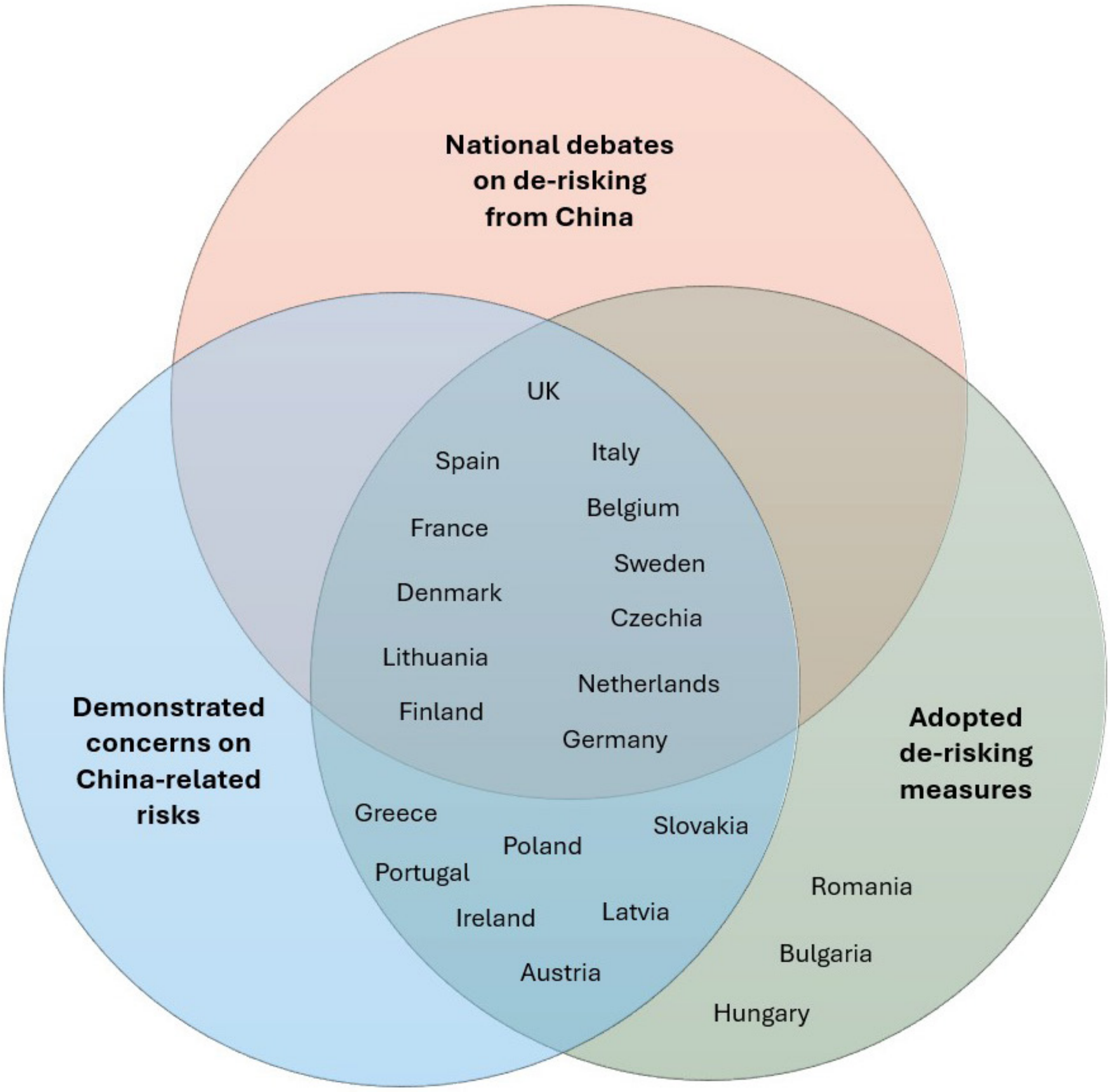
Since risk-reduction measures had already been under way for several years in some countries, it can be difficult to ascertain whether a particular action was taken in response to an EU policy, or the extent to which it was influenced by an earlier decoupling debate. For instance, several countries have adopted investment screening mechanisms since the EU's de-risking policy was announced, but the development of such tools had been under way for several years. Several member states responded to the EU's 2020 FDI screening mechanism by initiating a process of updating or adopting their own mechanisms.

Endorsers/followers

A large group of countries has opted to align with the EU approach and could be characterized as endorsers or followers. **Sweden** and **Finland** both appear to be closely aligning their de-risking approaches with the EU.

In **Latvia**, where de-risking is not high on the political agenda, foreign policy stakeholders are careful to evaluate and coordinate their de-risking actions with the EU. **Belgium's** position on de-risking is also aligned with the EU's and there is broad political support for de-risking in the country. However, internal fragmentation and a lack of expertise have hindered effective policy responses. **Romania** has not been a vocal or proactive advocate of de-risking, but it was nonetheless early in implementing many of the measures now associated with de-risking. Since 2019, it has taken a slate of measures, such as cancelling energy projects with Chinese companies, excluding Huawei from the country's 5G network, and banning Chinese companies from participating in public sector tenders. These actions were taken in response to recommendations and pressures from the US and later the EU.

Figure 2. De-risking debates, concerns, and policy measures in select European countries.[I]
Source*:* Editors' compilation based on the analysis presented in the chapters of the report.



Cautious adopters

Many countries support the EU's de-risking policy verbally but also harbour concerns that excessive de-risking could harm relations with China. This concern probably exists to some extent in most countries. **Austria** is attempting to balance between supporting the EU's China policy and maintaining friendly relations with China. Similarly, the **Portuguese** government have affirmed their full alignment with the EU while also striving to maintain good relations with China. **Spain** considers de-risking necessary while at the same time advocating against adoption of a zero-sum game mentality towards China.

I We included countries in the "debate" circle if de-risking has been debated politically or in the media in the country (if there has been little to no debate, a country is not included in the circle). Countries were placed in the "concerns" circle if concerns have been raised about China-related risks. If a country has implemented at least one de-risking measure concerning China, such as FDI screening mechanism or restricting/banning the use of Chinese equipment in 5G networks, it was placed in the "measures" circle. While Hungary has adopted an investment screening mechanism, it recently signed 18 agreements with China, including investments in critical infrastructure such as railroad lines, nuclear energy, and Schengen border crossings. This indicates that the Hungarian government does not use the screening mechanism against Chinese investors.

In **Ireland**, which is home to many Chinese and American companies, de-risking efforts could be tempered by concerns about becoming entangled in the US-China rivalry and facing potential retaliatory actions from both sides. **Greece**, another cautious adopter, is unlikely to take the initiative on its own but would rather engage in de-risking under pressure from western partners.

This balancing act of supporting de-risking efforts while expressing commitment to maintaining extensive trade with China can be seen in **Germany**. Chancellor Olaf Scholz is credited with coining the term “de-risking” but Germany seems reluctant to take on the leadership role expected of it. The German government is struggling to “walk the walk” on de-risking, leading to cautious and occasionally contradictory behaviour.

Bulgaria, a country with minimal concern about China-related risks, is also approaching de-risking cautiously. Unlike **Ireland**, **Germany**, and **Slovakia**, whose extensive economic ties with China might make them wary of excessive de-risking, Bulgaria has been hesitant to de-risk due to a lack of concern about China-related risks. In early 2024, Bulgaria reluctantly adopted an investment screening mechanism, but only after framing it almost exclusively as a measure aimed at Russia and a necessary step to align its policy with that of its European partners.

Opponents

Hungary’s position on de-risking makes it an outlier in the EU. Prime Minister Viktor Orbán has strongly opposed de-risking measures, describing them in a manner consistent with Chinese positions. While other countries intensify scrutiny of Chinese investments, Orbán’s government takes pride in attracting a growing number of Chinese investors to the country.

De-risking focuses on security, the economy and technology but specific concerns vary between countries

As noted above, de-risking debates take place in the context of a broader conversation on economic security. In these conversations, China is perceived as one concern among many, which also include, for example, the United States and Russia. In several countries, reliance on Russia – in particular Russian energy – is perceived as a far more pressing concern. China is often framed primarily as a long-term challenge.

The most significant risks associated with China across the countries covered in this report relate to security, the economy and technology, although the type and severity of these risks vary between countries. There are also a few exceptions in terms of governments that essentially do not consider China to be a threat in any way.

Cybersecurity and espionage

In recent years, the security and intelligence services of some countries have focused on and defined China as a security threat. In **Sweden**, for example, the Swedish Security Service (Säpo) defines China as a “long-term and growing threat” to Sweden. According to Säpo, the main risks associated with Sweden’s relationship with China are China’s intelligence activity in Sweden, and Chinese policies aimed at reshaping global norms and values, research and business exchanges, investments and acquisitions, and technology and knowledge transfers, to name just a few. Similarly, the **Danish** Security and Intelligence Service (PET) has published annual reports since 2022 on the “espionage threat” emanating from China, focused on illicit Chinese activities in Denmark such as the transfer of technology and intellectual property. Espionage and cybersecurity threats have also been the focus of the **Czech** de-risking strategy. The main risks to **Greece** are not necessarily seen by the government there as China-specific, although Athens keeps track of China-related concerns voiced at the EU level such as cyberattacks, hybrid threats and disinformation campaigns.

The security risks associated with the use of Huawei equipment in 5G networks have been a central concern for many countries, such as **Czechia**, **Poland**, **Sweden**, **Lithuania**, **Portugal**, **Belgium**, **Spain**, **France** and the **United Kingdom**. Some countries have banned or restricted use of Huawei equipment in their 5G networks (including, for example, **Portugal**, **Lithuania**, **Romania the Netherlands** and **Sweden**). In other countries, such as **Spain**, there has not been a formal ban, but vendors have avoided Huawei equipment in anticipation of future restrictions. Similarly, in **Greece** there has been no official government announcement but Huawei has been quietly bypassed.

Knowledge and technology transfer

Some countries identify China-related risks in the field of scientific and technological innovation. In the **Austrian** debate, concerns have been raised that academic and research cooperation with China could exacerbate the transfer of knowledge and technology from Austria. **Belgian** universities have re-evaluated academic collaboration initiatives with Chinese counterparts due to worries about undesirable information transfer, intellectual property theft and espionage, among other things. **The Netherlands** established a National Contact Point for Knowledge Security in 2022 to help universities and other knowledge institutes evaluate risks associated with international collaboration.

In **French** universities and technical institutes, foreign interference and espionage by China have been on the rise in recent years. In **France**, technology and know-how leakage, along with vulnerabilities in critical infrastructure, stand out as two of the most significant risks. China is highlighted as one of several major actors in this regard.

Economic risks

For several countries, China-related risks are mainly found in the economic area. Economic risks vary depending on how deeply countries are economically integrated with China and whether key sectors crucial to their economies are vulnerable to Chinese industrial policies or economic coercion.

For **Slovakia**, an emerging economic challenge is the ascent of China's electric vehicle industry, particularly since the Slovak economy heavily relies on vehicle and machinery manufacturing. The high degree of exposure of key industry sectors to the Chinese market, such as the automotive sector, is also a source of concern for the **German** government. For **Romania**, Chinese investments are relatively small and focused on sectors that are neither sensitive nor critical, giving Chinese companies in Romania limited influence, and Romanian investments in China are almost non-existent. Thus, in the Romanian case, dependency on China as an export market and investment partner is perceived as only a small risk. In **Ireland**, economic risks related to China concern Chinese inbound FDI, as well as an export trade in goods with China. In the **United Kingdom** and **Latvia**, perceived China-related risks are also mainly economic. In **the Netherlands**, the debate on China has changed over the last ten years and is now mostly focused on risks, which, for example, regard Chinese investments.

However, not all EU member states perceive China as a risk. In **Greece**, for instance, China is not generally viewed as a threat. In contrast to several other EU member states, analysing and assessing risks and economic dependencies with regard to China has not been a focus in **Hungary**. Instead, according to the Hungarian government, hosting Chinese FDI is motivated by Hungary's aim to reduce its dependence on markets in the West.

Concerns about closer Russia-China relations

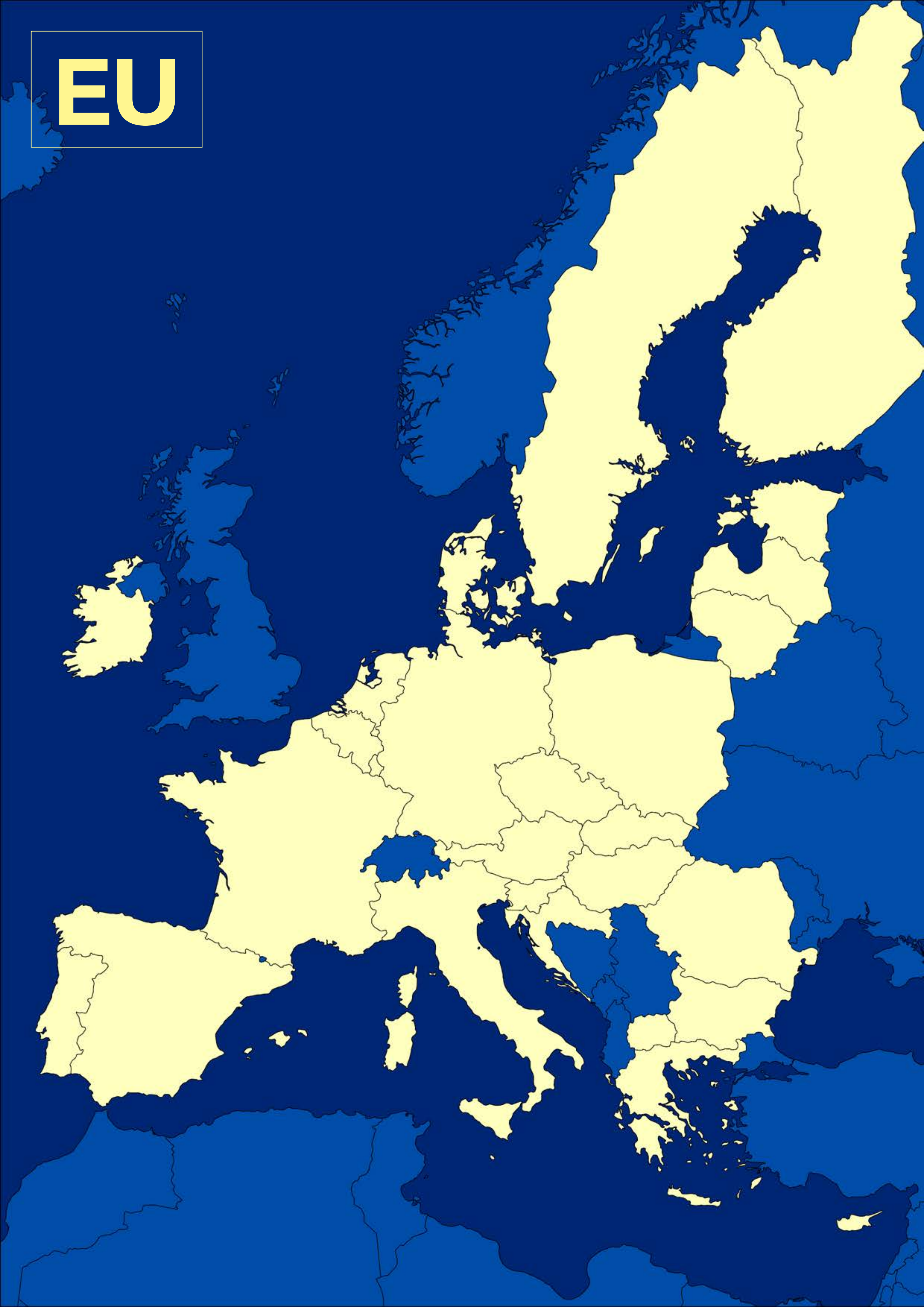
In several countries, such as **Poland**, Russia's full-scale invasion of Ukraine and its "no-limits friendship" with China has influenced the perception of China as a potential security threat. Similarly, in **Latvia**, Russia's invasion of Ukraine and the closer Sino-Russian partnership has changed Latvia's political attitude to China from caution to stronger resistance. Latvia increasingly perceives China from the perspective of its political alignment with Russia. In **Denmark**, the invasion has played a role in raising awareness of the risks related to critical dependencies on Chinese suppliers. In **Finland**, the connections between Chinese battery investors and Russian companies have also been highlighted as a topic in need of "careful investigation".

Conclusions

There are both similarities and differences in the views of the countries that are the focus of this report on the EU's approach to de-risking, the risks they are most concerned about with regard to China and whether concrete measures should be taken in their respective national contexts. How the EU's de-risking approach will be implemented in the future remains to be seen.

Ultimately, a de-risking approach has been emerging in Europe for many years, both at the EU level and in a number of capitals, and the Commission has championed the concept as a pillar of its broader economic security strategy. However, while there are similarities in how the concept is understood and applied throughout Europe, differences remain. An important test for the concept will arise in the wake of the 2024 elections to the European Parliament.

This introduction was written by the editors of this report, grounded in the analysis presented in the corresponding chapters. This introduction only highlights a selection of examples from the countries covered. Readers are encouraged to delve deeper into each chapter to gain a comprehensive understanding of the local contexts.


EU

Francois Chimits
Analyst, Mercator Institute for China Studies (MERICS)

Supply tensions and broadening geopolitical divergences with Beijing have pushed the European Commission to make long-in-the-making de-risking the guiding mantra of bilateral relations as part of a broader European Union economic security agenda. The introduction of measures to bolster the EU's geoeconomic standing has accelerated. Policies have been rolled out to support EU-based semiconductors, pharmaceuticals and green-tech industries. A dedicated act and targeted partnerships have been produced to secure the supply of critical raw materials. The consequences of this new approach are yet to fully materialize. The natural lag between policy decisions and impacts is amplified by the EU's complex internal machinery. At the same time, more serious securitization of economic interactions with China would require greater financial resources and more political capital from member states.[II]

According to President of the European Commission Ursula von der Leyen, "We see a strong push to make China less dependent on the world, and the world more dependent on China". Nine months later, having made de-risking the mantra of the EU approach to bilateral relations, followed four months after that by an economic security agenda, she was clear: "The EU's de-risking strategy had been slowly brewing for some years, arriving after years of intense introspection regarding the European economic approach to China and the world".

A recalibration of European views as part of a broader questioning of globalization, openness and interdependencies

Long gone are the days of a univocally positive perspective on economic openness. The results of the British referendum on leaving the EU and the election in 2016 of US President Donald J. Trump signified the end of an era. Trump's rejection of globalization set a new tone. At the same time, China under Xi Jinping was also changing course, moving away from the reform and opening up initiated in the 1980s towards a more centralized economy that prioritizes technological upgrades and regime security. During the Covid-19 pandemic, it became ever clearer that the US and China were headed towards more confrontation and away from a rules-based and generally cooperative globalization.

These developments affected the EU and led to tensions in relations with China. An early indicator was the March 2019 Communication by the Commission on China, which moved away from a focus on cooperative and mutually beneficial relations and described Beijing as a partner, competitor and systemic rival. Around the same time, discussions on "open strategic autonomy", that is, Europe assuming an active role on its own instead of amplifying or following US policies, gained momentum.

The EU started de-risking before talking about it

Fiercer competition and rougher behaviour taking root in the globalized world pushed Europeans to initiate economic risk-reduction measures even before the concept became popular. An EU framework on the screening of foreign direct investment (FDI) was established in 2019, largely in response to inflows of Chinese investment. This framework requires EU member states to establish such screening under certain guidelines, alongside soft intra-EU coordination. The creation of a Chief Trade Enforcement Officer was also agreed to better shield the single market from foreign distortion.

II Editor's note: The final draft of this chapter was submitted on 14 May 2024.

A few months later, the EU began to develop an anti-coercion instrument, initially in response to US pressure to stop the Nord Stream II pipeline from importing more Russian gas into Europe. The EU Toolbox on 5G cybersecurity of January 2020 largely sought to exclude Chinese suppliers from European telecommunications networks.

During the pandemic, Europeans realized that many critical supplies of medical products depended on deliveries from China, triggering a broader debate on securing critical inputs and infrastructures. The first-ever Commission report on trade dependencies featured China prominently as the origin of half of all European dependencies.[25] A second zoomed in on six critical sectors, once again identifying dependencies on China in half of these.[26]

To reduce dependencies, the EU framework on prohibiting state aid was relaxed in November 2021 for "Important Projects of Common European Interest" (IPCEI). Alongside IPCEIs on microelectronics and batteries, regulations were put in place to provide more comprehensive support to specific critical sectors.[27] Efforts were initiated to improve the resilience of "critical entities" to cyberattacks, among other risks not specific to China but certainly with China in mind.[28]

The de-risking concept is a push for a common European approach to China

With international tensions on the rise, Europe ramped up its economic security efforts and de-risking from China. Beijing's pro-Russian neutrality following the 2022 full-scale invasion of Ukraine led to a deterioration in bilateral relations. Common ground had already been eroded as China in December 2021 took coercive measures against Lithuania for allowing the Taiwan representative office in Vilnius to refer to Taiwan, rather than Chinese Taipei.[29]

Washington also played a role, albeit secondary. The new administration under Joe Biden did not significantly reverse Trump's "America first" approach. The Chips and Science Act and the Inflation Reduction Act, involving billions of US dollars in subventions for local production, dashed any hopes the US would re-embark on a truly collaborative agenda. In addition, US pressure to align with its China strategy steered Europeans towards developing a more consistent approach of their own.

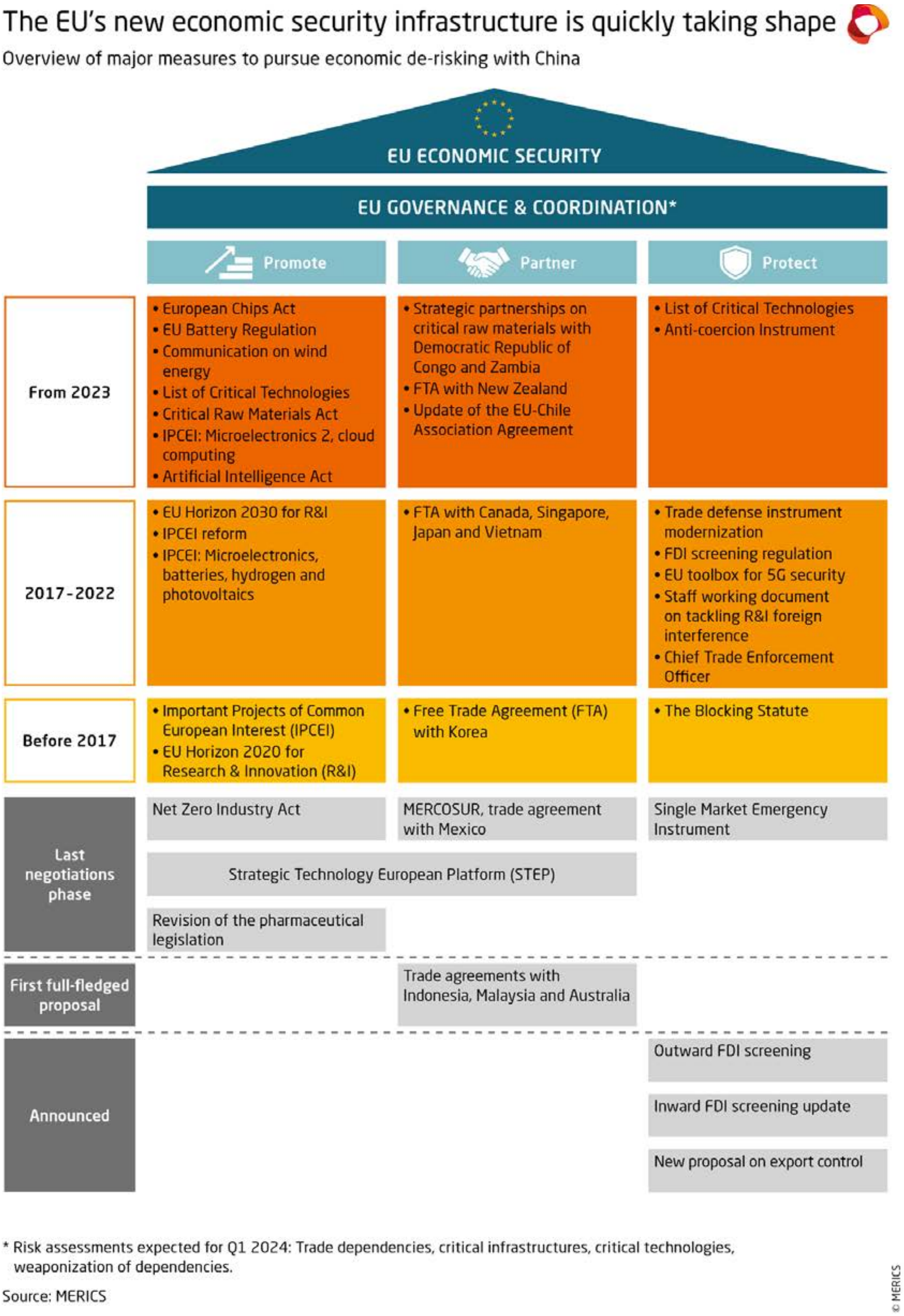
These developments culminated in President von der Leyen explicitly making de-risking and economic security the main strategic goals on China in March 2023. She defined the objective as "minimising risks arising from certain economic flows (…), while preserving maximum levels of economic openness and dynamism". In setting out the de-risking concept, von der Leyen sought to push for a clearer joint European approach to China. The emphasis on reducing risks came alongside one on cooperation with China, thereby discounting unrealistic calls for a decoupling. A "Joint Communication on Economic Security" published in June 2023 offered a structured and consistent framework for safeguarding the EU's international position.

The Commission now has a comprehensive and formal de-risking strategy

By introducing this multidimensional and ambitious plan a year before the elections to the European Parliament, the Commission hopes to steer discussions during the final months of its mandate – and probably beyond. It has set out a structured framework for approaching and addressing de-risking. Four types of risks are identified: resilience of supply chains, critical infrastructure, technology leakage and weaponization of dependencies. In cooperation with the member states, the Commission will undertake internal risk assessments for each, which will be updated on an annual basis.

The Commission has suggested a broad range of measures, most of which are already finalized or well under way. These are organized into those which promote EU capacities, those which protect them and those on partnering with third countries to do either. Although formally country-agnostic, China looms large as the country on which the EU perceives it has the most dependencies, and which also happens to be a massive investor in infrastructure worldwide while being an active practitioner of cyberattacks, technology theft and economic coercion.[30]

Figure 1



* Risk assessments expected for Q1 2024: Trade dependencies, critical infrastructures, critical technologies, weaponization of dependencies.

Source: MERICS

An intensification of the flow of instruments and measures

The finalization of measures has gained pace since the end of 2022 (see figure 1). An Anti-Coercion Instrument, agreed after years of discussion, aims to deter economic coercion, a practice with which China is very familiar.[31] The more flexible EU export controls framework enables new types of products to be covered, as in the recent case of Dutch restrictions on sending semiconductor machinery to China. The new International Procurement Instrument (IPI) and the Foreign Subsidy Regulations complement the EU's arsenal for protecting domestic interests against China, a country that stands out for its closed-off public procurement and massive state subsidies.[32]

Targeted measures have also been rolled out for critical sectors, which largely overlap with China's own priorities. The planned Strategic Technology European Platform (STEP) is intended to serve as a tool for leveraging more public funding to support critical sectors. It will come on top of recent IPCEIs on chips, solar panels and cloud services. The EU has also finalized the Critical Raw Material Act, which aims to diversify supply chains and develop domestic capacities, something which the Net-Zero Industry Act should soon also do further down the value-chain for green industries.

A list of critical technologies has been established. Chips, artificial intelligence, and quantum and biotechnologies have become priority areas for risk assessment and future policy remedies. The list also targets partners that pose "risk of civil and military fusion", de facto putting China front and centre.

The long road towards implementation in the EU

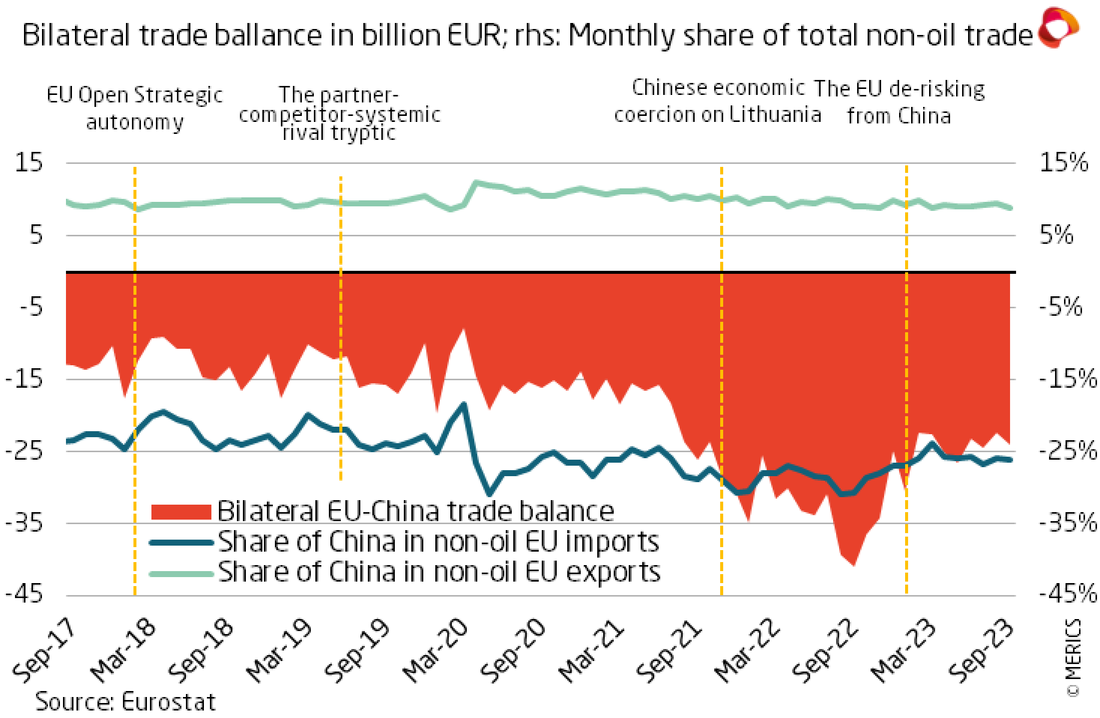
This impressive list of tools and instruments is still to be implemented. Public policy conceptions and roll out take time, especially in the EU. The impact of industrial policies sometimes takes years or even decades to become apparent.

There are also more political reasons for the slow implementation of measures. Implementation has much higher costs than policy conception. Brussels is faced with tight budget constraints and most of the new measures have not resulted in the creation of administrative roles to put concepts into practice.

Fear of retaliation by China may be another reason for slow implementation, especially among member states. The recent EU-China summit of December 2023 and the launch of an anti-subsidy investigation into Chinese electric vehicles were designed by the Commission to make clear that a more assertive implementation of the EU level-playing-field toolbox on Chinese products might be around the corner.[33] There is a shared view among European investigators and decision makers of the need to avoid a repeat of the solar panel case in the previous decade, when fear of retaliation delayed investigations until the European industry had been almost wiped out by cheaper Chinese competitors.[34] Tellingly, the EV investigations have already generated discomfort in some European capitals and industries, apparently out of fear of losing market access to China.[35] This discomfort appears justified as China has opened an anti-dumping investigation of its own into French wine and spirits, which looks like the expected retaliatory move.

The other slow-moving front of the de-risking agenda is partnering with like-minded countries. In July 2023, the EU approved a trade deal with New Zealand – the first in four years. Another just concluded with Chile includes innovative provisions on guaranteeing better access to minerals there. New types of partnership have also been established with eight partners to secure Europe's supply of minerals. Discussions are advanced within the G7 and among like-minded countries to develop partnerships related to China de-risking topics, be it on anti-coercion, supply-chain securitization standards and approaches, AI or securing trade routes and critical supplies.

Figure 2: EU de-risking not yet visible in aggregate trade numbers



Overall, these appear more limited than the set of de-risking measures to protect and promote critical European sectors, and with good reason. Partnering before you have your own house in order is putting the cart before the horse. Besides, Europeans have not devised a common view on who to partner with. Partnering often means some form of constraint on autonomy, something which Europeans often struggle to agree on. Typically, a coalition against economic coercion would require some commitment to collective action if a partner were to be subject to such attacks.

This slower implementation might explain the increased sense of disconnect between the political discussion in Europe and the economic reality on the ground. Indeed, the aggregate numbers on Sino-European economic relations do not indicate a clear break (see Figure 2). On the other hand, new policy directives take time to have an impact, especially where complex value chains are involved. The targeted nature of EU de-risking ambitions caps the magnitude of the impact at the macro level. However, discussions are still needed on how exactly de-risking needs to happen across critical sectors intertwined with China, and serious conversations lay ahead.

The European Council is set to lead in-depth discussions

While the Commission appears decided on pushing its de-risking agenda vis-à-vis China, some member states have diverging views – a fact that might also postpone implementation as this often depends on the member states. The same holds for decisions on and modalities for partnering with third parties. The resources that need to be put into the new instruments in order for them to work will also be a matter for the member states' budgetary negotiations.

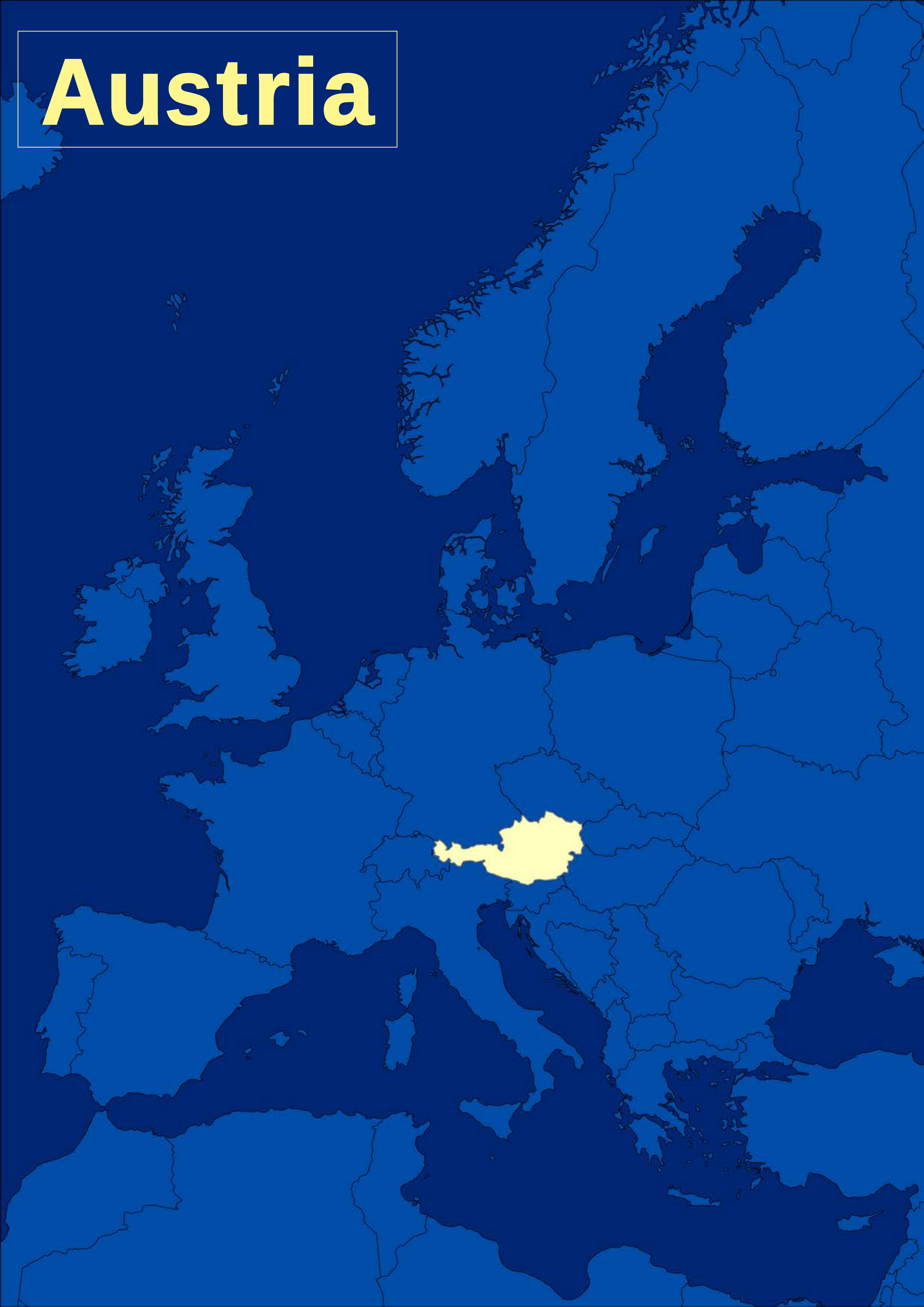
Member states share a tendency to demand more action at the EU level, hoping to leverage the size of the Union and avoid coming under fire themselves. At the same time, however, they tend to be extremely reluctant to give the EU institutions more power to act on their behalf.

Given the geopolitical challenges ahead, more fundamental discussions are needed. However, de-risking overlaps with national security considerations, where the EU level has limited leeway. The discussion on export controls encapsulates such tensions. Measures at the national level make only limited sense, given the technological capacity and bargaining power of member states compared to the US or China. At the same time, the Europeanization of export control measures, which could take many forms, is a red line for some member states as it interferes in their foreign and security policies.

Another dimension that also questions member states' willingness to properly develop a more geo-economically forceful EU is governance. The separation of trade, economic and foreign affairs within the complicated European decision-making machinery does not lend itself to a consistent and proactive approach to multidimensional objectives such as economic security.

The upcoming risk assessments and a more structured framework for exchanges will fuel more constructive discussions on de-risking. The European elections and a new mandate for the Commission will also provide the right window of opportunity for in-depth conversations on more fundamental topics, such as the budget and prerogatives, that pertain to a broader discussion on the future of the EU.

Austria



Austria: European de-risking without stepping on China's toes

Lucas Erlbacher, Research Associate, and **Nick Nieschalke**, Research Fellow,
Austrian Institute for European and Security Policy (AIES)

Despite an emerging awareness of China-related risks, Austria's political and public discourse on the risks associated with China and de-risking remains limited. Discussions often focus on evaluating risks rather than concrete policy proposals. Overall, Austria maintains a balancing approach between supporting a common EU de-risking agenda and preserving friendly bilateral relations. Vienna argues that de-risking should not come at the cost of deteriorating relations with Beijing. Thus far, Austria has adopted few domestic measures that point to de-risking. Although de-risking is likely to remain a side note in the political discourse, upcoming legislative elections in the autumn of 2024 could see the country's support for a European China policy at a crossroads.[III]

Public and policy debate focused on risk recognition rather than de-risking

In Austrian policymaking and expert circles, the perceived risks vis-à-vis China centre around academic and research cooperation, as well as economic and technological dependencies.[36] In particular, concerns over knowledge and technology transfer to China have recently arisen against the backdrop of the work of Austrian Nobel laureate in physics Anton Zeilinger. His research on quantum physics, conducted with the Chinese physicist, Pan Jian-Wei, has been deemed militarily relevant by Austria's Military Counter-Intelligence Service.[37] The case has garnered little media attention, however, and there has been no spillover into the broader public or political debate about research collaborations with China.

In fact, both political and public debate on the risks associated with China have been fairly limited. In addition, these debates tend to primarily focus on evaluating risks rather than elaborating possible measures to address them. While a general awareness of risks has emerged vis-à-vis the People's Republic of China (PRC) in recent years, discussion on concrete de-risking policy measures has been quite muted. Overall, Austria's policy and public debate can be described as still centred on "risk recognition" rather than "de-risking".

The limited domestic debate might be explained by its low salience in the Austrian domestic context and the generally latent character of the risks associated with China. Indeed, these risks are currently regarded as having only rarely, if ever, manifested themselves in Austria.[38] For instance, Chinese direct investment has been concentrated on "hidden champions" – highly specialised medium-sized companies in niche segments – and these takeovers have not triggered "wake-up calls". They have therefore not affected political perceptions of China.[39] Moreover, given the rather modest ties between domestic and Chinese universities, despite the Zeilinger case, the question of academic cooperation with the PRC has remained in the background.[40]

While some sectors of the Austrian economy directly depend on China – most notably key green technologies, such as lithium-ion batteries or photovoltaics, and medical equipment – the European single market is the primary region of economic integration. Accordingly, the risks associated with China are usually regarded as of a European nature. Thus, the focus of Austria's public debate and of media coverage on both strategic dependencies and de-risking primarily lies on the EU rather than on Austria itself.[41,42] Together, this low domestic salience and the European nature of the risks associated with China condition Austria's approach to de-risking – that of inconspicuous but widespread support for a European de-risking agenda.

III Editor's note: The final draft of this chapter was submitted on 17 May 2024.

European de-risking without affecting bilateral relations with Beijing

Given the low salience of China policy in the domestic political debate, the topic of de-risking has only implicitly appeared in Austrian parliamentary debates. The EU's push for a de-risking agenda and the promulgation of a panoply of measures has not found an echo in the Austrian upper chamber, the Nationalrat. Nonetheless, as risk awareness vis-à-vis the PRC has grown in recent years, China has increasingly been seen through a risk perspective in the parliamentary debate. In fact, 14 of the 48 parliamentary questions regarding China in the current legislative period (since January 2020) pertained to the risks emanating from the PRC: six about PPE supply, two addressing concerns over 5G technology, four regarding raw material supply and two inquiring about espionage. Seven of those 14 were initiated by the liberal party (the New Austria and Liberal Forum, NEOS), which was responsible for 26 of the 48 China-related parliamentary questions. This has made parliament's smallest opposition party the most outspoken political actor regarding the PRC.[43]

Similarly, the de-risking topic has been largely peripheral within the federal coalition government. Like the parliamentary debate, this is linked to the relatively low domestic importance of China policy. Austria's stance on EU de-risking maintains its balancing approach between supporting a common EU China policy and maintaining friendly bilateral relations. In line with Austria's overall support for a unified EU China policy, the EU's de-risking agenda receives Vienna's endorsement, but the need for a moderate and balanced de-risking approach is also emphasised. As Foreign Minister Alexander Schallenberg has pointedly remarked: "the risks in EU-China relations [need to] be lowered [...]" by refraining from "[...] painting the world in black and white [...]" (translation by authors).[44] Vienna therefore seems to be arguing that de-risking should not come at the price of deteriorating relations with Beijing – or be solely directed at Beijing.

This balancing approach is also reflected in Austria's stance on the EU's economic security strategy. In fact, domestic political discussions on the vast majority of its policies do not focus specifically on the PRC.[45] Moreover, the differences in Austria's stance on the strategy's three pillars – promote, partner and protect – further illustrate Vienna's ambiguous position.

On the one hand, measures aimed at promoting Europe's competitiveness, such as the European Chips Act, tend to be publicly endorsed by the federal government and enjoy broad support across parliamentary parties.[46] Correspondingly, Vienna is both a vocal supporter of and an active participant in Important Projects of Common European Interest (IPCEI). Austrian companies currently participate in five of the seven IPCEIs.[47] The Austrian government is also actively supporting the launch of two additional IPCEIs.[48,49]

On the other hand, the strategy's partner pillar, through which the EU is seeking to finalise free trade agreements (FTA), is politically much more contentious. In 2016, the European FTAs with Canada (CETA) and with the South American trading bloc, Mercosur, were opposed by a majority of political parties, as well as by the respective chancellors. In the European Parliament, FTAs with Japan, Singapore and Vietnam were rejected by around 40% of Austrian Members of the European Parliament (MEPs), from the Socialists and Democrats (S&D) and Greens-European Free Alliance (Greens/EFA) groups. Arguably, this reflects a broader shift in sentiment against free trade among large parts of the domestic electorate.[50]

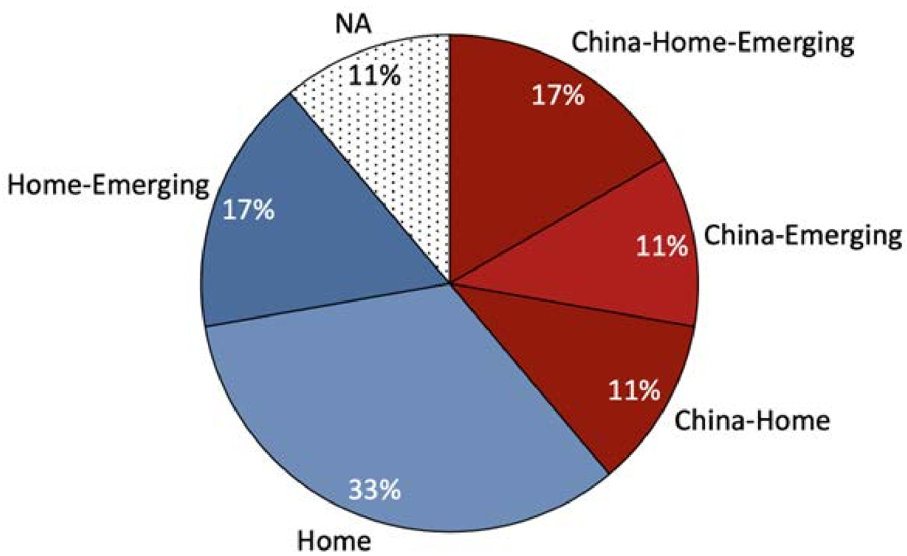
Finally, policies such as the Anti-Coercion Instrument or the EU 5G Toolbox, designed to protect the EU's economic security, are generally fairly inconspicuous in Austria's political process. Adoption of an updated foreign direct investment (FDI) screening mechanism in 2020 represents a notable exception, as it led to engagement with a wide variety of political and economic stakeholders that sought to shape the law's formulation. The EU's protect pillar seems to have widespread tacit approval among Austrian stakeholders. For instance, the updated FDI screening law (see below) was endorsed by nearly all parliamentary parties, and benefited from the in-principle support of two major statutory interest groups, the Federal Economic Chamber (WKO) and Chamber of Labour (AK).[51] In sum, Austria's position on the three pillars of the EU's economic security strategy and de-risking agenda can be described as actively "promote", reluctantly "partner" and tacitly "protect".

Corporate China de-risking: a cost- and growth-driven China-Plus-One Strategy

As for policymakers, de-risking from China does not appear to be a priority for Austrian businesses already present in the Chinese market. An analysis undertaken for this chapter of the annual reports of 18 major Austrian multinational companies (MNCs) with significant business operations in mainland China shows that risk perceptions vis-à-vis their activities in the PRC are still limited.[52] In fact, only around 20% of the companies examined mention a strategic risk associated with the PRC in their corporate risk assessment.[53] Among the risks outlined, the most common are the deepening of the US-China trade war/ rivalry and increasing tensions over Taiwan. As a result, only one of the 18 companies examined explicitly mentions an ongoing initiative to diversify its supply chain away from China by shifting to European suppliers or to in-house production. This is corroborated by a survey by the Federal Economic Chamber, which found that a majority of businesses surveyed only see "[...] a few short-term alternatives to China for many sourcing operations".[54]

The limited risk perception vis-à-vis China is also reflected in the 18 surveyed companies' investment and expansion strategies. Nearly 40% of the examined Austrian MNCs indicate that they are either currently conducting investments in China or are planning to do so, while none are actively pursuing a dis-investment strategy away from the PRC. At the same time, all of the MNCs that are expanding their presence in the PRC are making parallel investments in other regions, notably their European and North American home markets as well as other growth markets in Asia, the Middle East and North Africa (MENA) or Latin America (see Figure 1). This indicates that a significant proportion of Austrian MNCs is following a China-Plus-One approach – a parallel deepening of their presence in China and expansion into alternative markets in domestic and overseas production locations. Nonetheless, the relatively limited risk perception vis-à-vis the Chinese market tends to signal that this trend is mainly driven by the search for lower supply- and labour costs and new growth opportunities rather than geopolitical de-risking.[55]

Figure 1 Investment strategies of Austrian MNCs in China[56]



Notes: *China* = the PRC; *Home* = Europe and North America, which usually represent home markets for Austrian MNCs; *Emerging* = emerging markets besides China; *NA* (not applicable) = the company did not explicitly mention any current or planned investment or expansion initiative.

Tentative steps towards Austria's de-risking

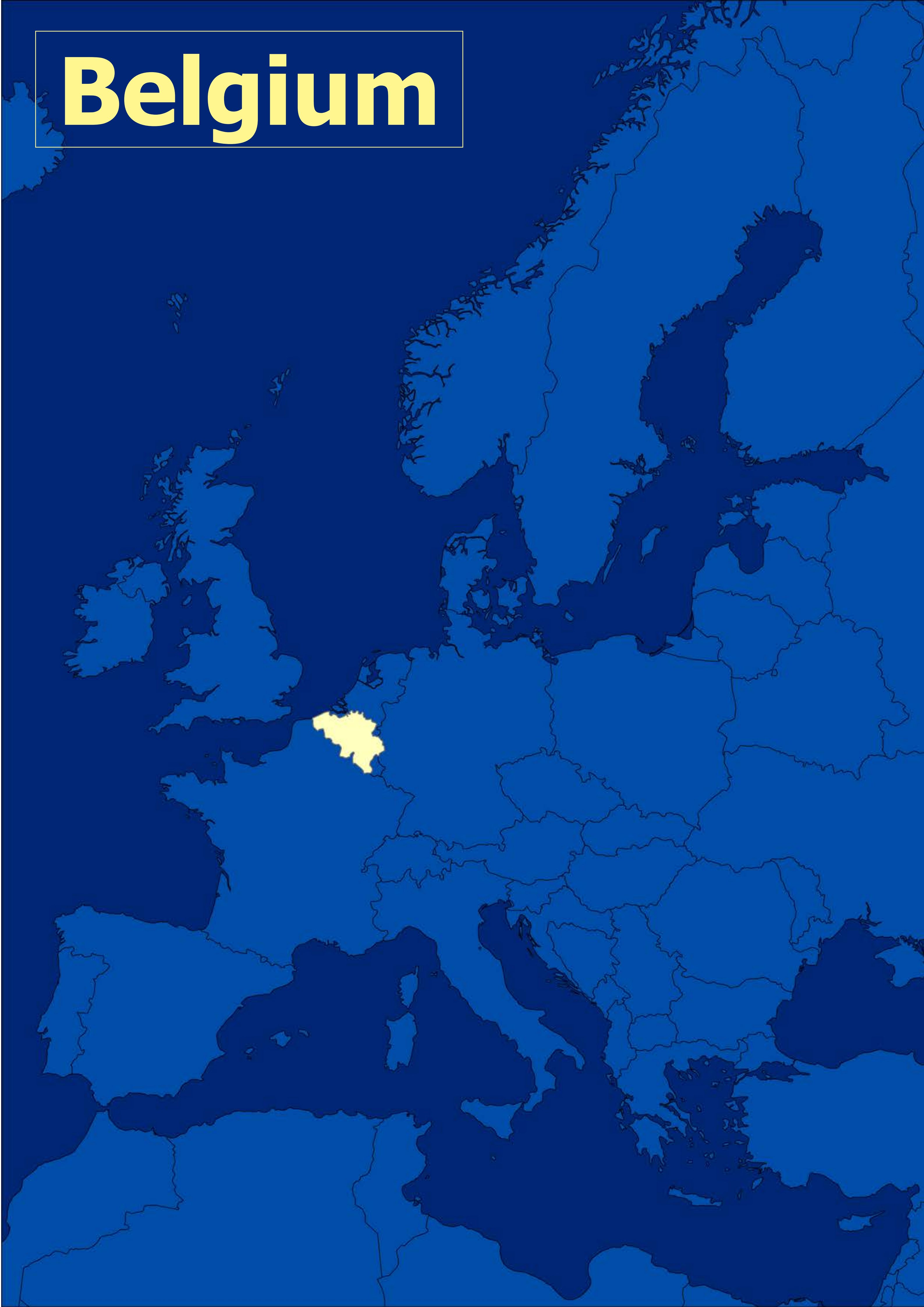
The above-mentioned limited policy debate is reflected not least in Vienna's fragmented policy measures. In July 2020, Austria updated its FDI screening mechanism by passing the Investment Control Act (ICA).[57] Crucially, the ICA stipulates that FDI in critical sectors, such as defence, energy and digital infrastructure, water, and pharmaceuticals and medical equipment,[58] that exceeds a 10% ownership share should be subject to approval by the Federal Minister for Digital and Economic Affairs. The act explicitly categorizes 5G technologies as critical, which is particularly striking since Austria opted not to ban Huawei and ZTE from its 5G infrastructure. A spokesperson for the federal communications agency stated that the exclusion of Chinese manufacturers would have constituted a supply chain risk, arguing that Austria must not become dependent on just one operator.[59]

Another notable risk-reduction measure undertaken by the Austrian government is the adoption of the *Masterplan Rohstoffe 2030*[60] (Masterplan on Raw Materials 2030) in October 2021, aimed at ensuring Austria's supply of mineral resources against geopolitical circumstances. Among the concrete actions taken under the plan thus far is the establishment of an intra-ministerial round table on raw materials, which assesses Austria's raw materials supply situation on a monthly basis.[61]

While concrete policy measures garner little attention, a recent successful public procurement bid for electric vehicles (EVs) created a stir among both local and federal policymakers. Initially, the Chinese car maker BYD won a public tender for the federal state Upper Austria's new electric car fleet in late 2023. After sharp criticism by opposition parties, trade unions and media outlets, however, Upper Austria's state government opted for European bidders over the Chinese competition by leasing rather than buying EVs.[62] It should be noted, however, that the public debate did not centre around potential security risks, but on economic implications and concerns over human rights and environmental issues.

For now, Vienna is likely to continue its support for the EU's de-risking agenda while maintaining amicable relations with Beijing. Concrete domestic de-risking measures, if any, can be expected to remain scarce and scattered. Neither the 2024 European elections nor Austria's legislative election in the autumn of 2024 offer reasons to believe that the topic of de-risking or relations with China more broadly will gain traction in the public discourse. Crucially, however, the latter might well usher in a drastic change in Austria's stance towards the EU as the far-right Freedom Party of Austria (FPÖ) looks to become the country's largest party.[63] The FPÖ previously held power as the junior party in a coalition with the conservative Austrian People's Party (ÖVP) between December 2017 and May 2019. However, renewed government participation of a strengthened and radicalized far-right party led by Herbert Kickl, a staunch opponent of European aid to Ukraine, is likely to drastically weaken Austria's support for a common European foreign policy and de-risking agenda. Indeed, the FPÖ's European and Foreign Policy spokespersons expressed as much in reaction to the EU's revised China Policy and economic security strategy: "It is totally irresponsible to start an economic war with China during the current inflation crisis of the EU's own making. […] We therefore need an immediate end to all sanctions [on China and Russia]" (translation by authors).[64]

Belgium



Belgium: Balancing between ambitious discourse and policy inertia

Astrid Pepermans, Senior Researcher, and **Victor De Decker**, Research Fellow,
Egmont Royal Institute for International Relations

Since European Commission President Ursula von der Leyen's speech in March 2023, Belgian policymakers have become increasingly aware of the need to manage the risks linked to a persistently unbalanced Sino-Belgian relationship. In this regard, the de-risking approach encouraged at the European level by the Economic Security Strategy is perceived as a viable alternative to a decoupling scenario. This stance particularly resonates with private sector economic interests and Belgium's identity as an open economy. However, in a nation renowned for its internal intricacies, most of the policy debates in Belgium converge in a continuing turf war over competencies. Amid this internal fragmentation, developing and implementing a coherent China strategy remains an elusive task permeated by short-sightedness, reluctance, ambiguity, and a severe lack of much-needed expertise and resources.[IV]

Ambitious political discourse

There has been growing political urgency in relation to Belgium's strategic dependencies and its relationship with China in recent years. Alarmed by an assessment conducted by the Inter-Parliamentary Alliance on China (IPAC) in 2021, the Belgian Federal Parliament made several commitments to manage these dependencies. The IPAC assessment showed that Belgium depends on China in 29 sectors, for 129 categories of goods, and for 159 specific goods. Seven of the latter, among which magnets and certain acids, are either directly related to Belgium's national security or of crucial importance for the country's most important products and industries. Assessing how Belgium's strategic autonomy can be strengthened and how its economic and technological dependencies can be reduced vis-à-vis China is featured in two parliamentary resolutions. The former resolution was adopted in June 2022[65] by a large majority of 106 votes, 27 abstentions, and not a single dissenting vote.[66] In February 2023, the Federal Parliament adopted a similar resolution[67] by a large majority of 96 votes with 22 abstentions, and 12 dissenting votes.[68]

At the same time, there is a consensus among Belgian political parties and regions on the need to avoid a decoupling scenario with China. This is mirrored in the mantra "de-risk, not decouple", of Flemish Minister-President Jan Jambon of the New Flemish Alliance (N-VA).[69] Similar stances predominate in the business community. The Belgian Federation of Enterprises (VBO-FEB) has positioned itself as the main advocate for continued openness, stressing the trade and investment opportunities that China brings. For the VBO-FEB, facilitating the entry of Belgian businesses into the Chinese market and a balanced bilateral trade relationship should remain the priority.[70] This was also the mantra of a delegation of business leaders representing, among others, the Belgian food, biotechnology, and chemical industries during Prime Minister Alexander De Croo's visit to Beijing in January 2024.[71]

IV Editor's note: The final draft of this chapter was submitted on 15 May 2024.

Figure 1 Belgium/China Trade Balance (trade in goods)
Source: Eurostat 2024.

Despite Belgium's efforts to export more to China and its continued aim to reduce its trade deficit with China, the latter has doubled over the past two years, reaching a record €27.6 billion in 2022. This deficit is increasingly seen as a sign of Belgium's economic vulnerability vis-à-vis China.[72]

These Belgian stances are echoed at the European level. Two Belgian centre-right and liberal Members of the European Parliament (MEPs), Geert Bourgeois (N-VA/ECR)[73] and Hilde Vautmans (Open Vld/Renew),[74] have argued that a decoupling scenario would cause severe harm to business and that a unified European de-risking approach would be preferable. Comparable calls have been made from the centre-left. Socialist MEP Kathleen Van Brempt (Vooruit/S&D) applauded the Economic Security Strategy in the European Parliament.[75] Despite its territorial size, Belgium is a trading nation at heart, and the world's 15th and 14th largest exporter and importer, respectively.[76] This economic stance makes it particularly hard for Belgian policymakers to support a more protective de-risking agenda within the EU. Moreover, at the Flemish level, politicians fear economic repercussions and the loss of commercial opportunities for naming and shaming China. This is reflected in their rejection of a proposed resolution by the Green party that specifically focused on de-risking vis-à-vis China. A modified country-agnostic proposal, which raised almost identical concerns, received the necessary political support for adoption.[77]

When it comes to measures on industry promotion, policymakers fear that this could lead to a loosening of state aid rules, leaving Belgian business vulnerable to unfair competition from state-backed enterprises in richer neighbouring countries. In this vein, Prime Minister De Croo has explicitly warned against "derogations on state aid".[78]

A belated strategic awakening

While de-risking and China are rarely explicitly mentioned, Belgian policy debates and initiatives to identify and counteract national threats and risks are clearly gaining traction. The country's first National Security Strategy (NSS) was published in 2021.[79] It formulates a broad set of measures to protect Belgium's national security in an increasingly unstable world and to ensure the country can continue to function in the event of large-scale incidents or crises.

Regarding the Chinese-Belgian relationship, the Belgian Ministry of Foreign Affairs (MOFA) conceptualised its internal China strategy in the summer of 2023, in an update of the ministry's internal guidance note from 2019. Considerable time and effort were spent on this strategic adaptation as the strategy needed to be calibrated at eight policy levels. The result of this coordination exercise is that the current strategy takes a whole-of-government approach, which recognises and signals challenges in both the economic and the security realm, rather than a narrow focus on managing diplomatic engagement with China.[80]

Although confidential, the China strategy sees de-risking as key, especially when it comes to reducing Belgium's strategic dependence on China. This approach is aligned with the narrative and the imperatives of the EU's China Strategy and the EU-China Strategic Outlook, which labels China a cooperation partner, an economic competitor, and a systemic rival.[81]

Belgium's poor policy track record

Although there is a growing consensus on the need to de-risk, as well as support for collaboration with the aim of increasing economic security at the European level, there is no clarity on how these policy aims should be achieved. One of the major obstacles is the absence of a coordinated and transparent conceptualisation of which sectors could be considered "strategic" for Belgium. Neither the NSS, nor MOFA's internal China strategy clearly defines what is meant by national strategic autonomy or indicates and demarcates the areas in which increased vigilance and independence are sought. Officials from all political parties recognise the importance of such a definition and problematise the lack of a fundamental debate on the specific content of Belgian de-risking. Moreover, there is also broad concern that high-quality and detailed analyses of China's footprint in the Belgian economy and industry are a prerequisite for such a debate.[82]

MOFA officials indicate that they lack the knowledge of, and expertise on, strategic dependencies on China. They refer to a shortage of means, as well as administrative and technical issues that stand in the way of a proper analysis.[83] The absence of a clear division of labour among ministries and departments hinders knowledge development. Similarly, fragmented competencies in the Belgian political landscape prevent proactive and decisive policy action.

De-risking in action

Economic governance competencies are split between the federal and the regional levels in Belgium, while national security remains firmly in the hands of the federal government. This governmental complexity makes it difficult to implement strategies with multi-governmental scope, of which de-risking is a textbook example.

While regions do not possess explicit competence in security matters, they can wield implicit authority to address or protect certain security interests within their substantive jurisdiction. In other words, if a government (regional or federal) has the power to regulate a particular sector, they also have the power to set (economic) security requirements for said sector.[84] Moreover, regional authorities have complete discretion when it comes to implementing export controls – a crucial de-risking tool.

An expanding toolbox

The most prominent Belgian de-risking tool is the inter-federal foreign direct investment (FDI) screening mechanism. This increased scrutiny of incoming investment was triggered by growing political concerns over the presence and potential influence of foreign entities such as China in Belgian critical infrastructure.[85] The overarching European FDI Regulation, which encourages EU member states to implement national FDI screening, served as an additional push. Nonetheless, creating the mechanism took seven years of intergovernmental discussion before it became operational in July 2023.[86] Its purpose is to detect threats and prevent investments if vulnerable national sectors are targeted. The Belgian Federal Public Service (FPS) Economy provides a non-exhaustive list of critical technology in the defence-, resources-, and energy sectors. Private sector concerns about discouraging investment led to greenfield investments being excluded from possible screening.[87] At the time of writing, the FPS Economy has not publicly disclosed any data on these screenings.

Espionage

Concerns about undesirable knowledge and information transfers, intellectual property theft, espionage, and ethics have led Belgian universities to reconsider academic cooperation with Chinese students, universities, and institutes. The Belgian intelligence services have been consistently warning of the potential consequences of such projects since 2019.[88] Following the expulsion of the director of the Brussels Confucius Institute due to allegations of espionage, the Free University of Brussels (VUB) decided to shut down the Institute. The Université Libre de Bruxelles (ULB) followed its example.

In the aftermath of a call by the European Parliament to review Belgian espionage regulations, the University of Liège and the University of Leuven also distanced themselves from collaborations with the Confucius Institutes.[89] This increased vigilance vis-à-vis cooperation with China in the Belgian academic landscape is mirrored by the increased frequency of consultations with the Belgian intelligence services and of inter-university discussions on collaborating with Chinese entities. Several academic initiatives with the so-called “Seven Sons Universities” – seven universities that are part of the Chinese Ministry of Industry and Information Technology – have either been halted or phased out. Nonetheless, many academic collaborations with scholars from “high-risk universities” have been maintained, predominantly by the University of Leuven.[90]

Initially based on its exclusive competence over education, the Flemish regional government has taken several steps to protect research and knowledge security.[91] However, similar policies have not been enacted by other regional governments, resulting in an asymmetrical approach on this issue between the regions.

Debates on Chinese interference reached new heights in December 2023 when the *Financial Times* reported that a Belgian far-right politician had been operating as an intelligence asset for Chinese spies. This case shows how Beijing has been conducting influencing operations to shape Belgian and European debates in its favour.[92]

Solar panels

Other worries linked to Belgium’s strategic resilience in its relationship with China have been politically debated but did not result into decisive policy action. In November 2023, research revealed the potential risks of the Belgian overreliance on Chinese equipment in its solar panel infrastructure. The dominance of Chinese inverters - which are connected to the internet and convert direct current into alternate current - was identified as a major point of concern. Questions about the relationship between some Chinese inverter providers, such as Huawei, and the Chinese government, as well as systemic vulnerabilities potentially opening the door to cyberattacks and hostile blackouts triggered a political debate.[93]

It soon became clear that administrative and competence fragmentation was hindering a swift and satisfactory political response. Whereas statistics on the number of Chinese inverters in solar equipment in the Belgian capital and in Wallonia are available, similar data lacks in Flanders. Flemish Minister for Energy Zuhal Demir (N-VA) tried to ease concerns by depicting the issue as a broader European problem that needed a supranational response. She also mentioned that, while her party would be in favour of implementing security requirements in the energy sector, product standardisation is a federal rather than a local competence. She did acknowledge the lack of necessary information, however, and required electricity providers and watchdogs to provide the data necessary to map out the scope of Flanders' energy vulnerabilities. The minister also asked the intelligence services and the Flemish Crisis Centre to conduct a risk analysis of solar energy dependence and cybersecurity risks. It is estimated that currently 1 million inverters have already been installed in Flanders, and that more than 50 percent of them were produced by Chinese companies. This risk analysis can therefore be seen as rather overdue.[94]

Logistics

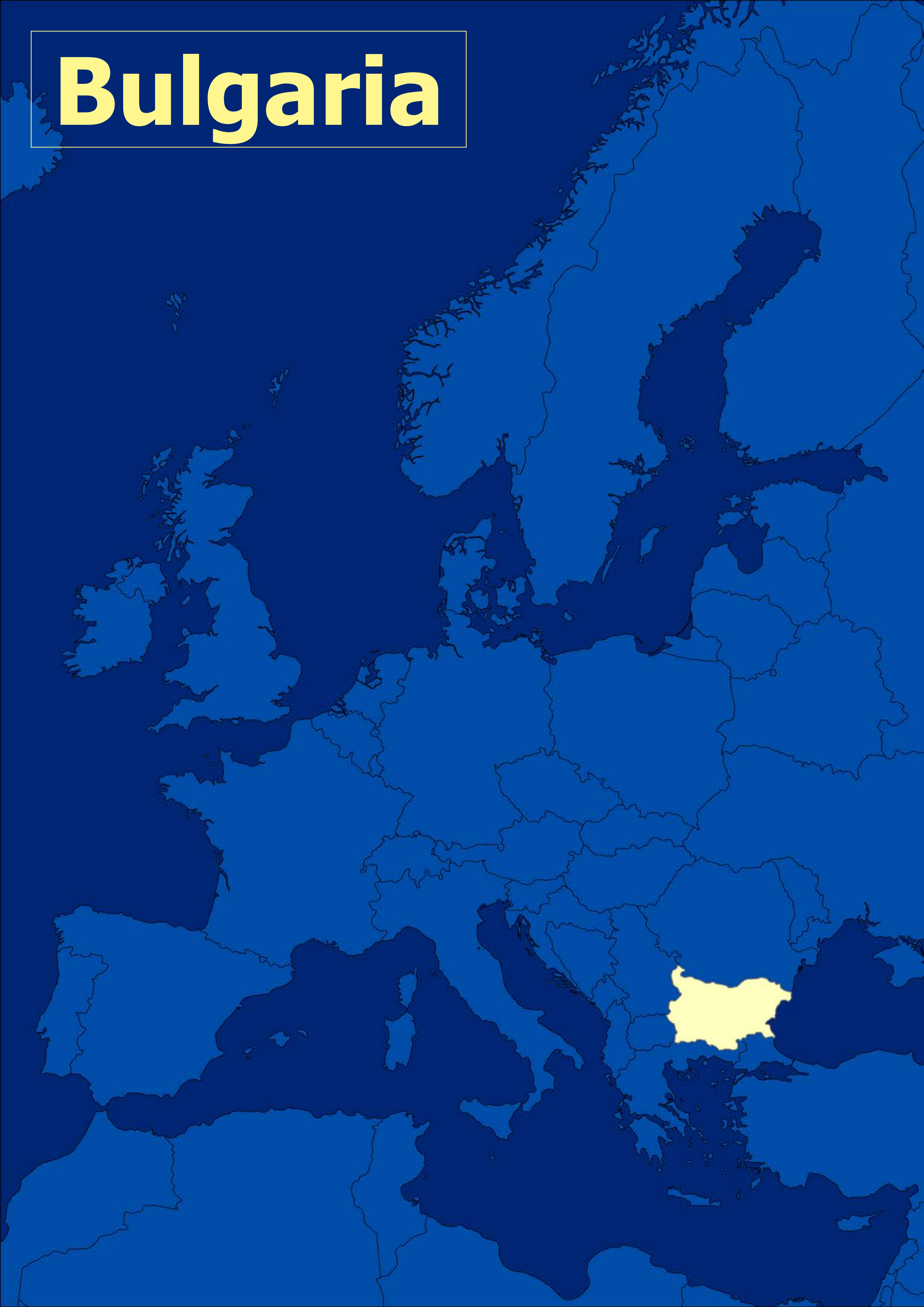
In 2017, the Chinese state shipping company (COSCO), through its subsidiary CSP, acquired a controlling stake in the sole container terminal in the Port of Zeebrugge, through a long-term managing concession.[95] COSCO has had a 20 percent share in a consortium operating the Antwerp Gateway Terminal since 2004. While the Port of Zeebrugge-Antwerp retains ownership of the port, it has sold a land concession on a long-term lease.[96] This business construct does not allow COSCO full market ownership, but it does create market control for the Chinese shipping company in the Belgian port sector.

The political response to the increased Chinese presence in Belgian airports again reveals a lack of political and institutional cohesion or decisiveness. The installation of an Alibaba e-commerce platform in the airport of Liège has been problematised by the Belgian intelligence agencies and academia.[97] However, whereas the Federal Minister of Justice confirmed the need for political vigilance when it comes to such projects, the Walloon Minister of Airports accused his Flemish counterpart of being "jealous of Wallonia's success story".[98]

Lost in translation

Belgium's approach to managing its relationship with China emphasises de-risking over decoupling, which reflects a pragmatic stance that is aligned with its identity as an open economy. Despite growing political awareness of and efforts to address strategic vulnerabilities, challenges persist due to internal fragmentation and a lack of expertise and knowledge. While initiatives such as the Belgian National Security Strategy and MOFA's internal China strategy signal a strategic awakening, the absence of clear definitions and coordinated efforts hinders decisive decision making and effective policy implementation. Tangible measures, such as the FDI screening mechanism and increased vigilance in academia as well as in critical infrastructure, underscore a commitment to address possible risks. However, competence fragmentation and political discord regularly leave the Belgian debate uninformed, superficial, and reactive, and policy initiatives asymmetrically applied across regions. To navigate these complexities, policymakers must prioritise proactive, strategic, and cohesive long-term thinking, as well as close collaboration across sectors and governmental levels, to ensure that Belgium can effectively manage its engagement with China while safeguarding its strategic autonomy and national interests.

Bulgaria



Bulgaria: De-risking from China not a priority amid concerns over Russia and domestic political friction

Mariana Trifonova, Program Director and Senior Analyst
Economic Policy Institute – Sofia

China does not really feature in Bulgaria's domestic discourse on de-risking due to the relatively underdeveloped trade and investment relations between the two countries. Sofia's most important concerns about Beijing are the still significant trade deficit as well as the desire to improve market access to China for Bulgarian food and agricultural products. Domestic politicians focus more on the tangible threat from Russia to national security and the critical energy sector. Nonetheless, development of the European Union's (EU) defensive toolbox resulted in Bulgaria reluctantly adopting an investment screening mechanism in early 2024, although overregulation and contradictory drafting could lead to legal challenges from Chinese and other non-EU investors. The European Commission has launched investigations under its new Foreign Subsidies Regulations of Chinese electric train and wind turbine tenders in Bulgaria, although no Chinese company has yet succeeded in winning contracts for major infrastructure projects in the country.[V]

De-risking in Bulgaria's Domestic Discourse

The concept of de-risking has not been formally defined but in Bulgaria's national context is linked almost exclusively to energy security concerns and the perceived significant dependence of Bulgaria's energy sector on Russia. Following Russia's full-scale invasion of Ukraine in February 2022, and the subsequent deterioration in relations with the European Union (EU) and the North Atlantic Treaty Organization (NATO), those political stakeholders in Bulgaria with a Euro-Atlantic orientation have sought to expose the complex relationship between the country's energy sector, high-level political corruption and Russian influence.

Thus far, China has not featured in these debates, despite the "no limits" Sino-Russian friendship and Bulgaria's continuing efforts not only to de-risk, but potentially even to decouple its energy sector from Russia and provide support to Ukraine. One major reason for this might be that China does not appear to have a significant economic foothold in Bulgaria, in terms of either investments or bilateral trade relations.

Little Appetite for Derisking and Underwhelming Economic Relations with China

As of the end of 2023, the stock of Chinese Foreign Direct Investment (FDI) in Bulgaria was just €150 million.[99] There was no notable presence in industrial sectors vital to the national economy. Despite being a major global exporter, China was only the second largest trading partner of Bulgaria outside the EU in the first half of 2023,[100] overshadowed by Türkiye's geographic proximity, cultural and historic ties with Bulgaria and ability to provide cheap consumer goods that are competitive with Chinese imports.[101]

The Bulgarian authorities emphasize traditionally good bilateral relations, elevated to a strategic partnership in 2019, and that economic ties should be viewed "in the context of Bulgaria's full membership of the European Union and the fact that China is a strategic partner of the EU, as well as within the framework of the China-CEE [Central and Eastern European Countries] Cooperation Mechanism [...] and the Belt and Road[102] Initiative [...]".[103] This could be interpreted as Bulgaria understanding that, as a small open economy, it has a better chance of advancing its economic aspirations by adhering

V Editor's note: The final draft of this chapter was submitted on 31 May 2024.

to common EU policy and advocating equal treatment by China of all EU members, as opposed to the cultivation of special bilateral relationships between Beijing and a select few EU capitals. This is of particular importance to Sofia with regard to market access and ensuring a level playing field for all European entities.

In high-level bilateral interactions, Bulgaria continually stipulates the need to rebalance the trade relationship with China, due to its significant trade deficit of US$ 2,541.5 million in 2022 and US$ 1,782.6 million in 2023.[104] A second aspect of these relations is Sofia's aim to continue to eliminate non-tariff barriers to Bulgarian food and agricultural exports to China,[105] as the country has not yet fully enjoyed the substantial economic benefits initially expected from its participation in the China-CEE Cooperation Mechanism. In this divisive format, Bulgaria has assumed responsibility for hosting the Association for the Promotion of Agricultural Cooperation between China and the Central and Eastern European countries (APACCCEEC), which it funds from the national budget.[106] This long-term commitment fuelled expectations of rapid growth in exports of Bulgarian food, wine and rose oil products to China, which reached US$ 500 million in 2023,[107] to justify continued participation in the initiative despite the withdrawal of other CEE states.

Finally, Bulgaria's participation in China's Belt and Road Initiative (BRI) has been only symbolic thus far, without any practical results.[108] The former Bulgarian Ambassador to Beijing, Angel Orbetsov, argues that "In recent years, Bulgaria practically withdrew from its activities under the influence of increased reservations about it in Europe. Chinese endeavours to develop transport connectivity in SEE tend to bypass Bulgaria […]".[109] Although this interpretation suggests a form of subtle de-risking out of reputational concern, a deeper look at Bulgaria's domestic situation might identify the availability of EU funds and the existence of a strong local construction lobby as key factors in impeding substantial Chinese participation in the country's infrastructure development.

The European Union's Defensive Toolbox and Bulgaria

FDI Screening Mechanism

In recent years, foreign investors have often sidelined Bulgaria when targeting the region of Central and Eastern Europe. This has forced Sofia to reconsider its investment promotion strategy and its inability to match the direct state incentives offered by its neighbouring non-EU countries in the Western Balkans or the large market and competitive industrial base of Türkiye. For this reason, Sofia has been very reluctant to implement a national FDI screening mechanism, and has consistently declared an openness to Chinese investment in "high value-added sectors such as high-tech industrial production and services, information and telecommunication technologies, mechanical engineering, automotive and auto parts manufacturing, electronics and electrical engineering, agriculture and food processing, tourism".[110] Nonetheless, with little public debate or consultation, a Bulgarian FDI screening mechanism was adopted by the National Assembly on 22 February 2024, promulgated in the *State Gazette* on 8 March 2024 and entered into force on 12 March 2024. To become operational, however, it requires an additional implementing regulation to be passed by the Council of Ministers by 12 September 2024.[111] The fate of this supplementary legislation remains in limbo pending the result of a snap general election in June 2024, which is unlikely to deliver a more robust parliamentary majority.

Although at the EU level, Regulation (EU) 2019/452 on FDI is implicitly understood as safeguarding critical European economic sectors from malign foreign influence, with Chinese capital at the forefront of the discussion, the debates of Bulgarian legislators focus mainly on Russia. The consensus among the legal professionals in the country seems to be that the national legislation has missed the mark and intended purpose of the original EU regulation, and instead created an overly restrictive mechanism.[112] It also suffers from the defects shared by many recent reforms and legislative changes adopted by the

National Assembly in a rush-to-the-finish line, purely aimed at clearing the backlog of urgent regulations demanded by Brussels in the hope of amending their most notable shortcomings at a later date.

The main contrasts with the original EU instrument appear to be the significantly wider scope of activities covered by the Bulgarian legislation, a lower investment threshold, a lack of clear risk assessment criteria and the potentially discriminatory explicit naming of countries.[113] Non-EU origin investment from some countries, such as Russia and Belarus, requires compulsory examination while other countries are exempt from the process. The Bulgarian legislation grants seemingly preferential status to non-EU investors from several countries as long as they are entirely private owned and coming from the larger British Commonwealth states, the United States, Japan, the Republic of Korea, the United Arab Emirates and Saudi Arabia. According to one lawyer, Zhulieta Mandazhieva,[114] since Bulgaria separately and the EU as a legal entity are signatories to various bilateral and multilateral treaties, the different treatment of the non-EU countries not on the exemption list that are parties to these various treaties could amount to a violation of international agreements. She highlights the case of expanding existing investments and singles out China as a country that signed a bilateral investment promotion agreement with Bulgaria in 1994. In more general terms, the explicit exclusion list might contradict the “most favoured nation” principle and the national treatment standards often stipulated in such international treaties on investments. Thus, Mandazhieva warns that this could provide cause for litigation and reciprocal adoption of similar limitations on Bulgarian businesses in the countries of origin of the aggrieved investors.

Foreign Subsidy Regulation

While thus far Chinese entities have had no success in winning contracts for major infrastructure projects in Bulgaria, the first ever in-depth investigation by the European Commission under the Foreign Subsidy Regulation concerns a public procurement procedure by the Bulgarian Ministry of Transport and Communications for the purchase and 15-year maintenance of 20 push-pull electric trains, worth approximately 1.2 billion BGN, and a bid made by CRRC Qingdao Sifang Locomotive, a subsidiary of the state-owned CRRC Corporation. The probe was announced by the Commission on 16 February 2024,[115] but it was discontinued following the company’s voluntary withdrawal. While it demonstrated the efficiency of EU’s new defensive toolbox, the precedent caused further complications for Bulgaria’s transport modernization and decarbonization agenda as the Ministry had already faced various roadblocks and delays in achieving the largest recent railway investment funded by the National Recovery and Resilience Plan.[116] Another investigation was launched by the Commission on 9 April 2024, this time into Chinese suppliers of wind turbines to Bulgaria, France, Greece, Romania and Spain.[117]

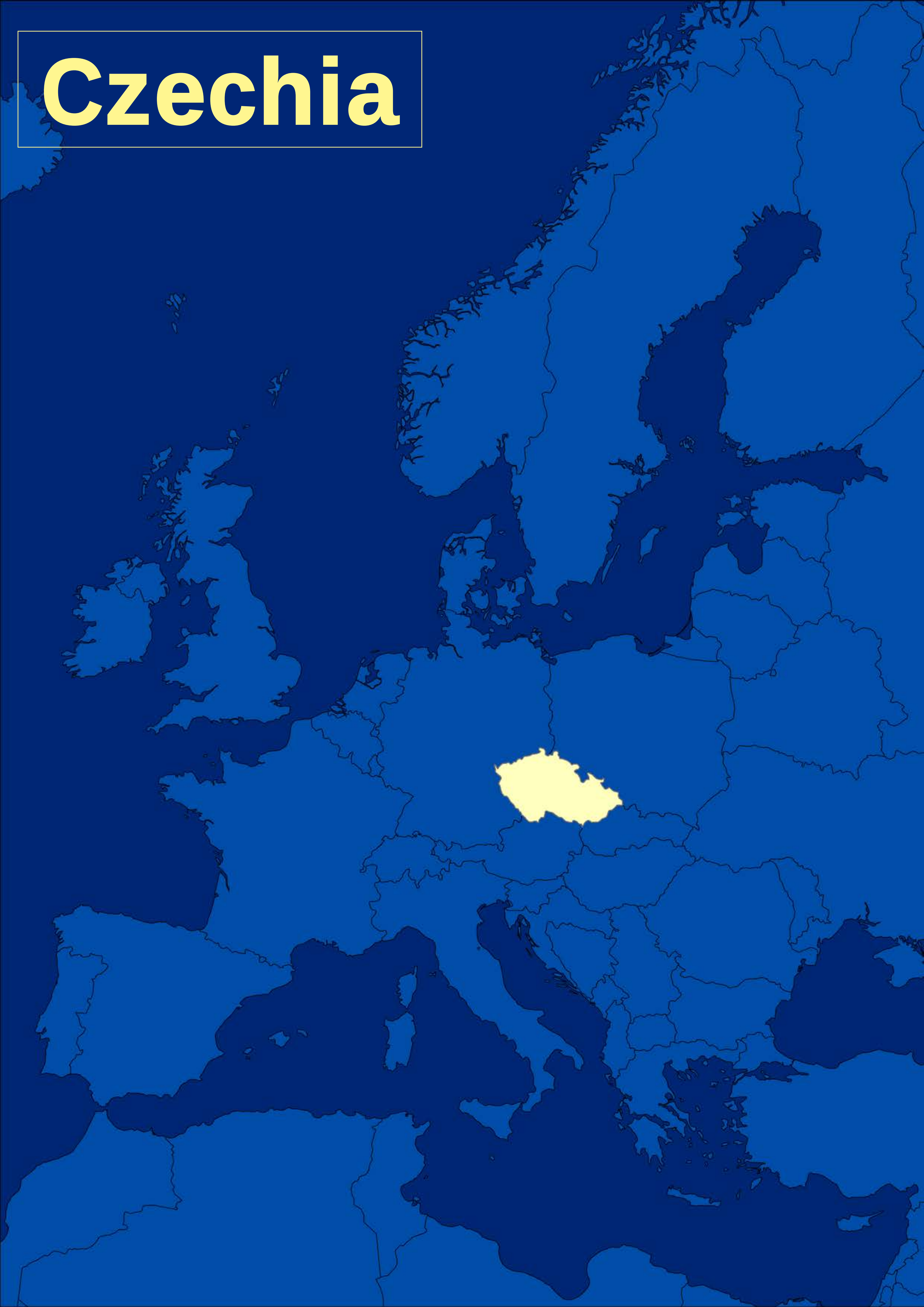
Barriers to De-risking from China

Sectoral risk assessments do not appear to have been carried out by Bulgaria’s national authorities. Potential dependencies on China, especially with regard to green tech imports, might not be fully understood or acknowledged. Nor do the national security concerns observed elsewhere in Europe seem to garner much attention from Bulgarian politicians, as there have been no moves to ban Huawei or other Chinese companies from critical infrastructure, even though Bulgaria has joined the “Clean Networks Initiative”.[118] Media reports on the potential risks of installing Chinese-made security cameras in Sofia’s public transport have also been downplayed by the authorities.[119]

Thus, de-risking from China is not at the forefront of the minds of Bulgarian officials either because of their preoccupation with the threat from Russia, or because the modest economic presence of Chinese businesses is not perceived to warrant restrictive measures. In addition, the political instability that has plagued Bulgaria in recent years makes it difficult to reach consensus on issues that are not viewed as priorities.

At the same time, Sofia would prefer to at least nominally maintain good diplomatic and trade relations with Beijing. Even the most ardent Euro-Atlantic entities with close ties to the US have not championed de-risking from China.[120] However, this propensity to view China in a slightly more favourable light than is currently the case at the EU level has not been marked by overly proactive measures to seek Beijing's approval.

Czechia



Czechia: Early ideological whistleblower turned European mainstream

Rudolf Fürst, Former Senior Researcher
Institute of International Relations Prague

Czechia was a forerunner in identifying China-related risk in Europe. However, the reasons for its whistleblowing with regard to economic and political security were less urgent compared to the risks to stronger European economies with much more extensive contacts with China. The notion of de-risking has never been clearly defined. The Czech process of de-risking stemmed from a securitised domestic atmosphere that originated in the Czech media, China-critical political parties and, most substantively, Czech think tanks. The relevant Czechia-based academic community has never underestimated or overemphasised China-critical themes, but its views and voices were lost in the buzz of the public discourse. The fragmented and polarised nature of the domestic political scene predetermines the space for implementing de-risking policy, which certainly has a rationale, but concrete results reveal contradictory and unnecessarily politicised approaches that mask a current inability to implement the agenda effectively.[VI]

Increasing attention to China-related security risks

Czechia is one country in Europe where the risks linked to China's presence in the economy have been identified as an important issue. The term de-risking has been adopted more recently in accordance with the policy of the European Union, but its content refers back to the earlier negative domestic and foreign, especially US, reaction to the creation of the multilateral platform 16+1 and the associated rise of China's presence in Central Europe, the Balkans and the Baltic states. The circumstances leading to an escalation of the public debate and domestic political response relate to the normalisation of Czech-Chinese relations,[121] Czechia's entry into the 16+1 format in 2012 and the 2015 announcement of a Czech-Chinese strategic partnership during the first-ever visit by a Chinese president to Prague. The Czech public were not prepared for more active political contact with China. Previous economic benefits of relations with China had been negligible and the general perception of China was of a non-democratic country that had turned away from liberal political reforms in 1989, and a regime that continuously violated human rights.

The rapprochement with China in 2012 has been linked to Czechia's proactive President Miloš Zeman and the governing coalition of the time led by the Social Democratic Party, which had long supported a pragmatic policy and economic agenda oriented towards the fast-growing Asian market. The conservative-liberal opposition was critical from the start and the mainstream media echoed such views. However, policymakers and business lobbyists supported a more active political dialogue with China so the pragmatists went against public opinion, which mostly emphasised values-based criticisms of China. The media did not cover the freeze in diplomatic communication with China in 2009–2012, so this was never in the public domain. In 2012, however, a speech by Prime Minister Petr Nečas, leader of the conservative Civic Democratic Party, at the annual International Engineering Fair in Brno raised the issue of the neglect of bilateral relations with China.[122]

Doubts about China's intentions were fuelled by the excessive concentration of investments credited to the non-transparent Shanghai-based CEFC financial group, and the apparent lack of effective economic incentives for these investments. The media and think tanks warned of the CEFC's connections with the Chinese Communist Party (CCP) and military circles.[123] From the beginning, the Czech debate was almost completely separate from the debate taking place in Europe, for example, a series of analytical reports by ETNC received minimal media attention in Czechia. Ideological reasons for opposition to

VI Editor's note: The final draft of this chapter was submitted on 11 June 2024.

rapprochement with Beijing were framed by the widespread myth of abandonment of Václav Havel's political legacy, and allegations that President Zeman was “dragging Czechia away from the West” to the East.[124] More substantive arguments highlighted the low level of Chinese investment stock, which remained mostly promises and was motivated only by an intention to create a supportive lobby in Czechia.

Czech de-risking: warnings of espionage and a cybersecurity threat

Emerging debates on China’s influence arose from domestic anxiety about dealing with the authoritarian Asian power and were dominated by doubts about the strategic motives for the expansion of investment by CEFC. The investor intended, among other things, to spend CZK 19 billion (almost US$ 1 billion) to purchase a 50 percent stake in the Slovak-Czech owned J&T Financial Group, which at the time had bank branches in Russia, Slovakia, Croatia and the tax haven of Barbados. Although this transaction was approved by the European Central Bank, it was suspended by the Czech National Bank due to doubts about the origin of the financial resources.[125] Shortly after, the founder and director of CEFC, Ye Jianming, was detained by the authorities in China on suspicion of economic crimes and CEFC withdrew its offer.[126] Taking these events as a test case, the Czech regulatory authorities demonstrated their ability to assess risks even before the EU launched its investment screening mechanism. The CEFC investment shopping spree and its political backing by President Zeman became a target for think tanks and the Czech media, which disseminated allegations that China was buying influence on the cheap and promoting CCP influence while the People’s Liberation Army posed a security threat to the whole EU.[127]

The Huawei case was the second and even more central theme of the Czech revolt against the 2012 U-turn towards China. The problem of cybersecurity was a salient issue in Czech security circles when the Czech National Cyber and Information Security Agency (NÚKIB) submitted its “warning document” to the media in December 2018.[128] However, publishing the warning appeared more an instrument in a political clash than standard procedure. The classified document led to mutual recriminations between Prime Minister Babiš, the NÚKIB and opposition political parties that finally resulted in the dismissal of the director of the NÚKIB amid a continuing series of mutual media attacks. The director of the NÚKIB had informed the Czech government and the intelligence services about the content of the warning a few days before its publication. Why the NÚKIB then decided to publicise the document without the government's consent has never been sufficiently explained.[129] The political skirmish between the NÚKIB and Premier Babiš soon escalated into an open media clash between Premier Babiš and the Chinese ambassador, when the Chinese embassy objected to accusations of a security threat from Huawei and demanded an apology.

The media backlash over Huawei also turned against China-focused PPF, the largest Czech financial group, and its deal with Huawei to build 5G networks for O2, the PPF-owned telecom operator. Even though PPF offered additional security measures, media pressure was so strong that it finally agreed to withdraw from the contract with Huawei and chose a significantly more expensive bid by Ericsson to supply 5G technologies.

Despite these domestic political disputes, Prague has assumed a proactive role internationally since 2019, holding a series of international conferences on European 5G security with the direct support of Prime Minister Babiš and the Czech Foreign Ministry.[130] Nonetheless, top-down cybersecurity measures based on the EU toolbox on 5G Cybersecurity have been implemented inconsistently and without sufficient consultations and consensus-building with expert circles, including the Czech Association of Mobile Network Operators. Three operators – O2, Vodafone and T-Mobile – continued to use Huawei technology and components away from core networks, while the NÚKIB continued to prepare legislation for parliament.[131] The proposed legislation adopts the EU’s suggested NIS2 regulatory directives.[132] The gap between the strict NÚKIB agenda and expert business circles demonstrates insufficient bottom-up consultations, and ignores massive use of Huawei technology among state-owned enterprises and energy providers, and the considerable risk of compensation claims. In addition, Czech state-related institutions, including for example the Czech police and Czech national television, must follow public procurement rules, which make accepting the lowest bidder for technical equipment a mandatory criterion. Huawei's Czech market position has therefore never been in doubt.[133] There is still no government-issued official ban on Chinese IT suppliers. Babiš informally agreed with former US Secretary of State Mike Pompeo to cooperate on choosing safe technologies for 5G build-up but no official agreement was ratified. Thus far, even under the current government, led by conservative Premier Petr Fiala since November 2021, which is even more security oriented, laws and executive measures are still in preparation.

Various actors in de-risking and an overall atmosphere of suspicion

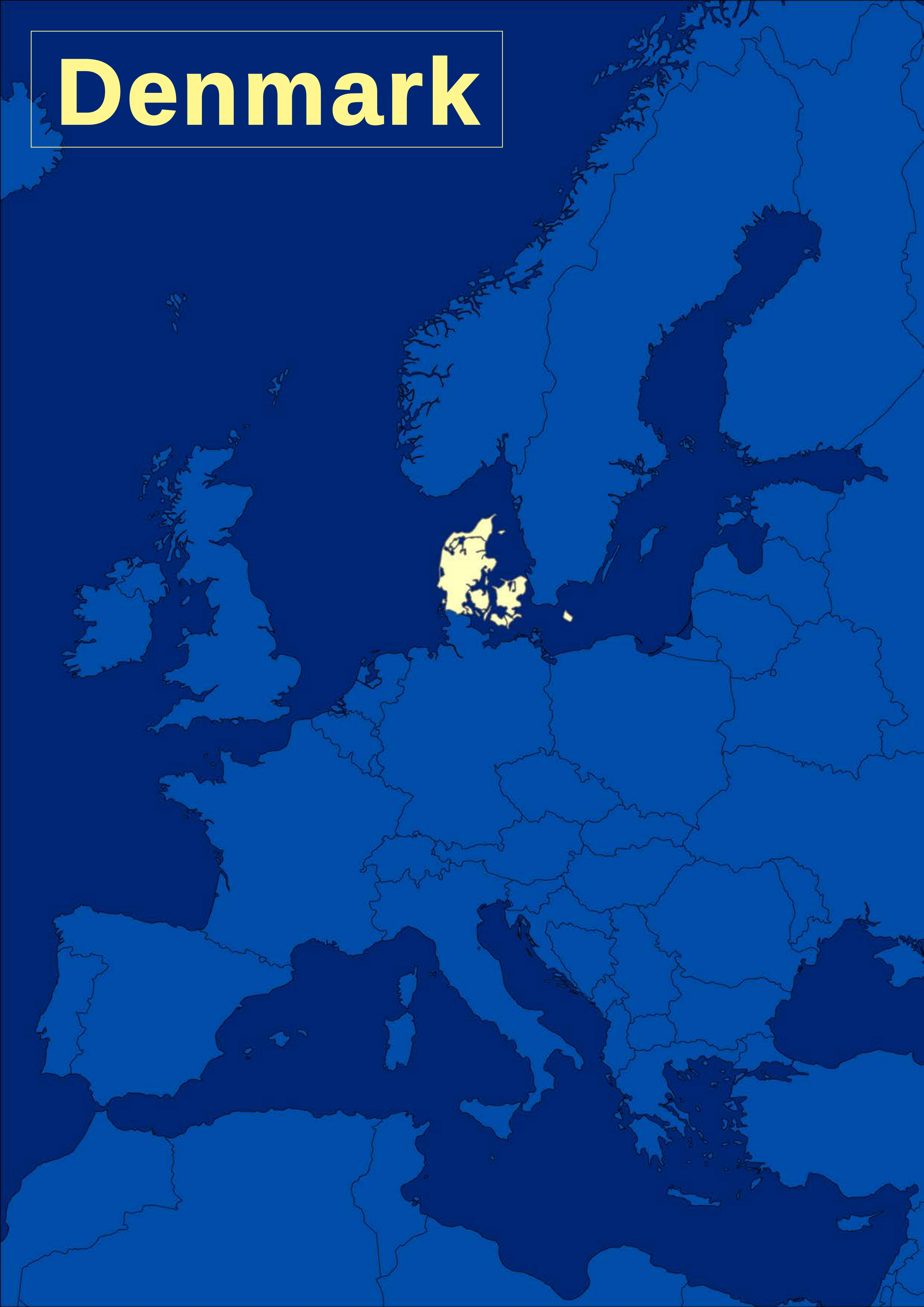
The process of de-risking has never been clearly defined in Czechia. It stems from a securitised domestic atmosphere, the origins of which can be attributed to the Czech media, China-critical political parties and, in a more substantive way, to think tanks financed by the National Endowment for Democracy (NED).[134] The most important issue of the cybersecurity of critical networks has been consensual and never questioned (except in disinformation sources). However, its technical and economic aspects remain the subject of discussion and contestation. US inspiration behind and sponsorship of the so-called Chinese influence campaign were the driving force of Czech security measures aimed at China, which preceded the EU's stronger security policy towards China.[135] This, however, is hardly mentioned by Czech media outlets. The emphasis on cybersecurity and the Chinese agenda was confirmed in 2019 by the visit of the head of Czech counterintelligence (BIS), Michal Koudelka, to CIA headquarters in Langley, Virginia, to be presented with the George Tenet Award for Foreign Cooperation.[136]

The initial impetus, in which ideology prevailed over pragmatism, had the merit of raising awareness of de-risking and making the country more open to consultation on and support of EU initiatives. Czechia benefits from the position of Czech Věra Jourová as European Commissioner for consultation and coordination in the field of cyberspace security and the fight against disinformation.[137] During the 2022 Czech Presidency of the Council of the European Union, a High-level Cyber Security Conference was held in Prague, attended by state representatives and experts from more than 80 countries, including President of the European Commission Ursula von der Leyen.[138] Czech de-risking measures include an updated Czech Security Strategy in 2023, in which China is second only to Russia as a security issue.[139] The exclusion of China (and Russia) from the public tender for the enlargement of the Dukavany nuclear power plant confirmed the Czech authorities' strict position.[140] Interestingly, China's harsh retaliation against Lithuania in 2021 resonated in Czechia not only as an issue of Beijing's aggressive diplomacy, but also because of Prague's political support for Taiwan, which is even stronger than in the Baltic states. Czech parliamentary representation at the level of the Speaker of the Chamber of Deputies (2023) and two visits by the Taiwanese Foreign Minister (2021 and 2023) to Prague confirmed this continuously assertive Czech stance.

On the other hand, Czech politicisation of relations with China penetrated academic circles, where some scholars experienced media allegations of collaborating with China, and posing a threat to the world's democracies.[141] The Czech Senate and the BIS co-initiated optional screening of academics, issuing a questionnaire on their cooperation with Chinese academic institutions.[142] In an effort to protect its public reputation, the Charles University asked the Ministry of the Interior's Centre Against Terrorism and Hybrid Threats (CTHH) for methodological assistance.[143] Growing concerns about the academic environment resulted in the closure of one of the two Confucius Institutes, at Palacký University in Olomouc. In parallel with these developments, the fading media frenzy about the Chinese security threat to Czechia, which was never clearly demonstrated or distinguished from the genuine Chinese presence, was eventually overshadowed by the war in Ukraine and the conflict in Gaza. Cybersecurity, which is the main topic of the Czech de-risking policy, has been based on the ideological concept of a security threat from undemocratic Russia and China. Paradoxically, in the almost five years since implementation, it still encounters resistance from industrial unions and companies, including three key telecommunication operators and the energy sector, which take account of technical capacities and economic opportunities, and demand the Czech government and NÚKIB revise the proposed government law on cybersecurity.[144]

Czech political relations with Beijing are currently at freezing point. With reduced attention on China during the war in Ukraine, a continuation of de-risking measures towards China can be expected in the coming years. These are relevant to the Czech situation and in line with mainstream EU policy. The current conservative coalition is dramatically losing public support and the political parties represented in it are expected to lose ground at the next election, which will take place next year. Today's opposition will be keen to follow up on the substantive steps taken to ensure state security, but with a more pragmatic and less ideological approach.

Denmark



Denmark: De-risking paves the way for pragmatic reengagement with China

Andreas Bøje Forsby[145], Senior Researcher and, **Yang Jiang**, Senior Researcher,
Danish Institute for International Studies (DIIS)

As part of its new strategy to pragmatically re-engage with China and pursue economic opportunities in a "clear-sighted" manner, Denmark's coalition government has embraced the European Union's de-risking approach to tackling undesirable vulnerabilities and dependencies. Having adopted several national de-risking measures in recent years, Copenhagen now envisages an increasingly central role for Brussels in managing China-related risks and providing a broader regulatory framework. This balancing act of pragmatic re-engagement and de-risking appears aimed at reassuring both Danish companies and the security policy community amid increased geopolitical risks and growing demands for supply chain resilience. The new approach follows a five-year period of heightened tensions between Denmark and China, driven in particular by US-China great power rivalry and the hardening of the Chinese regime under Xi Jinping.[VII]

Introduction: Denmark re-engages with China

After several years of upheaval, Denmark's relationship with China found a more solid footing in 2023 paving the way for a long-delayed renewal of the work programme for their Comprehensive Strategic Partnership (established in 2008).[146] While significantly slimmed down from the wide-ranging ambitions of previous agreements, the new Green Joint Work Programme highlights a small number of cooperation areas centred around climate change, sustainability and the environment where technological know-how, economic interests and the need for green solutions seem to be particularly aligned.[147] The signing of the agreement by Foreign Minister, and former prime minister, Lars Løkke Rasmussen during a three-day visit to China in August 2023 indicates that the Danish government intends to strike a new balance in its bilateral relations with Beijing, as noted in its official foreign policy strategy: "On the one hand, we must *not be strategically dependent* on China or forget *the risks* of being in the Chinese market. On the other hand, it is also *not* in Denmark's or the EU's interest to *decouple ourselves from China* or to disregard the growth potential for Danish exports".[148] Instead, the government will adopt a more pragmatic approach to China, where the pursuit of economic opportunities goes hand in hand with an underlying focus on potential risks.[149] Although the new approach envisages a larger role for the European Union in managing these risks, Denmark has already adopted several national risk-reduction measures in recent years to address potential vulnerabilities and dependencies.[150]

The current government's approach: Pivoting towards Brussels

In the wake of the Covid-19 pandemic and Russia's full-scale invasion of Ukraine, Danish policymakers, as well as business executives (see below), have become increasingly aware of the risks associated with developing critical dependencies on foreign, notably Chinese, suppliers. Such concerns were articulated in highly securitised terms during the previous Social Democrat single-party government, given its perception of China mainly as a systemic rival that is "attempt[ing] to hollow out the values our institutions are built on".[151] However, the Danish centrist coalition government, in office since December 2022, has toned down this rhetoric as part of its efforts to rebuild relations with Beijing while embracing the EU's de-risking agenda to demonstrate vigilance regarding undesirable dependencies.

The government's May 2023 foreign policy strategy observes that "Denmark's China policy must continue to be engaged, clear-sighted and realistic, anchored in a common strategic EU approach…".[152] What this means in the context of de-risking is spelled out in a section on "A more robust society": "[D]

VII Editor's note: The final draft of this chapter was submitted on 14 May 2024.

ependencies can also bring risks and vulnerabilities. […] Denmark must achieve increased resilience through closer European cooperation. […] Denmark must therefore work to strengthen the EU through open strategic autonomy”.[153] Specifically on China, it points out that “we must reduce Denmark’s and Europe’s critical dependencies and vulnerabilities. This applies especially to energy when it comes to Russia and critical raw materials and technologies when it comes to China”.[154] Tellingly, the term “de-risking” is defined as “a desire to become less dependent on China with respect, for instance, to rare earth minerals”.[155] In practice, Copenhagen is already looking to Brussels for overall policy guidance, having welcomed the flurry of recent EU initiatives such as the Critical Raw Materials Act, the Net-Zero Industry Act, the Anti-Coercion Instrument, the EU Toolbox for 5G Security and the EU framework for foreign direct investment, which constitute the building blocks of Brussels’ budding de-risking strategy.

Precursors of Denmark’s de-risking approach

Even before de-risking became the new catchphrase in Brussels, however, Denmark had already taken several steps at the national level to reduce undesirable vulnerabilities and dependencies on China. Initially, these measures were primarily triggered by security concerns, when the United States intervened in 2018–2020 to securitise some aspects of China’s presence in (the Kingdom of) Denmark, such as investments in Greenland and in 5G digital infrastructure.[156] For instance, a national investment screening mechanism was adopted in July 2021 to ensure systematic assessment of foreign direct investment (FDI) for potential security risks, including whether the investor is “controlled by a foreign government”.[157] A law on the security of suppliers of critical digital infrastructure (L1156) was passed 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”.[158] Furthermore, in May 2022, under the auspices of the Ministry of Education, a specially appointed committee introduced a set of national guidelines on international research cooperation to address the security-related, economic and ethical risks of working with researchers from countries that are “not like-minded”, such as China and Russia – both of which were directly named.[159] The most comprehensive national de-risking initiative so far was announced in September 2023, when the government launched its new “Strategy for Security of Supply”, developed as a collaboration between ten ministries and implemented by the new Danish Critical Supply Agency (established in 2020 in response to the Covid-19 pandemic). The strategy identifies 112 “vital societal functions” but only specifically mentions dependencies on China as a cause for concern (citing a study by the EU Commission).[160]

Meanwhile, the Danish Defence Intelligence Service (FE) has been publishing Annual Risk Assessment reports with a gradually expanding China section for more than a decade. Although they mostly deal with international threats and risks, the most recent report contains a specific section that spells out how “China employs an extensive array of strategies to transfer technology” from Danish companies and research institutions.[161] In addition, the Danish Security and Intelligence Service (PET) has since 2022 published its own annual reports on the “espionage threat”, which provide a series of diverse observations about illicit Chinese activities in Denmark, including the transfer of technology and Intellectual Property (IP) rights.[162] In early 2024, PET launched a public campaign in the universities on “Secure research” in order to “provoke debate” and increase awareness about such risks.[163] The 2023 report specifically highlights the risk that “China may use any Danish dependency on Chinese components as a means of pressure [on] Denmark”.[164]

The broader policy debate: Emerging cracks in the domestic consensus on China?

The previous government’s hardline approach to China rested on a broad consensus in the Danish parliament (Folketinget).[165] The pragmatic rebalancing of relations with Beijing has therefore been met with some pushback not only from the media,[166] but also from various opposition parties, notably right-wing populist parties such as the Danish People’s Party and the Denmark Democrats.[167] In a joint op-ed ahead of Løkke Rasmussen's visit to China, two prominent opposition voices criticised the government for renewing the strategic partnership with China, sounding the alarm about strategic dependencies on China. They were also critical of ongoing pressure from Danish companies, such as the wind turbines corporation Vestas,[168] that have strong vested interests in the Chinese market.[169] Another high-profile intervention in the debate came in early 2023 when, during a visit to Taiwan, former prime minister and NATO Secretary General Anders Fogh Rasmussen – the original architect of Denmark's Comprehensive Strategic Partnership with China – called on Danish companies to "carefully consider the risks of maintaining their presence in China".[170] Nonetheless, such calls for outright decoupling are rare in the Danish policy debate, and Foreign Minister Rasmussen countered that "if we only want to cooperate with those countries that are like ourselves, we will end up in a very small club".[171] In October 2023, Folketinget organised a week-long visit to China for the members of its Foreign Policy Committee, suggesting that the Danish government's rebalanced approach to China enjoys broad support in parliament, albeit the right-wing populist parties declined the invitation.[172]

The business community: China still irreplaceable but diversification needed

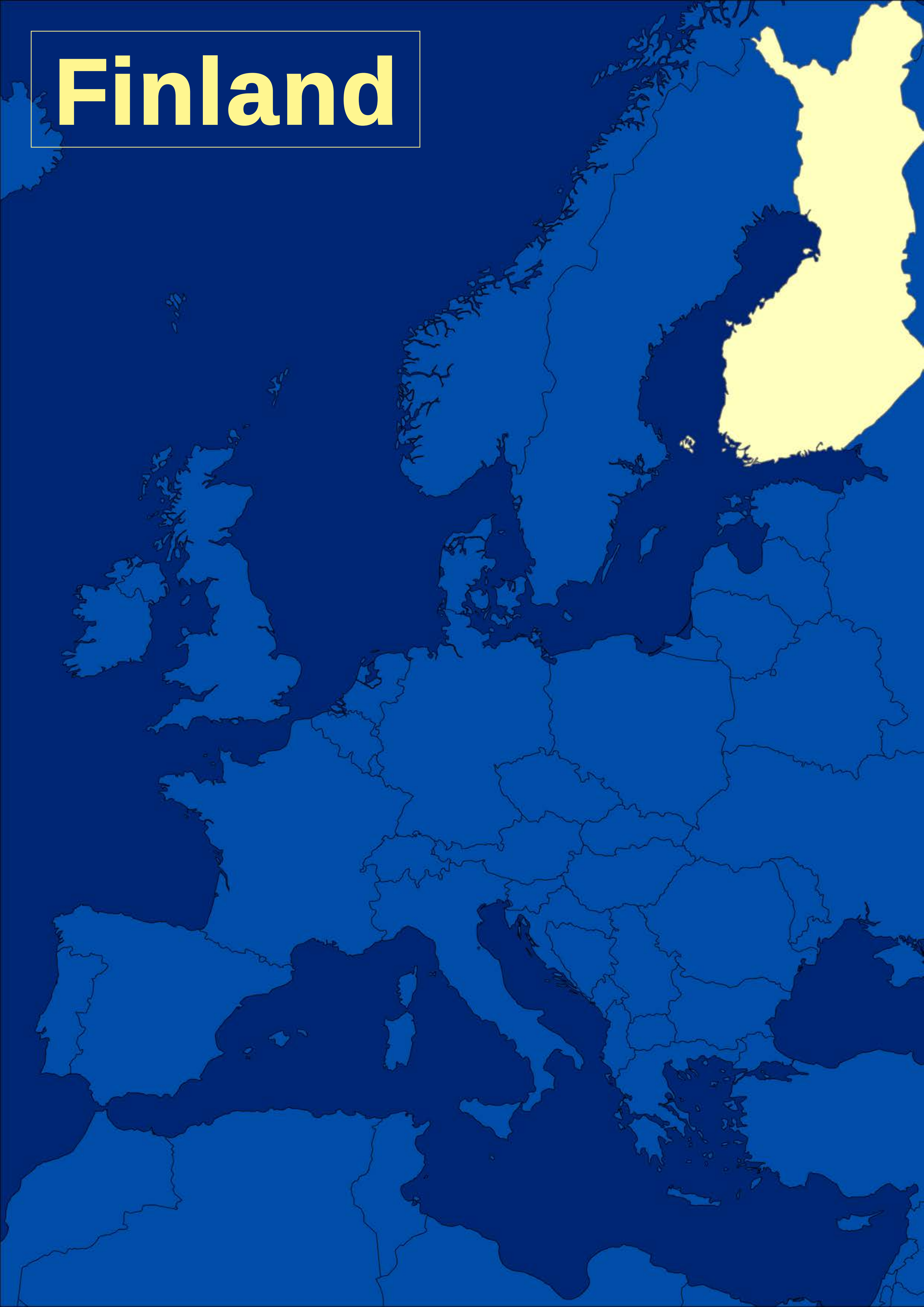
The new de-risking agenda has also made its way into the Danish business community. China has grown to become Denmark's fourth largest export market after the US, Germany and Sweden, and in 2023 accounted for around 6% of Danish gross exports. Danish investments in China constitute around 3.5% of Denmark's total outbound stock of FDI. Moreover, according to a report published by the National Bank of Denmark in June 2023, a decline in growth of 1% in China would reduce Danish GDP growth by 0.4% after one year, and specific export sectors such as shipping, pharmaceuticals, food and machinery are highly exposed to Chinese demand.[173] This only tells part of the story about the importance of the Chinese market, which has become a key supplier of critical components and materials in globalised supply chains. In some areas, Denmark relies on Chinese supplies that are difficult to replace, including a number of chemicals for pharmaceuticals, one of Denmark's most important industries. China's dominant position as a supplier of rare earth elements, solar panels and lithium batteries also gives it a critical position in the green technology transition where Danish companies are at the forefront.[174] Many Danish businesses want to reduce their supply vulnerabilities through diversification, but they realise that establishing a European or broader western supply chain of critical raw materials will be costly and take many years.[175] At the same time, Danish companies are aware that this process has been initiated by the European Commission, and Danish companies could potentially benefit from new EU incentives, such as those envisaged in the Critical Raw Materials act.

The Danish Business Outlook on China survey in April 2023 found that Danish companies are still concerned about de-risking challenges, although their overall business outlook on China has significantly improved since 2022.[176] Geopolitical tensions, notably the risk of conflict over Taiwan, an increasingly ideological environment in China, and a slowdown in the Chinese economy, including the high level of indebtedness in the real estate sector, are considered major risk factors. Half of the companies expect to maintain their current level of investments in assets and labour in China, one-third expect to expand and about 15% plan to downsize their operations in China (down from 25% in 2022). When asked about the extent of their de-risking measures towards China in 2023, 62% of Danish companies replied that they anticipated the same level as in 2022. However, there was a notable increase in the number of companies that expect a larger focus on de-risking measures (up to 30%). Taken together, both the economic data and Danish business attitudes show few signs of de-globalisation (or de-coupling) priorities, but rather a growing awareness of the need for diversification. Danish businesses have started to build supply chain resilience centred around a "China Plus One" strategy. This means that they are relocating some of their investments and operations to other countries, such as Vietnam, but are far from pulling out of the Chinese market altogether. However, this restructuring of investments and supply chains is both expensive and difficult, and companies could still end up buying components that originate in China, not necessarily reducing reliance but just making the supply chain longer.[177]

The changing direction of Denmark's China approach

Between 2018 and 2022, the hardening of the Chinese regime under Xi Jinping, along with Washington's intervention to securitise China's presence in Denmark, played a critical role in shaping a dramatic shift in official Danish perceptions of China from a strategic partner to a security threat and a systemic rival.[178] Now, as the Danish government has decided to pragmatically re-engage with China, it is not just relying on its own precautionary measures taken in recent years to avoid undesirable dependencies on China, but increasingly looking to Brussels for policy guidance on de-risking. That is to say, Denmark plans to handle China-related risks in concert with its European and other western partners while pursuing its national interest without naivety, as the opening lines of its foreign policy strategy state.[179] Looking ahead, the ability of the Danish government to maintain its balancing act between re-engagement with China and de-risking will depend on the intensity of the US-China great power rivalry. Should security concerns intensify once again, Copenhagen will undoubtedly find engagement with Beijing far more difficult.

Finland



Finland: A supply security veteran does moderate de-risking

Liisa Kauppila, Researcher at the Arctic Centre, University of Lapland/the Finnish Institute of International Affairs, Doctoral Researcher at the Centre for East Asian Studies, University of Turku and, **Elina Sinkkonen**, Senior Research Fellow at the Finnish Institute of International Affairs/Docent at the Centre for East Asian Studies, University of Turku

Finland's risk analyses and resilience efforts focus overwhelmingly on Russia. Assessing the risks associated with China dependencies and investments is a more recent theme in governmental and public discussions. Generally speaking, the debate about the country's de-risking strategy with regard to China is characterised by moderate rhetoric, which is typical of the Finnish foreign policy tradition. The emphasised risks include supply disruptions of critical goods, Chinese investors' Russian connections and the transfer of dual-use products. Of the themes calling for risk assessment in the EU's Economic Security Strategy, the National Emergency Supply Agency's mandate covers supply chain resilience and security of critical infrastructure. Finland has placed controls on investments since the 1930s but despite the tightening of the controls on foreign direct investment in 2020, its Act on the Screening of Foreign Corporate Acquisitions is fairly liberal. The act does not target Chinese investments but reforms are expected – a process that could be influenced by Finland's NATO membership.[VIII]

Introduction: From China hype to de-risking

Finland's approach to China is undergoing major changes. The tone has gradually become more critical among most stakeholder groups. In a survey of public opinion conducted in September 2023, 65% of respondents thought that Finland should rapidly reduce its economic ties with China.[180] Data on interviews with experts and state officials indicates that a more critical stance became more common around 2018.[181] In the business sector, changes came later and are less marked. A survey of large Finnish corporations by a Finnish commercial bank conducted in 2019 found that most respondents saw China as a lucrative location for production and foresaw increased sales. No notable change was indicated until 2022, when around 30% of respondents began to view China's rise as a threat to their operations as business leaders associated China-related risks with Russia's full-scale invasion of Ukraine in February 2022.[182] Another Finnish survey conducted in 2023 indicated that 28% of respondents anticipated that China's role as a trading partner might diminish in the future. At the same time, however, the vast majority of respondents saw China's role as either remaining as important or becoming more significant.[183]

Factors contributing to the above-mentioned changes include China's increasingly authoritarian political system and practices, Finland's closer relations with the United States, especially since February 2022, and China's decision not to condemn Russia's full-scale war against Ukraine. Moreover, a number of negative incidents covered in the media may have played a role in shaping public opinion. In 2021, for instance, the Finnish Security and Intelligence Service announced that a Chinese hacker group had attacked the Finnish Parliament in 2020.[184] When a consortium of Chinese research institutions tried to acquire an airport in Kemijärvi in 2018, the Finnish defence administration moved immediately to block the plan for reasons that were not disclosed to the public. The issue was reported in the media only in 2021.[185] In October 2023, the Baltic connector gas pipeline in Finland's exclusive economic zone and a telecommunications cable located in the Estonian zone were damaged. The Chinese ship *Newnew Polar Bear* was accused of sabotage, and at the time of writing the issue remains under investigation.[186]

VIII Editor's note: The final draft of this chapter was submitted on 14 May 2024.

Widening the gaze beyond Russia: China-related concerns enter the public debate

Although China appears more frequently in the media and the public debate than just a few years ago, Finland's risk analyses still focus overwhelmingly on Russia. This trend intensified after February 2022 and European efforts to decouple from Russia. Assessing the risks associated with Finland's dependencies on China and Chinese investments are recent themes in both governmental discussions and the public debate. As of May 2024, there has been no official definition of de-risking and the same applies to the direct responses to the EU Economic Security Strategy (ESS). The ESS proposes risk assessments of supply chain resilience, security of critical infrastructure, technology security and the weaponization of economic dependencies/economic coercion.[187]

The lack of an official definition does not mean that tackling China-related risks would be something new for Finland. According to Finland's Governmental Action Plan on China, published in 2021, Finland aims to prevent problematic strategic dependencies, especially in critical products such as pharmaceuticals and rare earths. China's civil-military fusion is emphasised as complicating Finland's export controls on dual-use items. The document also mentions decoupling in the context of great power technology rivalry, and states that the associated risks include supply disruptions due to export controls and politicisation of business, which would place Finnish companies in a difficult position between China and the United States.[188] The 2023 programme of the government of Prime Minister Petteri Orpo states that "China is an important trading partner for Finland, and Finland will maintain functioning relations with China". At the same time, however, "the Government aims to reduce strategic dependencies on China. We will promote this both nationally and at the EU level".[189] Thus, the current government's programme is in line with broader European efforts to de-risk, although it leaves open how strategic dependencies will be reduced in practice.

Moreover, the Finnish supply security system, which is characterised by private-public sector cooperation, has for many years been tasked with coordinating preparedness efforts that are highly relevant to de-risking. Of the broad categories of the EU's ESS lists, supply chain security and cybersecurity of critical infrastructure fall within the National Emergency Supply Agency's (NESA) scope of action.[190] The Export Control Unit at the Ministry for Foreign Affairs (MFA) is responsible for licensing dual-use products. Only the category of weaponization of economic dependencies is somewhat new – as well as the specific pressure to focus on China. For example, a government report on security of supply published in 2022 states that the green transition will reduce import dependencies on Russia and consequently enhance supply security in the energy sector.[191] Dependencies on China in the green transition, however, were not mentioned.

Most political parties have not yet formed an official stance on Finland's de-risking strategy. However, efforts to mitigate China-related risks have increasingly entered the Finnish political debate since February 2022. Some notable politicians, such as the former prime minister, Sanna Marin, have been vocal in warning of dependencies on China that expose Finland to coercion and influencing attempts.[192] However, the general tone has remained relatively moderate and most participants in the political debate focus on the need to reduce critical dependencies through diversification – as is repeatedly advised by China experts in the national media.[193]

In the build-up to the presidential elections in January 2024, de-risking emerged as a key theme, as the presidential candidates outlined their views on Finland's dependencies on China in debates. While most standpoints could be located within the above-mentioned relatively moderate spectrum, a few candidates made radical arguments – and some even emphasised the need to entirely withdraw Finnish businesses from China.[194] In contrast to these views, some former Finnish politicians with a strong background in seeking to engage with Russia through trade warned Finnish businesses of the risks of decoupling from China.[195]

Most debated risks: Growing attention to technology and battery investments

One of the clearest early themes approached from a risk perspective in Finland's China debate was reliance on China's antibiotics production. Supply chains for antibiotics suffer from weakened resilience, partly because the industry is concentrated on the China-India axis.[196] Supply disruptions could have fatal effects globally. In contrast, Chinese high-tech investments in Finland-domiciled companies were not flagged to a significant degree throughout the 2010s and early 2020s. It is notable that there was very little public debate before or after the Chinese acquisitions of the world's seventh largest producer of silicon wafers, Okmetic, in 2016 or the world's leading atomic layer deposition equipment producer, Beneq,[197] in 2018 – despite their significance in the global semiconductor and quantum computing industries.[198]

More recently, however, critical voices have become more common in the discussion on technology investments. For example, the alleged plans of Chinese-owned Atoman Finland to build a semiconductor factory in Turku received notable media attention in October 2023. One reason for this attention was the non-transparent and complex ownership arrangements. DCA Instruments, another Chinese-owned company with the same ultimate parent, Atoman, would equip the factory. DCA Instruments was set up by Finnish physicists in the 1980s but denied authorisation to export to China in the 2000s due to concerns over the dual-use nature of its products. Ultimately, however, the company was acquired by Atoman in 2022.[199]

Planned and implemented Chinese greenfield investments – that is, new enterprises or subsidiaries that foreign companies set up in Finland – in the Finnish battery industry have also been subject to debate since 2023. The tone has generally been positive, as many ministers and stakeholders consider Chinese greenfield investments more of an opportunity and less of a risk than acquisitions, which alter the existing ownership structure of specific industries. Most notably, Orpo has welcomed Chinese investments and underlined Finland's continuing positive stance in this context.[200] At the same time, however, both journalists and politicians have expressed concerns, especially about Chinese investors' connections with Russian companies, which they argue "call for careful investigation".[201]

Concrete measures and methodologies: Legislation, business strategies and studies

Finland has had controls on foreign direct investment (FDI) in place since the 1930s and the current legislation on FDI screening, the *Act on the Screening of Foreign Corporate Acquisitions*, has been in force since 2012. It was amended in 2014 and 2020. The 2020 amendments were motivated by the EU's FDI screening framework,[202] but Chinese investments were not an independent driver of the reforms. The law is not designed to target investments from China. Thus far, only a handful of Chinese investments have been screened and none have been blocked.[203] The legislation therefore has not affected the relationship between Finland and China.

In late 2023, state officials and ministers indicated that Finland's FDI screening legislation would undergo a new round of revisions.[204] It remains to be seen whether these changes will target those industries in which Chinese investments are likely to be made in the future.[205] Another open question is whether the scope of screening will be expanded to cover not only acquisitions, but also greenfield investments. This decision will have a clear impact on the number of screened Chinese investments because the relative share of China's Europe-bound greenfield investment is rising while that of the acquisitions is decreasing.[206] In Finland, companies from China form the largest foreign investor group in the battery sector and are making greenfield investments.[207]

Finland has also monitored non-EU/EEA real estate acquisitions since January 2020. Although Russian investments clearly constituted a major driver of this legislative process,[208] Chinese investments are also subject to screening. The legislation has already been amended once in 2022. Since late 2023, there has been a debate over whether Russian and Chinese real estate acquisitions should be specifically prohibited.[209]

The Finnish government published a report on Finland's trade dependencies on China in March 2023. Coordinated by the MFA, the report uses statistical data to examine Finland's most crucial dependencies by product and sector, with a specific focus on medicines, semiconductors and critical raw materials. The report identifies the potential effects of supply disruptions for companies and citizens but does not discuss the potential reasons for such disturbances.[210]

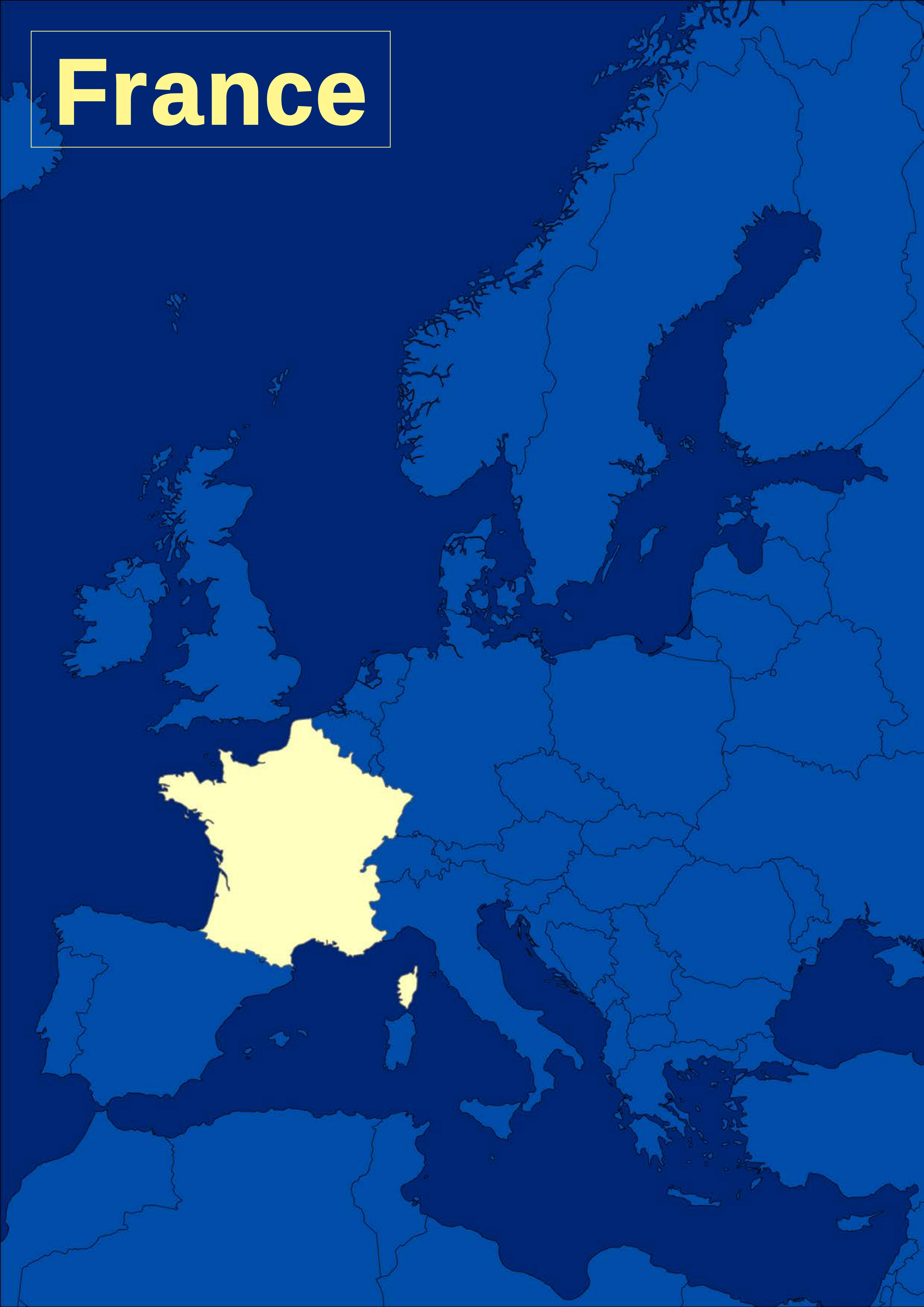
Another study was conducted by the authors in an Academy of Finland-funded project, *Foreign Acquisitions as Threats to Supply Security in an Era of Strategic Decoupling* (ForAc). Over 100 Finnish stakeholders brainstormed means of preventing various short- to longer-term threat scenarios from unfolding. The study analysed small state vulnerabilities in three categories: security risks of foreign ownership, supply disruptions and critical technology dependencies. The results indicate that small states have the least leeway in managing risks created by technological dependencies, whereas the tools to tackle potential dangers of foreign ownership and supply disruptions are more extensive. In short, legislative tightening could mitigate the risks of foreign ownership and stockpiling commodities could help to manage supply disruptions. Nonetheless, small states are often unable to produce sophisticated high-tech products domestically, which inevitably exposes them to critical dependencies and possible cut-offs.[211] Overall, these two studies have contributed to a general awareness of the new geo-economic challenges.

Finnish companies have adopted various strategies to tackle China-related risks. According to a survey conducted by the Finnish chapter of the International Chamber of Commerce in 2023, a number of Finnish companies have either reshored or are reshoring their production back to Europe from China. Moreover, Finnish companies have opened new export markets, diversified supply chains in key raw materials, refrained from increasing the number of China-based staff and curbed China-bound investments, among other things.[212]

The EU cannot be regarded as a uniform actor in its practical efforts on either de-risking or, for example, investment screening. Finland's current stance on de-risking is therefore unlikely to have a major impact on the country's relations with the EU. Finland emphasises the importance of shared situational awareness at the EU level concerning regulating investments, critical infrastructure and cybersecurity.[213] At the same time, Finland follows the Nordic debate more closely and is seeking enhanced collaboration at this level.[214] Moreover, the country's NATO membership will have an impact on information-sharing on China-related risks and on security debates in Finland.

It is likely that relatively moderate rhetoric and the persistence of differing views will continue to characterise Finland's foreign policy discourse and de-risking with regard to China. More radical changes could take place if China's reputational profile were to be severely damaged by unexpected events. Moreover, Finland's new-found military alignment with the United States could also result in more drastic views and tightened legislation. One of the first tests of Finland's standing in this new situation will be the upcoming reforms to FDI screening and possible new controls on outbound investment.

France



France: Chinese undertones in a broader quest for economic security

John Seaman, Research Fellow, Center for Asian Studies,
French Institute of International Relations (Ifri)

France is a proponent of "de-risking" both as a way to hedge against a slide towards deeper decoupling from China and as part of a broader approach to bolstering economic security and achieving greater economic sovereignty for the European Union (EU). China's growing economic clout and ambitions are a source of concern for the French authorities and French firms alike. However, they are one concern among many as power politics increasingly undermines the pillars of a more liberal economic rules-based order. In practice, at the national and European levels, France has actively pursued the development of offensive industrial policy tools to boost economic competence and resilience, as well as defensive measures to protect critical infrastructure and strategic economic assets, and guard against the leakage of key technology and know-how. While such policies are considered necessary, it has also sought to avoid directly antagonising Beijing in the process.[IX]

De-risking relations with China in the broader context of economic security

As a promoter of strategic autonomy and digital sovereignty in Europe, and increasingly wary of China's growing clout and ambitions, France was functionally a supporter of a de facto de-risking approach even before it became a guiding concept for the European Commission. For France, de-risking is ultimately couched within a broader, more country-agnostic concept of economic security that extends beyond specific concerns about China. Rather, it reflects a general assessment of the global economic order and the direction of the international system, which is increasingly evolving towards one driven by power politics at the expense of liberal international rules.

Already at the end of the Cold War, before China appeared on the strategic radar in Paris, the French authorities were apprehensive about the strategic risks that might emerge from globalisation and a convergence of the economic and security spheres. A series of reports over subsequent decades ultimately laid the conceptual groundwork for a French approach to economic security – a term employed as early as 2004.[215] Nonetheless, the country's economic policy would continue to be structured around the concepts of economic liberalism and globalisation as a defining trend.[216]

A qualitative shift towards a more proactive pursuit of economic security, and what is now broadly termed "economic sovereignty", came about in earnest in 2018, notably with the ramping up of the US-China trade war.[217] At the heart of this shift is the deepening strategic rift between the United States and China wherein both sides have broadly flouted the tenets of the international economic rules-based order. France and Europe have grown increasingly dependent on both the United States and China in a broad range of emerging technological fields, from digital infrastructure to critical mineral and renewable energy value chains, although France is in a better position than some of its European partners.[218] The pursuit of technological superiority on the part of both powers and their increasing willingness to resort to extraterritorial regulation, economic coercion and weaponisation of strategic dependencies make France and Europe all the more vulnerable. In such a context, French officials explain that, if left unguarded, even Europe's strengths – a comparatively open single market, a dynamic start-up culture and a cutting-edge fundamental research ecosystem – could also become "exploitable" by competing powers such as China or even the US. They must therefore be considered in a more strategic light.[219] A further degradation of France and Europe's strategic environment, notably following Russia's full-scale invasion of Ukraine, has only underscored the trend.

IX Editor's note: The final draft of this chapter was submitted on 15 May 2024.

Towards a better understanding of economic security risks

Among the most immediate risks perceived by the French authorities in the current context are the leakage of technology and know-how that could empower a competitor or potential adversary at the expense of French and European security interests, the vulnerability of critical infrastructure, including telecommunications networks, and the leveraging of strategic dependencies resulting in a loss of sovereign decision making. China is flagged as a major source of concern at all these levels, although again it is one among many.

In recent years, the French government has redoubled its efforts to conduct in-depth risk assessments to better understand vulnerabilities and guide policy. On the risk to scientific and technological innovation, a confidential report ordered by the French presidential office (Elysée) and submitted in early 2022 by the *Inspection générale des finances* (IGF, a branch of the French Ministry of Economy and Finance) found, for instance, that occurrences of foreign interference and espionage in French universities and technical institutes were clearly on the rise, particularly linked to China.[220] The findings echoed a report published by the French Senate in 2021, which sounded the alarm about the poor level of awareness and preparation among French research institutions.[221] Another confidential report, prepared for the French government in 2022 by Philippe Varin, former president of the industrial federation *France Industrie*, underlined France's vulnerabilities in the field of critical raw materials, where dependencies on China are of chief concern.[222] In the coming months, yet another confidential report commissioned by the Elysée, this time by the former head of the French industry association *Mouvement des entreprises de France* (MEDEF), Geoffroy Roux de Bézieux, will examine "technological predation practiced by certain foreign powers" in France.[223]

Protecting and promoting economic sovereignty in France

In the light of this deepened understanding of the broad nature of economic security risks, France has pursued a "protect and promote" approach at the national level while seeking to develop effective policy instruments and coordination at the European level. The "protect" pillar of France's approach comprises the development of a "smart shield" designed to insulate and protect the strategic sectors and assets of the French and European economy while ensuring that the vast majority of economic exchanges, which have no effective security implications, remain open. Already by 2016, France had established a dedicated Strategic Intelligence and Economic Security Service (SISSE) within the Ministry of Economy and Finance that operates as a "control tower" tasked with ensuring "the protection of strategic assets of the French economy in the face of foreign threats".[224] Reinforced in 2019, the primary tasks of the SISSE are to maintain confidential lists of strategic assets and companies, critical technologies, and public laboratories and research organisations – and to work with actors in each field to better understand the specific risks they face.[225]

One of the primary tools at the SISSE's disposal is the foreign direct investment (FDI) screening mechanism. The mechanism itself has a long history of evolution since its initial form as a "blocking statute" in 1968.[226] It has grown beyond the strictly defined field of national defence to include an expanding set of critical technologies, infrastructure, goods and services (see Table 1). In the past four years, the voting threshold for activating the FDI screening mechanism has been reduced from 33% to 25% and now to 10%.

Table 1. Critical sectors subject to FDI screening in France today [227]

National defense interests	Information and data security	Critical infrastructure and technologies
Arms, munitions, explosive powders and substances destined for military ends and materials related to war	Technical materials or systems able to intercept communications or designed to detect conversations at a distance or capture digital information	Infrastructure, goods and essential services related to: energy; water; public transportation networks and services; space operations; electronic communications networks and services; public security actors; establishments, installations and works of vital importance within the meaning of the defense code (and their information systems); public health; food security; press and media services
Entities under contract with the defense ministry to provide goods or services related to sensitive activities	Information security systems for public or private operators managing infrastructure of vital importance	
Dual use technologies as defined by the European Union	Handling, transmission or stocking of data of which the compromise or divulgence could affect the conduct of sensitive activities	
Research and development related to dual use goods and technologies		
Activities destined to counter the illicit use of pathogens or toxins for terrorist activities	Cryptology	Research and development activities related to critical technologies, defined as: cybersecurity; artificial intelligence; robotics; additive manufacturing; semiconductors; quantum technologies; energy storage; biotechnologies; renewable energy technologies
Entities dealing in national defense secrets		

On the issue of 5G infrastructure, France adopted legislation in August 2019 that effectively requires telecom operators to obtain authorisation from the *Agence Nationale de la Sécurité des Systèmes d'Information* (ANSII) in the Prime Minister's Office before contracting with a vendor. This has limited Huawei's presence. The former Director General of ANSII, Guillaume Poupart, insisted in a 2020 interview that there is no ban on Huawei equipment – the supplier has provided 20% of 5G infrastructure equipment in France – but admitted that "the risks are not the same between European and non-European vendors". He encouraged operators not already using Huawei "not to go there because it is rather the natural way of things", noting that "there will be refusals".[228]

France has also worked to strengthen awareness of research security among the scientific research community. It has since 2012 developed a mechanism to promote the "Protection of scientific and technical potential and economic intelligence", which as of 2021 had resulted in the creation of 573 special "restricted research zones". Since publication of the 2022 IGF report cited above, a "substantial" update to the mechanism has been under review, which is expected to deal with the growing list of challenges in the coming months.[229]

The “promote” pillar of France’s economic security approach fits within the drive for reindustrialisation known as France 2030, which was launched in 2021. The state is seeking to mobilise €52 billion in an effort to spur technological innovation, drive the ecological transition and rebuild an industrial base in France.[230] Reducing or avoiding further strategic dependencies on China is part of the calculus, as reflected in efforts to secure critical raw materials and “strategic components”, while also making digital technologies “safe and sovereign”. In May 2023, for instance, the government unveiled a €2 billion plan, together with similar initiatives by Germany and Italy, to ensure access to and bolster the resilience of critical raw material supply chains.[231] Further down the value chain, France is developing a dedicated “battery valley” in and around the city of Dunkerque,[232] and a “magnet valley” for the production and recycling of rare earth permanent magnets in the south-west town of Lacq.[233] Ultimately, France is seeking to prevent a scenario in which the transition to a digital, carbon neutral future leads to a deepening of strategic dependencies, in particular on China.

Ultimately, as French economic security is only as good as that of its European partners, France has pressed for the development of equivalents to many of these measures at the European level. France has been a primary proponent of the creation and deepening of a European investment screening mechanism, for which it was advocating as early as 2010.[234] During its presidency of the European Council in 2022, France pressed forward with the development of EU-level tools intended to re-level the economic playing field and correct distortionary market behaviour that had skewed supply chains and resulted in deepening economic dependencies. It also sought to bolster deterrence against acts of coercive economic statecraft. Among these measures are the International Procurement Instrument, anti-foreign subsidy measures and the anti-coercion instrument.[235] France has also been a vocal proponent of the European Commission’s investigations into distortionary Chinese subsidies for electric vehicles, launched in 2023,[236] and into China’s CRRC railway company. Paris has long supported a review of EU competition rules to better allow for the emergence of “European industrial champions”.[237] France is also actively participating in EU-level deliberations on a form of outbound investment screening. While trade policy tools remain an exclusive competency of the European Union, France has been keen to boost coordination at the EU level on questions such as investment screening, export controls and the 5G toolbox. At the same time, it has been wary of ceding too much ground to Brussels with regard to enforcement in fields that have more direct implications for national foreign and security policy, and fall more squarely in the domain of national competence.

Managing the risks of de-risking

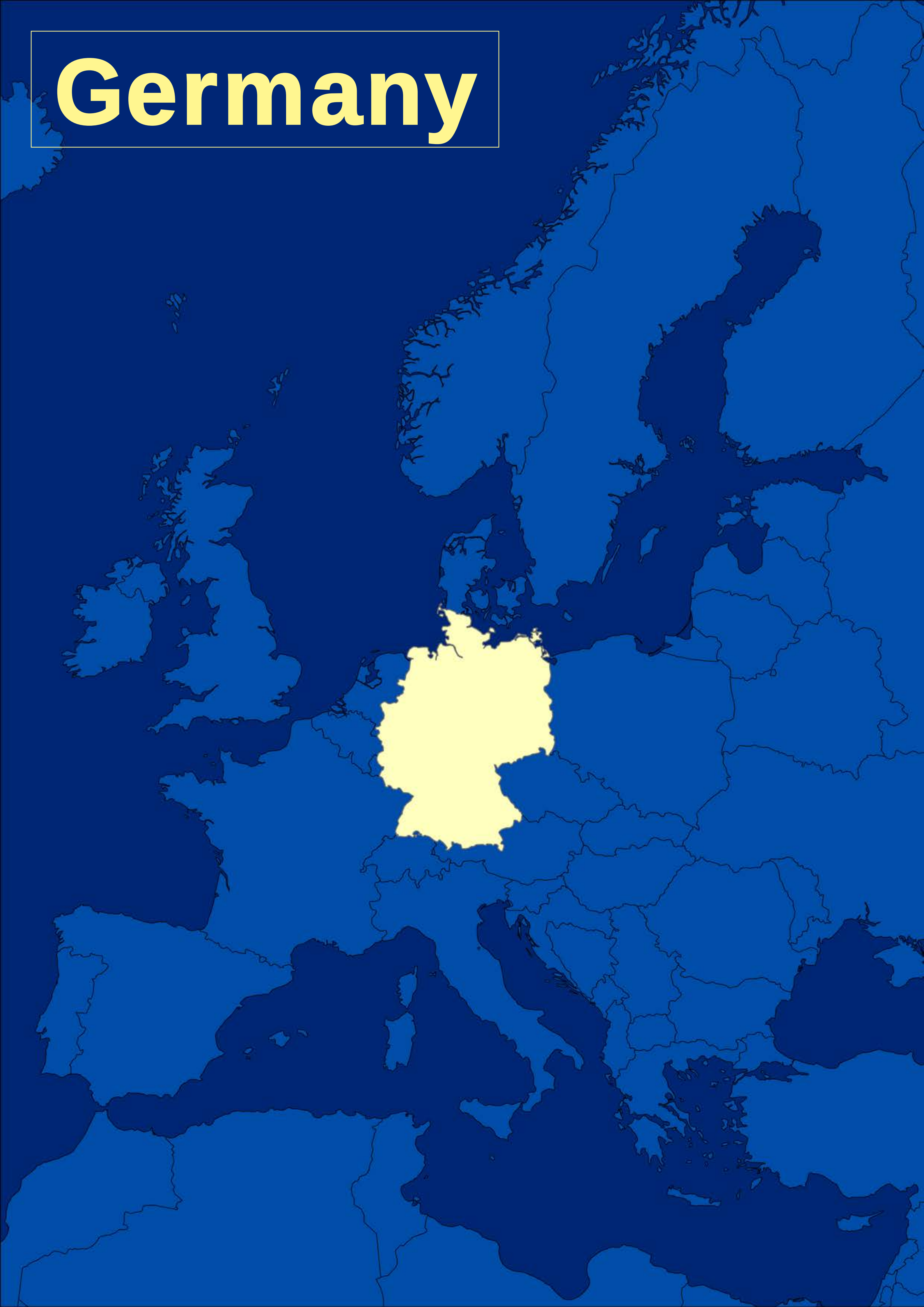
In pursuit of such an ambitious economic security agenda, and a de-risking approach to China in particular, France and the EU will increasingly have to walk a series of difficult tightropes. First, any de-risking approach must increasingly account for a significant shift in technological asymmetries. China’s demonstrated ability to innovate in critical industries of the future is turning the tables of technology transfer, and there is an interest in attracting investment and promoting the transfer of skills and know-how from China to Europe.

Battery technologies are one example. As noted above, Chinese investors and Chinese technology are set to play a role in France’s drive to construct a battery hub around the city of Dunkerque, for instance, involving the Chinese battery materials supplier XTC investing €1.5 billion together with the French firm, Orano. The deal was announced shortly after the visit to China by President Emmanuel Macron in April 2023, when he met with the Chinese firm’s Chief Executive.[238] The digital and telecommunications field provides another example. While access to France’s 5G networks has been effectively controlled, Huawei still maintains six research and development centres in France.[239] It also plans to open a 5G equipment factory outside Strasburg by 2025 to supply the European market.[240]

At the same time, China is likely to redouble its efforts to deepen scientific and technological cooperation with French and European partners to fill its own capacity gaps, particularly as relations between Beijing and Washington sour and the United States erects increasingly robust barriers to technological and scientific exchanges. However, in the context of a growing reticence in Europe to engage with Chinese counterparts in cutting-edge fields, the risks of industrial espionage and technology theft to obtain the scientific knowledge needed to advance in strategic emerging industries will remain, if not increase. There is a need to counter unwanted technological leakage towards China, on the one hand, while ensuring that technology transfer occurs in both directions on terms amenable to French and European interests, on the other.

Finally, France and the EU must be prepared to defend a more limited de-risking approach in the face of growing US pressure to do more – while also seeking to manage expectations in Beijing and avoid provoking a broader global fragmentation. The French government under President Macron in particular has been careful to seek a balance between a more clear-eyed management of relations with China designed to mitigate risks, on the one hand, and, on the other, avoid antagonising Beijing unnecessarily and fomenting global divisions and polarisation, for instance through a sweeping ban on Huawei in France's 5G network. While building resilience and reducing risk, France has looked to preserve economic opportunities. It is also cognisant of the need to maintain engagement with China in confronting global challenges, from climate change to non-proliferation and maintaining global economic stability. In Macron's words, France is seeking to be "exigent but engaging" with China.[241] At the same time, while France shares many of the same concerns about China's emergence as both a regional and a global power, there is a real risk that the US has placed itself on a slippery slope of long-term de-coupling, which Paris is strongly seeking to avoid. While maintaining a solid relationship with the United States, France is also looking to avoid a scenario in which the EU's approach to China is defined in Washington. Such a balancing act is only likely to become more acrobatic in the years to come.

Germany



Germany: Assessing the risks of de-risking

Bernhard Bartsch, Director External Relations, and **Claudia Wessling**, Director Communications & Publications,
Mercator Institute for China Studies (MERICS)

Risk awareness has moved to the centre of Germany's China debate. The country's first National Strategy on China, published in July 2023, endorses the European Union's call for de-risking, even though the definitions in Berlin and Brussels are not entirely in sync. German political and business circles are relieved that the new framing has replaced the decoupling narrative. Nonetheless, Germany remains reluctant to take the lead on a proactive de-risking agenda. Fears of losing the Chinese markets still dominate everyday politics as German industry struggles to adjust to the reality that the golden era of profiting from China's development is coming to an end.[X]

When President of the European Commission Ursula von der Leyen called for "de-risking" in relations with China in March 2023, endorsement of the terminology came natural to Berlin. German diplomats were quick to point out that it was actually Chancellor Olaf Scholz who had originally coined the term, citing an interview he had given five months before in which he had called for "de-risking and diversification".[242] At the time, critics accused Scholz of only using the term to put an end to an unwanted debate about decoupling from China. Von der Leyen, on the other hand, early on linked her de-risking concept to the objective of developing a risk assessment framework, including the compilation of a list of technologies that are critical to economic security.[243]

Terminological ownership discussions aside, the new de-risking framing fitted well with German efforts to finalise its first National Strategy on China, which was eventually published in July 2023 after months of difficult negotiations.[244] Since then, the focus on risks has become the new vantage point for Germany's China debate. Nonetheless, despite a broad consensus that risks need to be analysed more and addressed better, there are vastly different views when it comes to the practicalities. German industry is pushing back against efforts to further regulate business relations with China. Thus far, Germany has not delivered the guidance on how to implement de-risking that many European partners would expect from the EU's largest economy. The incoherent positioning of the German coalition partners on the EU's supply chain law is a case in point: Resistance from the Free Democrats (FDP) meant that Germany had to abstain during voting on the law, which requires larger EU firms to carry out detailed human rights and environmental audits on foreign business partners, not only but also in China.

The de-risking compass of Germany's National Strategy on China

Germany's first National Strategy on China was the result of an 18-month long process involving stakeholders from many sectors, but in particular the powerful industrial lobby. The strategy managed to establish a fairly solid consensus on Germany's current political thinking on China and received fundamental approval from essentially all relevant voices. It delivered a strong and (as far as diplomatic language goes) outspoken analysis of China's trajectory under Xi Jinping but remained vague on new or concrete measures to address the challenges identified.
Even if the term itself only appears five times, de-risking covers a large part of the 64-page document.[245] "The federal government is working towards a de-risking of our economic relationship with China" and sees "de-risking as a smart addition to our core strengths: the openness of our political, economic and social system". More specifically, the government advocates de-risking by "reducing dependencies

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in critical areas, viewing business decisions also from a geopolitical perspective and increasing our resilience".
The strategy acknowledges that the government is concerned about the high level of exposure of key industry sectors to the Chinese market – particularly car making but also, for example, machinery and chemistry – but is wary of intervening. The government "expects that companies will concretely examine their China-related developments, numbers and risks within the framework of existing risk management processes". It offers confidential exchanges with companies that are particularly exposed and calls for international diversification of business activities.

The strategy warns managers not to bet on government bailouts, stating that "in case of a geopolitical crisis, public funds will not be used to save [companies]". The existing toolbox of defensive instruments is to be put to better use and further regulation to protect the German and European economy will be discussed, including outbound investment screening.

The political reality of de-risking: Struggling to walk the talk

While the government's strategy seems to provide a clear compass, the political reality of de-risking is more ambiguous. Two prominent cases demonstrate this well: the inclusion of Chinese technology in German 5G networks and investment by China's state-owned shipping giant, COSCO, in Hamburg's port.

In 2023, just as de-risking became the new mantra, Chancellor Olaf Scholz allowed COSCO to acquire a 24.99 percent stake in one of Hamburg port's container terminal operators, HHLA.[246] The decision was highly controversial because all the German ministries involved had openly positioned themselves against the investment, citing concerns about Chinese influence over critical infrastructure. Scholz overruled his ministers in what was largely seen as bowing to pressure from both Hamburg (where Scholz had previously served as mayor) and Beijing. Chinese diplomats had delivered thinly veiled threats of retaliation against German companies in China and rerouting of Chinese trade to other European ports.[247]

Advocates of the deal argue that COSCO's involvement is legally structured in a way that prevents China from gaining strategic influence or insights, and highlight the competition with other European ports, many of which also have Chinese investors. Nonetheless, the Hamburg port has become a symbol of German unwillingness to walk the talk on de-risking when it serves national or individual political interests.

The case of Chinese technology in German 5G networks follows a similar pattern. According to expert estimates, Germany is one of the EU member states with the highest share of Huawei and ZTE components in its 5G networks.[248] This was made possible by regulations passed under the Merkel administration, in the face of substantial resistance in the German parliament and even within her own party, that pushes responsibility for using "safe" technology on to network operators, without making any specific demands of Chinese equipment.

The current government seems to be shifting to more restrictive regulation. The Ministry of the Interior has demanded that Chinese technology be removed from the core network and significant reductions in the radio access network (RAN), a major component of wireless telecommunications systems that connects individual devices to other parts of a network., The infrastructure ministry, however, is resisting these tougher measures, largely to protect network operators that are complaining about the cost of switching to non-Chinese equipment. As of early 2024, the government has not yet provide any guidance, once again creating the perception that Germany is reluctant to take concrete steps on de-risking.

Nonetheless, even if these high-profile cases indicate how hard it is for the German government to take bold steps on de-risking when the financial and political stakes are high, there is a clear trend for politicians and institutions to be more willing to publicly highlight China-related risks. In some recent examples:

- A 2023 report by the German Domestic Intelligence Services (*Verfassungsschutz*) assessed China as "the biggest threat in terms of industry and science espionage as well as foreign direct investment to Germany".[249] It particularly warns of China's strategy of civil-military fusion and calls for greater awareness of China's ability to collect important information in ways that are "legal and legitimate", such as joint ventures or scientific cooperation.
- The Ministry of Economic Affairs and Climate sent a survey to German companies asking them to assess their vulnerabilities to supply chain disruptions and other China-related risks. The results are yet to be published but media reports suggest that the willingness of companies to share such information was underwhelming.[250] The ministry's scientific advisory board has called for the establishment of a "European office for supply security" to be tasked with monitoring China-related supply chain risks.
- Germany's Minister of Education and Science has repeatedly called on German universities to critically reassess their cooperation with Chinese universities and Confucius Institutes.[251] Similarly, the German Rectors Conference, an association of German universities and other higher education institutions, publicly criticised efforts by Confucius Institutes to seek political influence by spreading and defending the narratives of the Chinese Communist Party in their courses or during their public events.[252]
- Concern about China-related risks has also reached the sub-national level. State ministries report that many cooperation projects have been put on hold and a perceived increased reluctance among municipalities and other regional actors to receive Chinese delegations. More critical questions are being asked about Chinese intentions.

German Industry

Business interests remain a defining force in German China policy. For German industry, the "de-risking, not decoupling" terminology came as a relief. For a number of years, many German businesses have felt under pressure to publicly justify why they remain active in China. Even though there were never any serious calls or demands for a decoupling of German business from China, the idea was a focal point of public debate that put companies under pressure time and again. The turn towards de-risking has paved the way to a more nuanced discussion of risks – or even an avoidance of risk.

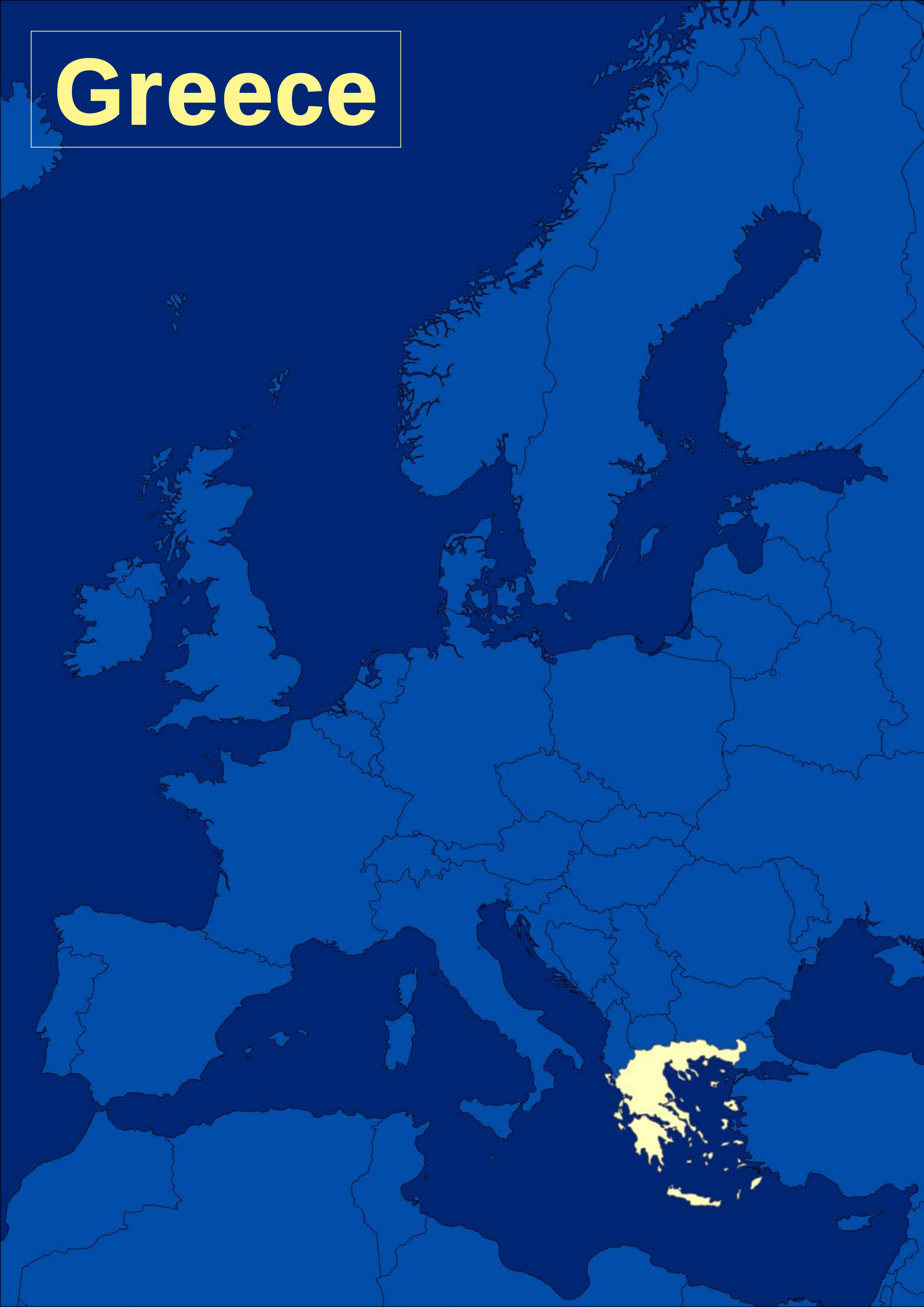
The flexibility of the term allows for basically any strategy to be labelled de-risking. This includes investments in China, arguing that such "in China for China" strategies would help to contain China-related risks within the Chinese market and avoid disruption of global supply chains and vulnerabilities in other markets. (This argument is most prominently made in the case of a €10 billion chemical plant the multinational chemical producer BASF is currently constructing in Guangdong.)

In January 2024, a survey by the German Chamber of Commerce in China revealed that only 44 percent of German companies on the ground claim to be taking steps to de-risk their business, and most of them for geopolitical reasons.[253] Another 45 percent stated that they were not taking any steps into that direction and 54 percent said they intended to make further investments in China. These numbers may, however, downplay the de-risking trend. Country managers operating in China are often committed to the China business of their company and careful not to send any signals that could lead to a political backlash. German headquarters, by contrast, often take a more global view of their businesses and tend to have a different risk perception. In recent years, there has been anecdotal evidence to suggest that companies are becoming wary of the extent to which they can trust their China business units to give them a full picture of the risks.

Conclusions and outlook

Recent debates have hardwired a mainstream political position that puts risk at the centre of all approaches to China. This view is shared across the major political parties as well as large parts of the business community. Germany is also aware that it plays a pivotal role in Europe's de-risking efforts. Thus far, however, this recognition has not translated into a visible leadership role. In Berlin, relations with China are seen as too complex and multi-layered to allow a swift political change of course. The German government is committed to keeping the bilateral relationship stable in order to protect German business interests and avoid supply chain disruptions. Even if there seems to be consensus that the old mantra of "whatever benefits a German company in China also benefits the German economy" no longer holds true, de-risking efforts are approached carefully in the assumption that too much de-risking is a risk in itself.

At a time when the German government feels challenged by a multitude of internal pressures from economic recession to the rise of far-right populists, as well as the external crises in Ukraine and the Middle East, and uncertainty about next US elections, China policy and the de-risking agenda are in danger of slipping off the list of priorities. Short-term trouble shooting pays more of a political premium than long-term strategic re-shifting. For politicians, it is tempting to stick to "cheap talk" for the time being and avoid costly action. Nonetheless, recent years and current developments have created a growing awareness that the cost of inaction is rising.


Greece

Greece: Hesitant in the face of China-related risks

Plamen Tonchev, Head of Asia Unit,
Institute of International Economic Relations (IIER)

China is not perceived as a threat in Greece - instead, it is largely viewed as a potentially significant economic and political partner. At the same time, while the notion of de-risking is not the subject of public debate, some sort of risk mitigation has been quietly under way, as demonstrated by a cautious attitude towards new large-scale Chinese investment in the country. Nonetheless, this is not based on a clear-cut national strategy - rather, it has been driven by western pressure. Greece is no longer cosying up to China as it has done in the recent past, but it is still unlikely to embrace the EU's economic security strategy wholeheartedly.[XI]

No debate about China-related risks

Over the past decade or so, illusions of China as the "saviour of the Greek economy" have faded and the overall attitude towards China has become less positive. However, this does not necessarily translate into growing awareness of China-related risks. In addition, while a shift towards a greater emphasis on risks is discernible, this is limited primarily to the top echelons of power and is to a much lesser degree a feature in lower tiers of the public administration or among the general public.

The absence of a debate on China-related risks in Greece can be attributed to a mix of three key factors. First, there is a lack of sufficient China expertise and, as a result, a lack of awareness of what China stands for. Notably, there is not a single university chair specialising in Chinese studies in the country. Second, there is a 'just in case' stance towards Beijing, based on the assumption that, as a permanent member of the UN Security Council (UNSC), China might at some point in time be of assistance to Athens, e.g., in relation to a belligerent Turkey next door. Furthermore, Greece is seeking a non-permanent member seat on the UNSC in 2025-26 and relies on China's support. Third, despite the fact that Greece is a member of powerful clubs such as NATO and the EU, there is a lack of confidence and a sense of apprehension in Athens, and a propensity to avoid doing anything that might be perceived as an irritant by Beijing.

By and large, China is not seen as a threat in Greece. Tellingly, the management of the seaport of Piraeus by the China Ocean Shipping Company (COSCO) is often cited as a success story, though this is not based on a thorough impact assessment carried out by the Greek authorities. A second Chinese investment, the acquisition of a 24% stake in the Independent Power Transmission Operator (IPTO, or ADMIE in Greek) by China's State Grid, has not made a material difference, but it is not seen as a problem either.

Risks in Sino-Greek relations

The key risks identified in Greece are not perceived as China-specific, and relate to the stand-off with Turkey, cyber security, emerging technologies with potentially destabilising effects, demographic decline, and climate change.[254] At the conceptual and political levels, Greece struggles to define and prioritise China-related risks. The EU's de-risking policy is not well understood, as is obvious from government policies.

At the same time, the Greek authorities fully subscribe to the official EU position that de-risking is not tantamount to decoupling. Of course, Athens is aware of EU concerns about China's increasingly

XI Editor's note: The final draft of this chapter was submitted on 17 May 2024.

assertive posture in relation to cyber attacks and disinformation campaigns, hybrid threats and a growing trade imbalance, among other things, but it is unlikely to go beyond these issues to enlarge the de-risking agenda.[255]

Greece's growing trade deficit ballooned in 2022 and is a matter of concern in relevant government departments.[256] However, this is not an issue in a wider public debate. Some government officials acknowledge that imported green tech could be used by China as a lever of influence, but they are quick to add that at this stage there is no real alternative source for such equipment.[257] Given the yawning trade imbalance, increasing Greek exports to China was one of the key talking points of Prime Minister Kyriakos Mitsotakis during his visit to Beijing in November 2023.[258]

The European Commission has recommended carrying out risk assessments in four critical technology areas: advanced semiconductors, artificial intelligence, quantum computing and biotechnologies.[259] However, the Greek authorities would do well to consider other China-related risks beyond these specific sectors. For instance, a recent report commissioned by the European Parliament[260] delves into potential risks arising from China's presence in European transport infrastructure, the port of Piraeus being one case in point. The main risks identified relate to possible coercion by China (e.g., by restricting strategically important imports into Greece) and data leaks.[261] In addition, the Greek government views its Golden Visa scheme as a source of revenue, without considering the fact that the vast majority of beneficiaries are Chinese citizens.[262] When concerns are voiced, the focus is usually on the diminishing affordability of housing rather than the issue of a growing Chinese community that could be manipulated by the Chinese authorities. Third, Huawei enjoys uninhibited access to Greek universities and government services thanks to its large-scale public diplomacy campaign supported by the PRC embassy, but this is deemed “harmless” and even beneficial by the Greek authorities.[263]

Political and economic barriers to de-risking

Across the political spectrum of the country, there is an obvious reticence about discussing China-related policies in public. In April 2019, for instance, when the radical government led by Alexis Tsipras included Greece in the 16/17+1 format, the main opposition party New Democracy (which formed its own government only three months later) decided to stay silent on the issue and expressed no objections lest it annoyed Beijing.

Another barrier is the limited awareness of potential China-related threats in Greece, among the public administration and the general public alike, and there is no sense of urgency about de-risking in the country. Even if a de-risking agenda were embraced by the Greek authorities, however, its enforcement as a whole-of-government approach would most probably encounter difficulties.[264]

The powerful shipping lobby is yet another factor to be reckoned with. The Greek commercial fleet, the largest in Europe, embodies large and influential interests, and the majority of shipowners have few incentives to loosen ties with China. Their global weight and financial heft often leave the shipping companies' activities out of sync with Greek government policies and they are unlikely to comply with a de-risking strategy even if one is put in place.

Competing priorities should also be factored in. As of April 2024, Greece was one of only three EU member states without a foreign direct investment (FDI) screening mechanism.[265] This should not be attributed exclusively to a China-friendly stance - rather, Greece is keen to attract FDI as a high priority following the severe fiscal and economic crisis of the 2010s. This explains why, while EU Regulation 2019/452 came into force in October 2020,[266] a year later the Greek Parliament passed Law 4864/2021 on Strategic Investments which moves in the opposite direction.[267] Given the ongoing update of the

Regulation in question, Greece is taking a wait-and-see approach and is in no hurry to promulgate a related legal framework.

Will Greece proceed with de-risking?

In fact, some mitigation of China-related risks has been under way in Greece for several years. This is a combination of: (i) a more cautious attitude towards Chinese investment in Greece, and (ii) a drive towards diversification of the country's economic partnerships.

Thus, some prospective Chinese investments have been turned down by the Greek authorities. In 2018, the National Bank of Greece severed its negotiations with the Chinese company Gongbao for a controlling stake in Greece's largest insurer, Ethniki Asfalistiki. In 2020, there were two Chinese contenders for the privatisation of the Natural Gas Distribution Network, but neither of them made it to the final tender stage.

In early 2020, COSCO intended to install in the port of Piraeus a Hellenic Port Community System, a management information database, which triggered vehement reactions from local business actors. In January 2021, the Greek government responded by passing a law that envisages the creation of a national database overseen by public authorities. COSCO has repeatedly proposed the creation of a shipyard to the west of Piraeus, but this also caused a backlash and is now off the agenda. In addition, the Chinese telecom giant Huawei has been eased out of the 5G networks that are currently being constructed in the country.

In early 2021, three Chinese state-owned enterprises (SOEs) were disqualified from the public tender for a 49% stake in the Hellenic Electricity Distribution Network Operator (HEDNO, or DEDDIE in Greek). The rationale behind this decision was that the presence of State Grid in ADMIE and three Chinese SOEs in DEDDIE would give China effective control of electricity transmission and distribution in Greece. At about the same time, the China-led consortium CMEC-Maison Group was left off the short list of bidders in the public tender for an underwater natural gas storage space near Kavala in northern Greece. In October 2023, Beijing inquired whether Greece would be interested in hosting an assembly plant for Chinese electric buses, but the proposal was quietly rejected by Athens.

Notably, none of these decisions was made on the basis of public discussions or a thorough risk assessment. Instead, this change of tack can be attributed mostly to concerns about tensions with Greece's western partners, and, in particular, the United States.[268]

Another sign of de-risking from China relates to diversification. China is no longer seen as the sole source of investment capital. Instead, it is one of the many potential sources Athens is now targeting.[269] At the same time, Greece has been promoting economic cooperation with other partners in the Indo-Pacific. Prime Minister Mitsotakis travelled to Japan in January 2023.[270] In August 2023, Greece welcomed India's Prime Minister Narendra Modi,[271] and Kyriakos Mitsotakis visited India in February 2024.[272] Closer economic ties between Greece and South Korea are also being prioritised.[273]

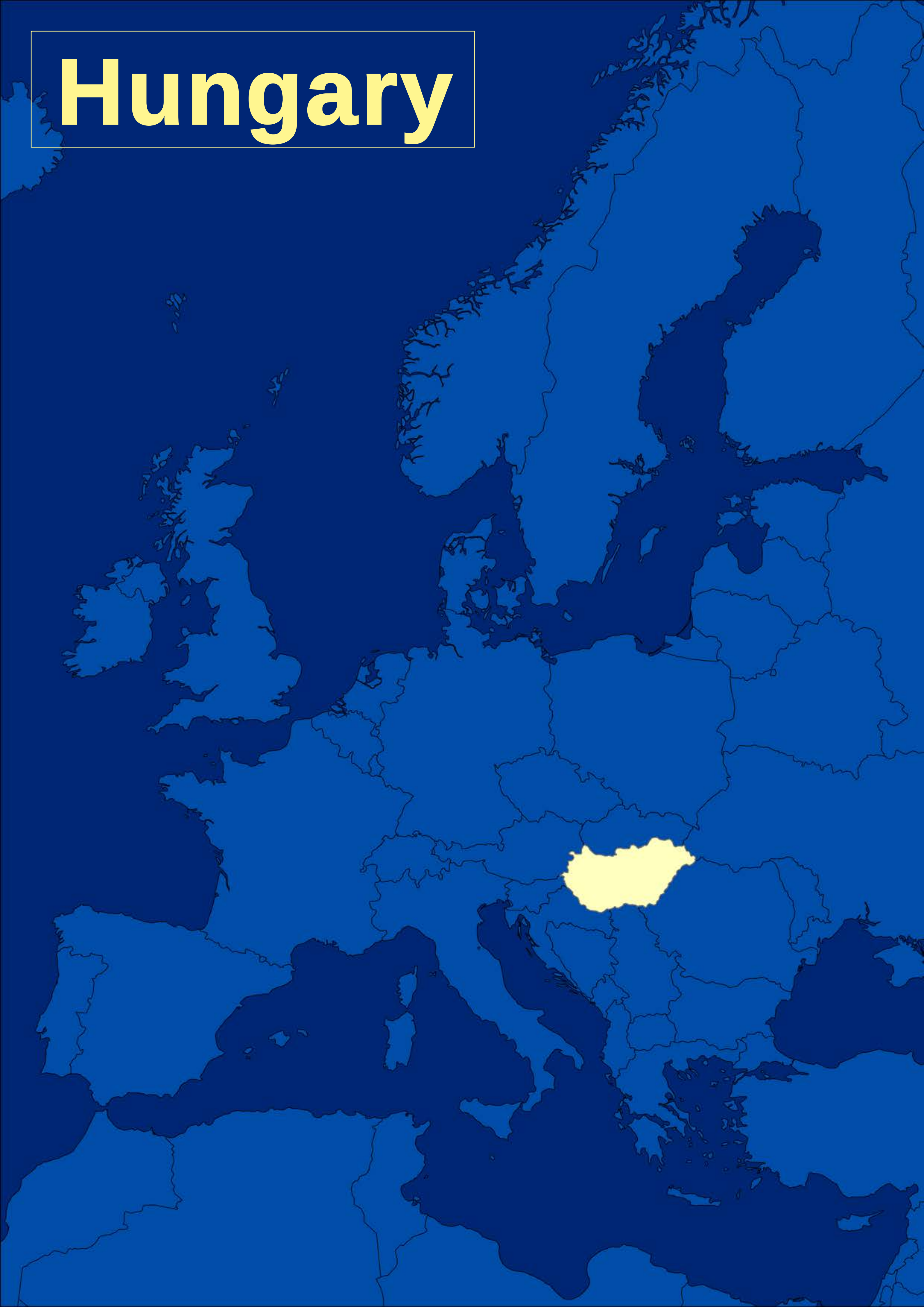
In an interesting development linked to the EU's attempts to reduce dependence on China for critical raw materials, the European Commission asked Mytilineos Energy & Metals, a Greek aluminium producer, in July 2023 to explore producing gallium as a byproduct at its refinery.[274] Notably, however, Greek officials argue that without sufficient EU funding the prospects for this initiative may not be bright.[275]

Adopting an official de-risking strategy?

The above developments do not necessarily point to a coherent risk mitigation strategy by the Greek government. De-risking will probably be pursued under pressure from western partners and in line with broader EU policies, with which Greece will be obliged to conform. Furthermore, whatever China-related de-risking measures are taken by the Greek authorities, the reasons for the lack of a public debate are unlikely to go away.

In contrast to recent trends, Greece is no longer cosying up to China, and this has caused some consternation in Beijing – as demonstrated by the fact that there was no PRC ambassador in Athens for five months in 2021. In April that year, the ambassador was abruptly recalled following Greece's refusal to host the 2022 summit of the 17+1 format. Nonetheless, China prefers to put on a brave face and has maintained ostentatiously warm relations with Athens, arguably within the framework of a broader political strategy. Greece, in turn, is afraid of being seen by Beijing as a Sino-phobic country[276] and this may be a key factor in its ambivalent stance on the EU's de-risking strategy.

Hungary



Hungary: Viktor Orbán's bet against the tide

Tamás Matura, Associate Professor,
Corvinus University of Budapest

Unlike in many other European Union member states, de-risking is not high up on the political agenda in Hungary. The government has been following a strategy of increasing China's economic presence in the country. The increase in Chinese investment has increased dependencies on China, especially in the electric vehicles sector. Prime Minister Orbán is seemingly hoping that European attempts at de-risking will eventually fade, while his government can reap the benefits of playing the role of middleman between China and the larger EU economies. The Hungarian government can therefore be expected to continue its pro-China policies not only domestically, but also in the European decision-making system.[XII]

Is de-risking the real risk?

As is often the case, the position of the Hungarian government on de-risking is somewhat different from mainstream European concepts. The question of de-risking is not high up on the political agenda. Opposition parties barely mention it, while the government and its pro-government media try to frame de-risking as an attempt by "Eurocrats" to follow the orders of the United States.[277] When it comes to actions on the ground, the cabinet of Prime Minister Orbán has been busy strengthening economic ties between Hungary and the People's Republic of China (PRC),[278] which has the opposite effect of de-risking.

During his trip to the Belt and Road Forum in Beijing in October 2023, Orbán's remarks on the question of decoupling and de-risking were largely in line with Chinese positions. He described European pre-emptive action as another step towards the creation of a two-bloc world, once again isolating China economically, and stated that Hungary is more interested in building a world based on connectivity.[279] Other senior government officials have echoed Orbán's characterisation. The political director of the Prime Minister's Office, Balázs Orbán, in a speech delivered at an international conference on geopolitics, said that the meaning of de-risking was that the West had started to categorise other countries as good or bad, while Hungary aimed to create a bridge of connectivity between the East and the West.[280] Minister for Economic Development Márton Nagy presented a somewhat more nuanced version of the Hungarian government's understanding of de-risking in July 2023, arguing that European concepts regarding China had been changing weekly. According to Márton Nagy, Germany, for instance, had moved from decoupling to de-risking and finally to the concept of diversification, since Berlin had realised the true importance of China and chosen to follow a less ideologized and more pragmatic approach. In his words, "Germany's China strategy seems permissive in theory, and there is a good chance that it might remain soft in practice as well".[281]

Acolytes of the government have gone further, describing de-risking as an attempt imposed by Brussels to gradually cease all exchanges with China.[282] The head of a government-supported think tank, the Eurasia Center, called de-risking unfeasible and a counterpart of US decoupling, deeming both an attempt to demonise China that goes against European interests.[283] According to another pro-government economic research institution, in their framework of de-risking, western powers want to use their companies to crush China's position in the global economy. This institute's analysis argues that European companies would gladly maintain their presence in China, but there is growing political pressure on them to leave the country, and further governmental interventions are expected to achieve this goal.[284] A far-right journal suggests in a piece on EU-China relations published in October 2023 that

XII Editor's note: The final draft of this chapter was submitted on 13 May 2024.

while EU member states want to maintain their economic connections with China, it is the European Commission that is pushing the agenda on decoupling or de-risking on behalf of the US. The article cites numerous experts who agree on the dangers of de-risking. It emphasises that, despite Brussels' efforts, EU-China trade has been steadily growing – and any attempt to reduce European economic dependencies on China will inevitably fail because the European and the Chinese economies are so intertwined that nobody is interested in their separation.[285]

It is worth noting that many articles featuring similar arguments were published in October 2023, just before and shortly after Orbán's visit to the Belt and Road Forum in Beijing.[286] An analyst at the government-supported Hungarian Institute of International Affairs presents a seemingly more balanced view by stating that the concept of de-risking sounds promising, but the same scrutiny should be exercised vis-à-vis the US, and that the European Union should avoid following the orders of Washington.[287]

In sum, pro-government opinion leaders tend to employ strawman arguments to frame de-risking as a US-induced attempt by Eurocrats to completely separate the Chinese and European economies, even though European companies and nation states are interested in maintaining amicable and profitable relations with the PRC. In late November 2023, the government started a media campaign featuring pictures of the President of the European Commission Ursula von der Leyen standing next to Alex Soros, the son of George Soros who has been the target of similar campaigns in the past, with the message: "Let's not dance to the tune they whistle".[288] This move fits the long history of governmental hatemongering campaigns that seek to distract citizens' attention from real problems by offering them the image of a scapegoat. The EU and its leaders have been a target of such campaigns for a long time and now the government can blame "Brussels" once again for a whole package of issues, such as alleged attempts to curb Hungary's sovereignty in various fields, including its amicable relations with Beijing.[289] Given that opposition parties and independent media outlets barely mention this highly complicated issue, it is unlikely that de-risking will become a topic for debate in Hungary in the foreseeable future.

China-related risks are moderate for now, but on the rise in Hungary

While many EU member states have started procedures to assess and analyse the level and riskiness of their economic dependencies on China, such a process has never been on the agenda in Hungary. On the contrary, the government takes pride in attracting an increasing number of Chinese investors to the country. According to government communications, the primary goal of hosting Chinese foreign direct investment (FDI) is to reduce Hungary's dependency on western markets.[290] This argument appears weak, however, given that Chinese battery makers locating in the Hungarian countryside are most likely to be supplying German carmakers, and even Chinese car factories such as BYD will sell their products in European markets. Meanwhile, these investments increase Hungary's dependency on the car making sector (5–6% of gross domestic product and 20–25% of exports) still further, which is a risk in itself. Local experts also cite environmental concerns and question the feasibility of battery production in such high quantities, which could lead to various economic, social and environmental risks – not only growing dependencies on China, but also increased inflows of migrant workers, potential pollution and the overuse of water resources.[291] Meanwhile, according to confidential diplomatic sources, increased China-related dependencies in Hungary help other EU member states, not least Germany, ostensibly to reduce their own direct dependencies on China by outsourcing some of these risks to Hungary.

The government is still adamant about its positive attitude to Huawei. The company therefore faces no visible obstacles to supplying its equipment to local telecommunications companies. The only official document to highlight any China-related risks is the National Security Strategy of 2020. Paragraph 119 acknowledges the growing impact of Beijing on global affairs and the importance of building pragmatic relations with the PRC. However, it also states:

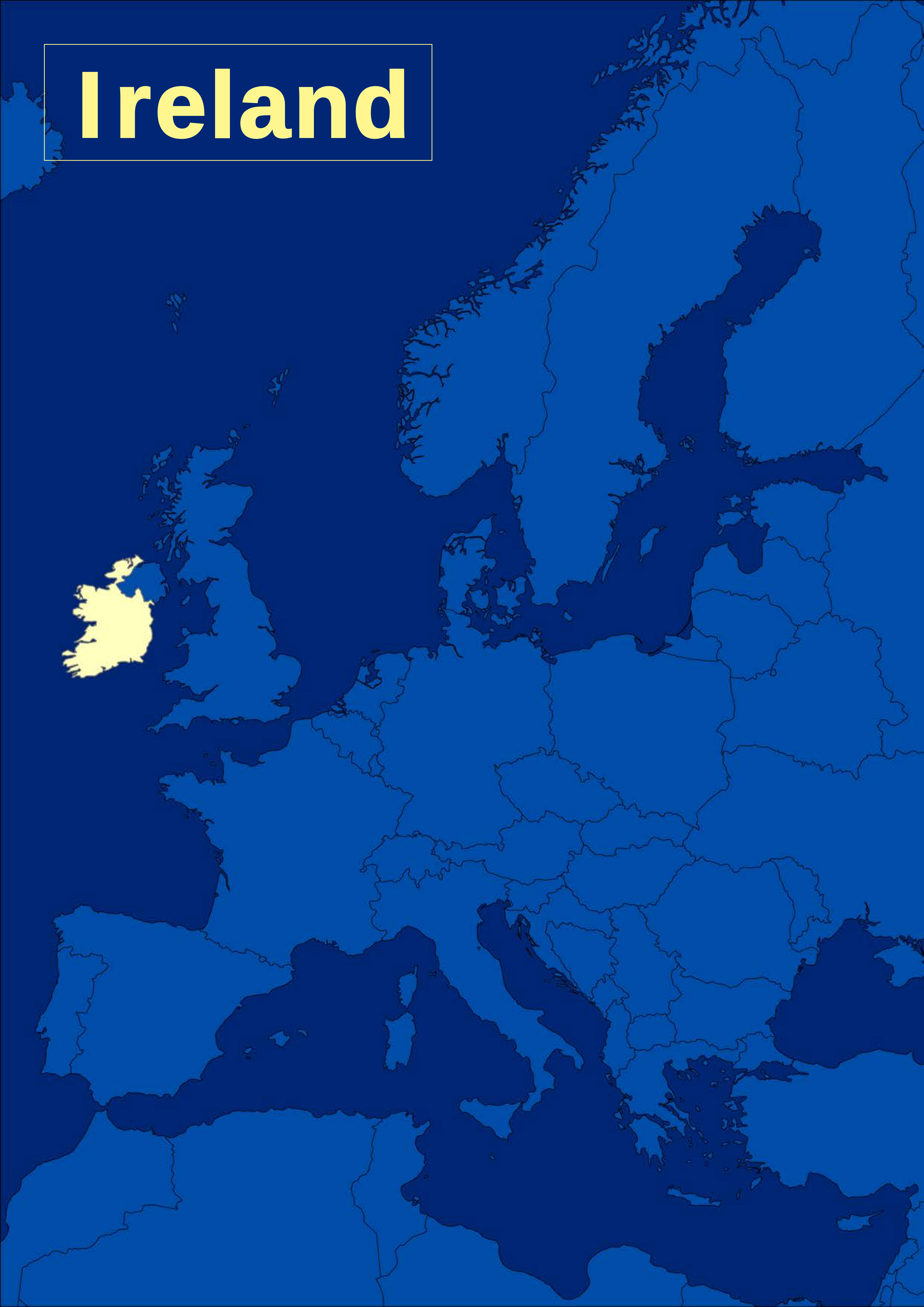
> At the same time, when exploiting the opportunities for economic cooperation, one must also take into account the factors resulting from exposure, which arise through emerging Chinese investments in critical infrastructure, its emergence as a supplier of the most advanced info-communication technology, and the strengthening of its regional influence in general.[292]

Another, as yet not fully understood, issue that may arise in the near future is the involvement of Chinese technology in the Budapest-Belgrade railway project. According to recent reports, the Chinese government is insisting that its own companies supply the train control system, even though their technology is not in line with European standards.[293] According to media reports, Orbán intervened personally during his visit to Beijing in an unsuccessful attempt to convince China to agree to a European supplier for the train control system.[294]

Do not expect de-risking to happen in Hungary

Based on its public communications, the Hungarian government regards de-risking as a risk in itself. Its understanding is that a bifurcation in the world economy would restrict Europe's economic vitality and Hungary's business opportunities.[295] In the government's view, the correct approach is to play the role of middleman in order to reap benefits from both sides in a highly transactional manner. Consequently, the measures taken by the Orbán government aim to avoid alienating China, and de-risking is highly unlikely to happen in Hungary. Of course, this approach has a direct impact on Hungary's EU policy, as Budapest will certainly continue to support certain Chinese interests in Brussels, such as opposing protectionist measures. Meanwhile, this position could cause some headaches in Budapest. Its support for China has in the past been political in nature. Budapest tends to block EU actions targeted at Chinese human rights violations.[296] However, the government has always avoided harming European – primarily German – economic interests in China-related issues.[297]

De-risking, however, is an economic issue by definition, and it is unclear how far Orbán is prepared to go to curb EU-level actions aimed at reducing economic dependencies on China if he faces pressure from Berlin or other major European capitals. Arguably, the government hopes that internal debates in these countries will eventually water down any de-risking-related actions without the need for the Hungarian government to actively veto them, while in the meantime harvesting the economic and political benefits of strong business relations with Beijing. Orbán has made bold bets against the European mainstream in the past and, although the track record on his gains is debatable, he certainly felt vindicated on two occasions: when the European tide turned his way in the case of the migration crisis of 2015, and when he was among the first to embrace the then US presidential nominee, Donald Trump. There is a fair chance that Orbán is now betting on the victory of western European pro-business lobbies, and consequently on a pragmatic turn by European politicians that waters down de-risking measures and leaves Hungary secure to maintain its close economic ties with China.


Ireland

Ireland: Searching for autonomy amid US-China rivalry

Alexander Davey, Analyst,
Mercator Institute for China Studies (MERICS)

The economic risks China pose to Ireland are primarily related to Chinese inbound foreign direct investment (FDI) and Ireland's goods exports to China. These are set to be addressed through FDI investment screening and export control mechanisms. The US-China rivalry is both an economic and a geopolitical risk to Ireland. There are both US and Chinese companies located in Ireland and trading globally. US-China competition makes Ireland vulnerable to tit-for-tat actions.[XIII]

In recent years, significant developments have thrust China and the associated risks of Ireland's engagement with it squarely into the spotlight. Among these are Richard O'Halloran's three-year "exit ban" on leaving China, the illegal establishment of a Fuzhou Overseas Police Service Station in Dublin and the risks related to Ireland's immigration investor programme, the overwhelming majority of successful applications for which have been Chinese nationals,[298] as well as Ireland's lack of a formal national security clearance system.[299]

Ireland's de-risking approach predominantly revolves around its aim to maintain a balanced economic relationship and ensure that Irish and Chinese companies have fair opportunities to expand into each other's markets, in order to foster mutual economic interdependence rather than one-sided dependency. This standpoint paired with past risks has led to an accelerated alignment with EU policy, leaving Ireland's approach to China more securitised than before.[300]

In light of these issues, and following President of the European Commission Ursula von der Leyen's March 2023 speech on "de-risking" the EU's relationship with China, Ireland's Tánaiste (Deputy Prime Minister), Micheál Martin, echoed von der Leyen's sentiments while discussing Ireland's need to de-risk relations with China in May 2023.[301] Although mainly rhetorical, the speech signalled Ireland's alignment with the EU's de-risking approach to Brussels, Beijing and Washington.

Thus far, however, de-risking strategies have not been a prominent topic in political discussions in Ireland, leaving its definition and implications largely unexplored in the public discourse.[302][303] More broadly, the absence of debate on China, and on de-risking in particular, stems from the prioritisation of domestic issues and of other foreign policy issues such as the wars in Ukraine and Gaza.

Risks associated with Chinese investments in Ireland

The risks in the relationship with China fall broadly into two categories: economic and geopolitical, with a heavy emphasis on the former. In the economic sphere, two main subcategories emerge: Inbound foreign direct investment (FDI) and trade in goods with China.

Economically, de-risking must be contextualised within Ireland's economic model of attracting FDI and the foreign relationships that it has fostered as a result, notably with the US. The dominance of ten large foreign-owned multinational companies in Ireland's corporation tax revenues poses significant company- and sector-specific risks.[304] This is probably what led Ireland to diversify its FDI portfolio to attract FDI from China. Chinese companies are following US ones to Ireland's shores, with Shein, Temu and TikTok among the most recent arrivals.

XIII Editor's note: The final draft of this chapter was submitted on 21 May 2024.

There was no public mention of de-risking by any Irish politician during the visit to Ireland of China's Premier, Li Qiang, in January 2024. The Chief Executive of Ireland's Industrial Development Agency (IDA)[305] portrayed Ireland in the Chinese state media as "engaging openly and collaboratively" with China and pointed out the "unique relationship between China and Ireland, demonstrating the willingness of both parties to actively contribute".[306]

The IDA has been successful at securing inbound FDI from China. There have been greenfield investments in recent years by Wuxi Biologics, ByteDance's TikTok and PDD Holdings' Temu. Ireland's Revenue Commissioners collected €22.7 billion in corporation tax in 2022, an almost 50% increase on 2021, and foreign-owned multinationals provided 86.5% of this revenue.[307] Despite diversification of Ireland's FDI portfolio, new risks are emerging from such investments. The case of Shein is a recent example.

Despite a litany of scandals that included a documentary exposing the low wages and long working hours of Shein garment workers in Guangzhou,[308] garments made with cotton from Xinjiang shipped to the US by Shein,[309] and products found to contain levels of hazardous chemicals over the limits set by EU regulations,[310] the Irish government and the IDA welcomed the decision by ultra-fast fashion retailer Shein to establish their Europe, Middle East and Africa headquarters in Dublin in May 2023.[311] According to a *Sunday Times* article, the Department of Enterprise has claimed that the IDA carried out due diligence before taking Shein on as a client and that Shein had no manufacturers in the Xinjiang region.[312] When asked about what due diligence had been undertaken to assess Shein, however, the IDA said discussions between it and the company were confidential.[313] Since access for independent auditors to conduct human rights due diligence in the region has become practically impossible,[314] the IDA cannot have verified that there is no forced labour in Shein's supply chains. This poses a risk for Ireland's government by not only contravening its "values-based trade and investment policy",[315] but potentially violating soon-to-be European law.[316]

Shein's Infinite Styles Ecommerce Co. Limited is registered in Ireland for tax purposes but ultimately owned by a Cayman Islands-based firm. In 2022, it recorded more than €4.58 billion in sales through its Irish entity but profits of just €45.7 million, meaning that it only had to pay €5.7 million in corporation tax.[317] Ireland is a prominent hub for multinational profit-shifting.[318] Nonetheless, it is incumbent on the Irish tax authorities to ensure that company financial records and tax filings are accurate, and that the correct amount of corporation tax is paid. Equally, the potential risks and impact of any coordinated tax reform must be considered when it comes to understanding Ireland's FDI model and exchequer revenue sources.[319]

Whether TikTok is divested from or banned in the US, will have knock-on effects in Ireland, where the ByteDance company's European headquarters is located.[320] This may be especially painful for a government that at one point lobbied the European Commission not to ban the app from the devices of EU officials.[321]

Trade-related risks

Certain US companies with large manufacturing operations in Ireland that trade with China may also pose risks for Irish policymakers. The data shows that companies such as Intel and Pfizer comprise a large percentage share of Ireland-China trade in goods.

US restrictions on the export of chips to China, Chinese import substitution guidelines on Intel chips,[322] and legacy chips subsidy[323] in China all pose risks to the export of chips from Ireland to China. Integrated circuits or semiconductors accounted for 63% of Ireland's total exports of goods to China in 2022, at a value of more than $8.7 billion, while for 2023 this share declined sharply by 23%, valuing almost $5 billion. Most were from Intel's fabrication plant in Leixlip.[324] China was Intel's largest market in 2023, providing 27% of its revenue. The sale of semiconductors to China has a major impact on Ireland's China trade surplus and corporation tax revenue. The squeeze that US and Chinese tech policies could have on the sales of Intel and Analog Devices could put Irish jobs and corporation tax revenues at risk. Intel employs over 6,000 people in Ireland.[325] In 2022, ICT manufacturing brought in €3.8 billion in corporation tax revenue (16.7% of the total), and Intel is likely to have made a major contribution to this.[326]

In addition, there is a critical strategic dependence on imports for certain active pharmaceutical ingredients in the European and Irish pharmaceutical industries, where a major proportion of the ingredients come from China and China has a majority global market share.[327]

Even though agricultural exports represent a modest proportion of Ireland's total exports to China – a 4.4% share in 2022 – they still have significant indigenous economic value.[328] Unlike the revenues of multinationals, this income remains within and benefits the Irish economy. A recurring risk in Ireland's economic dealings with China pertains to Irish beef exports. Having gained access to the Chinese market, Irish beef suffered intermittent suspensions in 2020 and 2023 linked to an agreed export protocol.[329] While the Chinese market offers lucrative opportunities for Irish producers, its unpredictability in granting access has led to a volatile business environment. The suspension in 2020 lasted for 30 months but in 2023, coinciding with Li Qiang's arrival in Ireland, the Chinese authorities reopened the market to Irish beef after only a 10-week suspension.[330] Whether the Chinese authorities followed its protocol or made an exception to align with Li's visit is unclear. Despite being a win for Irish diplomacy, however, the unpredictable nature of access for Irish agricultural products poses a risk to the sector's long-term stability and growth.

Other prospective risks and concerns regarding China

Ireland's plans to decarbonise and green its economy give it a key interest in continuing to foster economic relations with China, given the latter's leading position in green industrial technology innovation, such as photovoltaics, electric vehicles and new developments in energy such as green hydrogen. In 2022, Ireland recorded the lowest percentage of renewable energy use among the 27 EU member states, at just 13.1%.[331] It relies heavily on fossil fuels, which made up 85.8% of its total primary energy requirement in the same year.[332] The government aims to source 80% of its electricity from renewable sources by 2030.[333] Its prioritisation of renewable energy means it is likely to seek cooperation in this sector with China,[334] a country that plays a pivotal role in the global photovoltaic and wind turbine markets. Ireland could therefore become reliant on China as the largest exporter of such key products.

In the long term, industrial policies such as the EU's Important Projects of Common European Interest (IPCEI), which support the reallocation of economic resources to identifying and developing new strategic sectors, will become increasingly important. Despite flying in the face of its FDI model, access to state aid could enable the Irish economy to gradually move away from trade dependencies and perhaps from the risks associated with an FDI-based economy.

In the political sphere, the Irish government sees China's position on Russia's war in Ukraine as an important factor in EU-China relations.[335] China's tacit pro-Russia stance on the war raises security risks for Europe and Ireland, as China's economic lifeline to Russia protects Moscow's ability to continue its invasion, affecting European and Irish security interests.

Barriers to de-risking

There are major barriers to de-risking in the current economic and geopolitical context. The increase in corporation tax revenue – predominantly from non-Irish multinationals, including Chinese newcomers – is a disincentive for the Irish government to rigorously de-risk for fear of scaring companies away.

Moreover, the US-China rivalry and tensions impact a country that is host to both US and Chinese companies. Irish leaders have received several warnings about China from the highest levels of the US government over the years.[336] [337] [338] More recently, the senior vice president for Europe at the US Chamber of Commerce stated that if Ireland and the EU do not have the "tools in place" to respond to "anti-competitive practices" from China and are not prepared to use them as needed, US politicians might look less favourably on the relationship between Ireland and the US.[339] Statements like these are unhelpful to Irish and EU regulators. In particular, their contradictory nature seeks to apply one standard to Chinese companies in Ireland and the EU while at the same time criticising European business regulations, which are likely to be the very same as the de-risking tools being called for.

Wuxi Biologics, a company with assets in Ireland valued at more than €2 billion, has been named a "biotechnology company of concern" in the US Biosecure Act.[340] US intelligence officials have alleged in a classified briefing to US Senators that its sister company, Wuxi AppTec, also present in Ireland, transferred US intellectual property to Beijing without consent.[341] If there were to be a US ban on the Wuxi group, some analysts claim that Ireland, in its neutral position, would stand to benefit from a potential redirection of planned US investments.[342] However, such political decisions in the US could have implications for the Irish-based Chinese pharmaceutical company, if US political pressure spilled over into Ireland.

The previously mentioned technological self-reliance strategies of China's government paired with its pushback on perceived US intervention also act as barriers. De-risking appears to be an issue of concern for Beijing. Foreign Minister Wang Yi has asked that Chinese companies in Ireland be treated fairly.[343] China's ambassador to Ireland has warned that "if [Ireland] seeks to 'de-risk' from China, it will turn its back on opportunities, cooperation, development and the future".[344] Even the visit of Li Qiang can be understood as an intervention regarding the proposed de-risking policy to make clear China's sensitivity to the pressure put on Ireland-based Chinese companies and other Ireland-based multinational companies trading with China, as well as to the pressure for new Irish laws to tighten controls on exports with potential military uses and investments that could pose security risks.[345]

Divisions between government departments also act as barriers to de-risking. During the drafting of Ireland's telecommunications law, disagreements arose between the Department of Communications, on one side, with the Department of Enterprise, Trade, and Employment (DETE) and the IDA, on the other. [346] In the end, DETE and the IDA got their way and the perceived damaging tag "high-risk vendor" was replaced with "relevant vendor" in the law, of which Huawei is believed to be the main target. As a result, it may be easier for those hit by the restrictive measures to try to limit the fallout for other parts of their business.[347]

Concrete measures arising from Ireland's standpoint towards de-risking

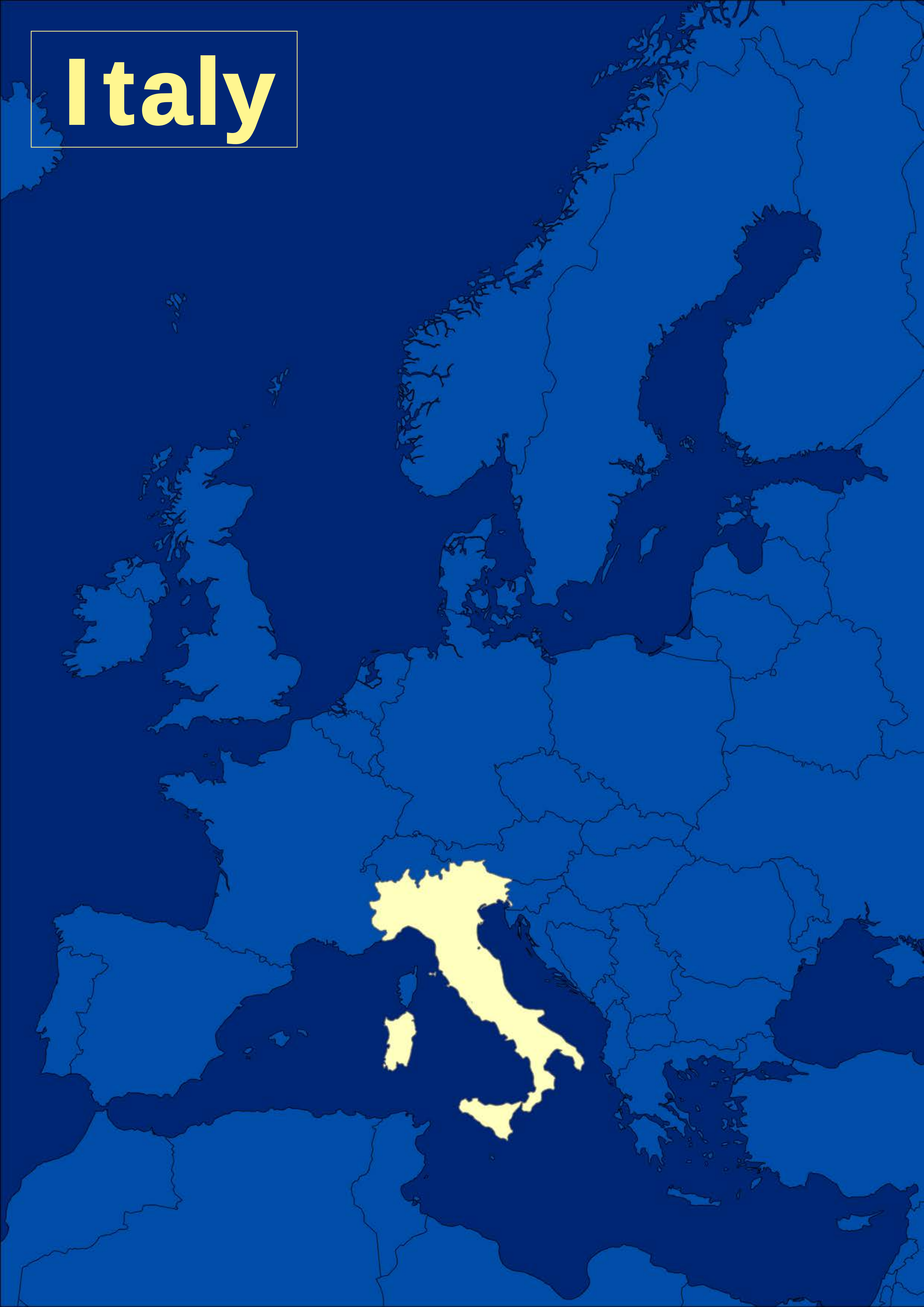
Ireland's government, in common with many others, has not published a list of critical sectors where disruption would have a major impact on the Irish economy. Implementation of the de-risking tools emanating from the EU appear to be the only evidence that the Irish government has taken any concrete steps to address the EU's Economic Security Strategy. For example, Ireland's exposure to inbound FDI from China of over €9 billion has apparently created 5,000 jobs.[348] The recently legislated

FDI screening mechanism will come into force in the third quarter of 2024, allowing for a review of investments from non-EU countries that involve sensitive technologies and activities.[349]

Equally, the data shows Ireland's high exposure in terms of its exports to China. In 2021, exports to China represented close to 2.5% of Ireland's gross domestic product.[350] This increased to 2.61% in 2022. Typically, a country can choose between several strategies to diversify its exports and reduce its dependency on a single market. However, any such strategy would be rendered null and void for Ireland because a large value share of its exports to China is derived from specific products and manufacturers.[351] Instead, in alignment with EU regulations, Ireland has updated its Control of Exports Act to regulate the export of controlled items, particularly those that can be used for both military and civil purposes.[352] Ireland's highest value export to China – electronic integrated circuits – could fall under the act in Ireland if they are considered "dual-use items".

Whether further concrete steps to address de-risking take place will depend mainly on three factors: First, whether new risk events unfold similar to those that have occurred recently; second, whether further pressure is applied to the Irish government by Washington to address perceived risks; and third, whether the European People's Party lead candidate and key proponent of de-risking, Ursula von der Leyen, returns to head the EU's executive branch following the June European elections.

Italy



Italy: Top-down de-risking vs bottom-up deepening of ties

Nicola Casarini, Associate Fellow
Istituto Affari Internazionali

Italy's de-risking has been a gradual process of reducing critical dependencies on China. Rome-Beijing ties reached their apex during the Conte governments (2019–2021), which saw the signing of a Memorandum of Understanding on the Belt and Road Initiative (BRI). Until Italy's official exit from the BRI in December 2023, the country was the only G7 nation to have officially endorsed Xi Jinping's signature foreign policy initiative. Italy has undergone a process of top-down de-risking, which began with the government led by Mario Draghi in February 2021 and accelerated with the arrival in power of a national-conservative coalition led by Giorgia Meloni in September 2022. However, a bottom-up deepening of ties has also emerged. The process of derisking has therefore been stripped of much of its substance by the return to power of political forces that favour closer relations with China, as well as by the decision of some important companies, various local authorities and universities to continue, and even boost, their relations with China in sensitive areas.[XIV]

BRI stokes broader de-risking debate

The debate on derisking ties with China began in Italy in 2019, triggered by national-conservative and right wing political forces, in particular Giorgia Meloni's Brothers of Italy and Matteo Salvini's League, which criticized the decision by the government of Prime Minister Giuseppe Conte to sign a Memorandum of Understanding on the Belt and Road Initiative (BRI) during Chinese President Xi Jinping's visit to Italy in March 2019. Giorgia Meloni openly accused Conte of taking risks through closer Italy-China ties in a parliamentary debate.[353]

Support for the Memorandum of Understanding, and more generally for closer ties with Beijing, came mainly from the anti-establishment Five Star Movement (M5S) – a political party created by comedian Beppe Grillo and led by Luigi Di Maio that held around one-third of the seats in the March to September 2022 parliament, as well as some sectors of the centre-left Democratic Party (DP), which has traditionally favoured closer Italy-China relations across the board.

Until Italy's official exit from the BRI in December 2023, the country was the only G-7 nation to have officially endorsed Xi Jinping's signature foreign policy initiative.[354] Chinese leaders had invested significant political capital in bringing Italy into China's orbit, with facilitation from local elites eager to foster commercial and political ties – with little regard for the implications this could have for Rome's Euro-Atlantic allies.[355] Following the appointment of Prime Minister Mario Draghi as Conte's successor in February 2021, a process of reducing critical dependencies on China began. The victory of a national-conservative coalition in parliamentary elections in September 2022 accelerated this process.

The Draghi and Meloni cabinets would adopt policies and take measures to unravel what they perceived as the risky ties that the previous Conte governments had established with China in areas ranging from infrastructure projects and Chinese investment in high-tech industries, to Huawei's involvement in the rollout of 5G networks in Italy, to the way China influenced Italy's pandemic response.[356] However, the Draghi government was unable to implement a fully fledged de-risking strategy, since China-friendly M5S and the sections of the Democratic Party that were part of the Draghi coalition continued to promote closer ties with Beijing. It was only with the arrival of the nationalist-conservative coalition supporting the Meloni government that Italy could significantly reduce its critical dependencies on China in many areas, including plans for a complete ban on Chinese information and communication

XIV Editor's note: The final draft of this chapter was submitted on 26 May 2024.

technology (ICT) companies from the 5G rollout in Italy. Moreover, the conservative coalition would unravel policies promoted by some political parties during the Covid-19 pandemic, in particular the Five Star Movement and the Democratic Party, that Meloni argued had had sought to 'impose a Chinese Communist Party-style model of social control on Italy using infectious disease as the excuse'.[357]

De-risking shifts into high gear under Meloni government

Meloni's strategy of de-risking from China involved two highly public moves. In June 2023, the Italian government used specific legislation to block ChemChina, Pirelli's largest stakeholder, from taking control of the tire making giant – a move inspired more by national security considerations than market dynamics. The acquisition of Pirelli in 2015 had become a powerful symbol of China's investment inroads into Europe. In December 2023, Italy exited the BRI by officially informing the Chinese government that the Memorandum signed in 2019 would not be renewed.[358] By putting an end to Italy's involvement in the BRI and by halting ChemChina's aspirations, the Meloni government removed some powerful symbols of China's influence in Italy, giving meaning to the calls made by President of the European Commission Ursula von der Leyen to de-risk ties with Beijing.[359]

Italy has not yet produced a policy document with a clear and precise definition of its derisking strategy. However, some declarations by influential members of the Meloni cabinet provide a hint of what the current coalition in Rome means by derisking from China. For instance, Minister for Enterprise Adolfo Urso – a leading member of the ruling Brothers of Italy party – has declared that the Italy-China relationship 'must be returned to its original channels as a traders' route, reducing political risks and increasing trade opportunities'.[360] Foreign Affairs Minister Antonio Tajani, leader of Forza Italia (a political party created by former Italian Premier Silvio Berlusconi), has clarified several times that Italy wants to decrease dependencies on China, but that does not mean that Rome will not remain open to targeted cooperation and economic ties with Beijing. During his visit to China in September 2023, Tajani declared that Italy and China would 'advance cooperation along the rails of the Rome-Beijing strategic partnership', adding that such cooperation would have to be 'un-risky'.[361]

Support for derisking has also come from some representatives of the transatlantic wing of the centre-left Democratic Party. For instance, Vincenzo Amendola, a former Minister of European Affairs and a prominent member of the Democratic Party, has declared the BRI Memorandum of Understanding "a mistake" and that "China under Xi is no longer what it used to be".[362] Think tanks and civil society groups have also joined the debate. In May 2020, the conservative Fondazione Farefuturo published a report on 'The Chinese challenge and the position of the Italian Republic', which denounced the efforts by the Chinese Communist Party (CCP) to extend its grip over Italy and called for 'reduced ties with Beijing'.[363]

Roadblocks to de-risking: Business, local interests, academia and the scientific community

Derisking is encountering some pushback. Large sectors of Italy's business community still favour strong ties with Beijing, since many companies continue to depend on imports from or exports to China.[364] According to data from the Bank of Italy, Italy's trade and investment dependency on China has increased rather than decreased in recent years. Italian Foreign Direct Investment (FDI) in China actually increased from €11.8 billion in 2019 to €15.5 billion in 2022, while Chinese FDI in Italy remained stable at around €2.34 billion in 2019 and €2.29 billion in 2022.[365] In terms of FDI flows, which record the value of cross-border transactions related to direct investment in a given period, Italian FDI in China almost doubled from €672 million in 2019 to €1.1 billion in 2022, while there was a stark decline in Chinese FDI flows into Italy, from €657 million in 2019 to €140 million in 2022.[366]

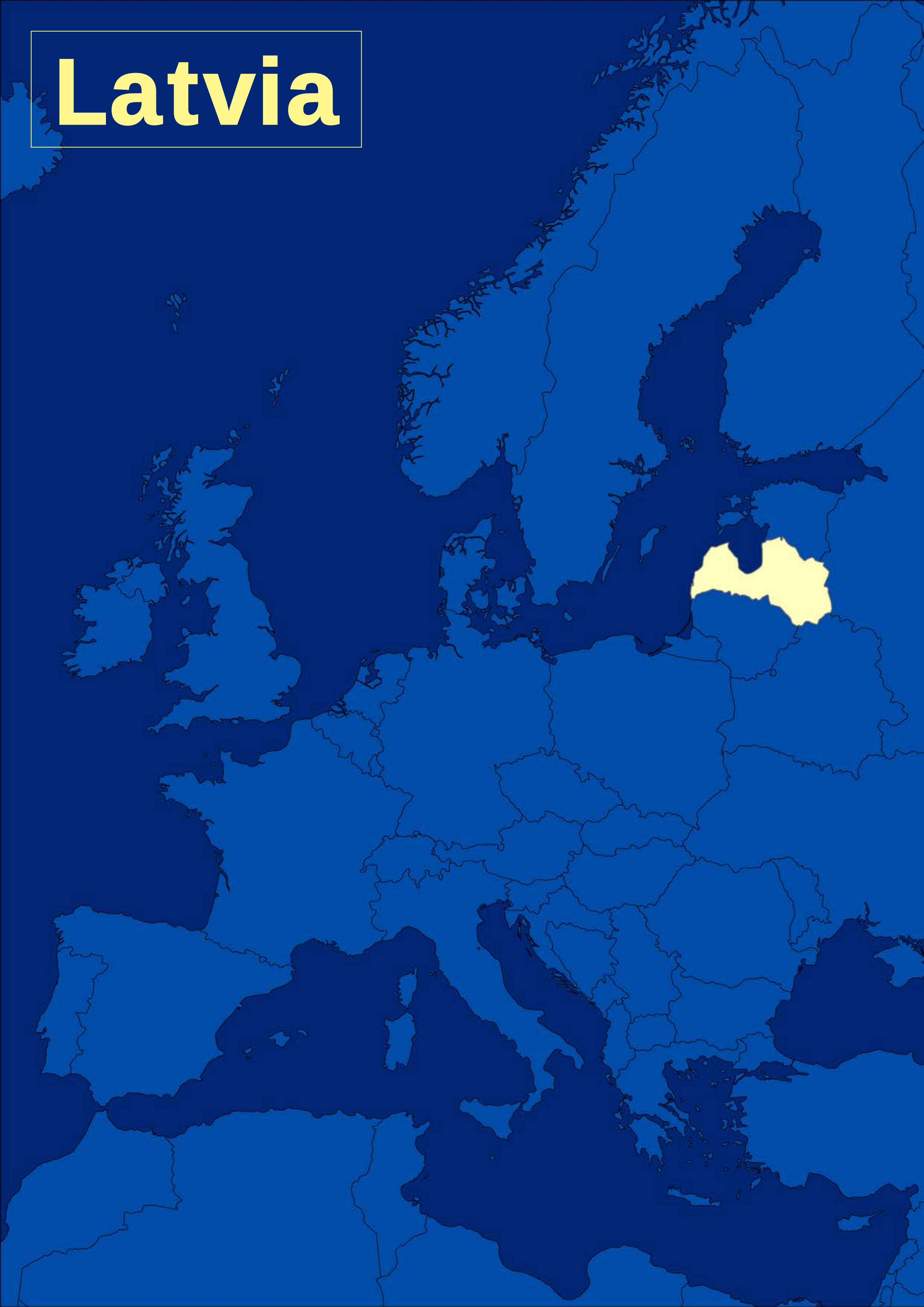
Several large companies continue to view China as a very promising market for their business and are therefore unlikely to reduce ties with Beijing even if the Meloni government implements its derisking strategy and has officially left the BRI. In 2019, for example, Intesa Sanpaolo, the largest banking group in Italy, signed an agreement with the Municipality of Qingdao on the development of a designated wealth management Pilot Zone. As a result, Intesa Sanpaolo became the first foreign bank to offer wealth management services in China through a wholly owned subsidiary.[367] In December 2019, the bank received the Silk Road Award for its work on fostering Italy-China ties. Although much has changed, the Italian bank continues to see China as a highly promising market. Intesa is one of the main European banks connected with China's Cross-Border Interbank Payment System (CIPS), a proposed alternative to the western-dominated Society for Worldwide Interbank Financial Telecommunication (SWIFT). Through CIPS, the Italian bank clears renminbi funds used across Europe and beyond to finance projects under the BRI – an area of activity that Intesa Sanpaolo is likely to continue and even expand in the coming years,[368] especially given the growing use of the renminbi by many countries in the Global South where Intesa Sanpaolo has established branches.[369]

Another obstacle to the capacity of the Italian government to derisk from China comes from local authorities, which enjoy a high degree of autonomy in these matters. Italian and foreign media have reported that around 10 municipalities and the province of Brescia – the largest province in the northern region of Lombardy, Italy's industrial heart – are cooperating directly with China through the local government equivalent of the BRI, the Belt and Road Local Cooperation (BRLC) Committee.[370] This is only the tip of the iceberg as the number of Italian municipalities, provinces and regions that have established links with the BRLC is probably much more significant – possibly in the hundreds. China has intensified lobbying directly aimed at local government, bypassing more sceptical policymakers at the national level. Politics plays a role as most of the local authorities connected to the BRLC Committee are leftist or centre-left coalitions. Notwithstanding the decision by the central government to officially leave the BRI, the process of derisking continues to meet resistance from political forces such as the Five Star Movement and sectors of the Democratic Party, which had previously opened the door to Chinese influence in Italy.

Another pushback from derisking comes from academia, which according to Italian law has full autonomy on matters related to cooperation with international partners. In the past decade, Chinese companies and authorities have intensified science and technology collaboration to acquire scientific, technological and industrial knowledge from Italian campuses. For instance, there has been a surge in academic sponsorships by Chinese firms, in particular ICT companies such as ZTE and Huawei, of cash-strapped Italian universities.[371] In contrast to what has happened in the United States and in other European countries, there has never been a serious debate about the implications of such cooperation projects for Italy's national security or that of its Euro-Atlantic partners. As a result, there have been no attempts so far to reduce critical dependencies on China when it comes to academic collaborations on science and technology. This reluctance in Italian academia vis-à-vis derisking is likely to continue for the foreseeable future.

Thus, although the Meloni government has officially left the BRI and unravelled many critical dependencies on Beijing, the process of derisking will be devoid of any substance if the political forces that favour closer relations with China return to power, or important companies, various local authorities and universities decide to continue, or even boost, relations with China in sensitive areas.

Latvia



Latvia: A case of an "indirect de-risking policy"

Ingvars Kudeikins, Junior researcher, Latvian Institute of International Affairs (LIIA)

There was a growing wariness regarding ties with China in the Latvian government in 2023. In 2022, when Latvia along with Estonia withdrew from the Cooperation between China and Central and Eastern European Countries framework, there was a sense of disappointment over a failed initiative that had brought about practically no increase in trade. In the context of the global political uncertainty that has risen in both Europe and East Asia, Latvian foreign policy stakeholders are carefully re-evaluating, and coordinating their actions on China with the European Union. The newly adopted "de-risking" approach has been accepted without any objections and only limited discussion in Latvian society and political circles. Fundamentally, Latvia's disappointment with China in 2022 grew into political unease and concern in 2023 because of China's "no limits" partnership with Russia. Alignment with Russia, Latvia's main source of insecurity, generates support for de-risking as a viable countermeasure against China.[XV]

China not tailored to the Latvian foreign policy agenda

Throughout the last decade, there has been no practical reason for the Latvian government to formulate a separate policy vis-à-vis China. Unremarkable economic cooperation and limited political bilateral engagement meant that Latvia chose to favour political representation at the European Union level. This was further emphasised by the second round of political consultations that took place in May 2023 between the Ministry of Foreign Affairs of Latvia and China's Deputy Minister of Foreign Affairs Deng Li. At the meeting, State Secretary Andris Pelšs had stated that: "Latvia agrees with the EU's common position according to which China is regarded as a cooperation partner in dealing with global issues, an economic competitor, and a systemic rival".[372]

Latvia's foreign policy priorities are clearly outlined in the Annual Report of the Foreign Minister, a political document of self-reflection. The most recent report, published in January 2024, mentions Russia 137 times, Ukraine 169 times and China – solely 26 times. The report dedicates more than half of its length to discussions on security policy, with an overwhelming emphasis on Russia's invasion of Ukraine and the subsequent need to strengthen resilience. In the case of China, the report mostly concerns itself with China's impact on the international system as a whole rather than discussing ways in which Latvia has engaged with China. In the less than half a page dedicated to China, Latvia outlines its participation in the "formation of the EU's policy for China", but does not definitively describe any direct engagement with China. The only statement on bilateral relations is that: "On bilateral terms, Latvia pursues constructive relations with China, evaluating the possibilities for developing bilateral dialogue on the basis of mutual benefit and in accordance with the common approach of the EU and the national interests of Latvia".[373]

The report outlines Latvia's support for the "de-risking" approach, which was officially announced at the meeting of the European Council on 30 June 2023. Latvia has adopted the approach without any objections and recognises "the need to continue the EU's multilevel approach, [..] reduce critical dependencies and strengthen supply chains".[374]

Overall, this supports the argument that while Latvia acknowledges China's impact on global affairs, it chooses to have little but stable bilateral engagement and to instead engage indirectly with China at the supranational level. Nonetheless, the report mentions Latvia's growing concerns regarding the development of Chinese military capabilities, including nuclear ones; China's challenges to values,

XV Editor's note: The final draft of this chapter was submitted on 19 May 2024.

security and interests; and the deepening of the China-Russia partnership, which heighten Latvia's awareness and reinforce its sense of geopolitical insecurity.[375]

Latvia's modus operandi: Euro-Atlantic community

Amid high hopes of deepening political-economic cooperation, in the past decade Latvia experienced prelude, progression, culmination and a subsequent decline in bilateral engagement. When the Cooperation between China and Central and Eastern European Countries (CEEC) framework was gaining ground, the political mood in Latvia was optimistic. Frequent bilateral meetings took place with high-ranking Chinese officials, mostly in an effort to bolster and advance the initiative, the culmination being the visit to China by Latvia's then-President Raimonds Vējonis in 2018, where he met the General Secretary of the Chinese Communist Party (CCP), Xi Jinping, and Premier Li Keqiang. However, there have been no significant visits by either side since.[376]

The reason for the decline in bilateral engagement between Latvia and China can be found in the broader geopolitical context. Latvia's Constitution states that it belongs to the "European cultural sphere" and that it "promotes sustainable and democratic development of a united Europe and the world".[377] Practically speaking, this means that Latvia is part of the Euro-Atlantic Community as a European Union and NATO member state. For Latvia, it has always been important to rely on both organisations to achieve a sense of security. Concern that China is challenging the international order in Europe has led Latvia to seeking even greater cooperation and coordination with the EU and NATO. A more assertive Beijing has become a source of wariness in Latvia. In a broader context, the United States, Latvia's strategic partner politically, militarily and economically, has been engaging in a trade war with Beijing since 2018. However, it seems that Latvia is more aligned with the EU than the US on the matter. As the US continues to pursue decoupling and a more confrontational policy, the EU has chosen a more cautious approach.

Latvia's main political agenda is to both promote and deepen its ties in the Euro-Atlantic community while also deterring Russia from destabilising Europe. This framework is what best motivates Latvian decision making. In 2021, Russia and Belarus commenced hybrid warfare against Latvia. Sequentially, in early 2022, President of Russia Vladimir Putin together with Xi Jinping announced a "friendship with no limits". This turn of events coupled with China's more aggressive geopolitical stance on its "historical rights" to Taiwan, crackdowns on democracy in Hong Kong and disputed territorial claims in the South China Sea helped shape the Latvian mindset of drawing parallels between Russia and China. Latvia believes that China is seeking to challenge the Transatlantic-based international order with the help of Russia.

Subsequently, when in 2022 Russia launched its full-scale invasion of Ukraine, Latvia's political mood towards China shifted from wariness to greater opposition. In April 2023 the then Minister of Foreign Affairs and Latvia's current President, Edgars Rinkēvičs, stated that while there was no evidence of China supporting Russia militarily, doing so would have "serious consequences economically and financially". Furthermore, Rinkēvičs stated that to counterbalance China, Latvia "must enhance partnerships with South Korea, Japan, New Zealand, and Australia".[378] In essence, China's refusal to condemn Russia's invasion of Ukraine pushed Latvia further towards the Euro-Atlantic community, which in turn has generated more support for the de-risking policy.

Furthermore, in July 2023, former-Prime Minister Arturs Krišjānis Kariņš found similarities between Latvia's energy dependency on Russia and its technological dependency on China when Beijing decided to implement export restrictions on germanium and gallium.[379] By comparing both countries, Latvia has signalled its caution and unease regarding China. Economically, Latvia is also concerned about its trade imbalance. Throughout the CEEC initiative, imports from China were on average at least three times higher than Latvian exports to China.[380] Limited access to the Chinese market has left Latvia feeling unfairly treated. This is not only Latvia's position, but the EU's attitude in general where its members have a negative trade balance with China.

Another uneasy signal from Beijing came in April 2023 when China's ambassador to France, Lu Shaye, questioned the existence of the ex-Soviet states, which in this context could be understood to include the Baltic states, by saying: "In international law, even these ex-Soviet Union countries do not have the status, the effective [status] in international law, because there is no international agreement to materialise their status as a sovereign country".[381] While the spokesperson for China's Ministry of Foreign Affairs restated China's official stance by emphasising their legal bilateral status, and official recognition of their independence and sovereignty, it nonetheless cast a shadow over Latvia-China relations.

Letting the EU engage with China

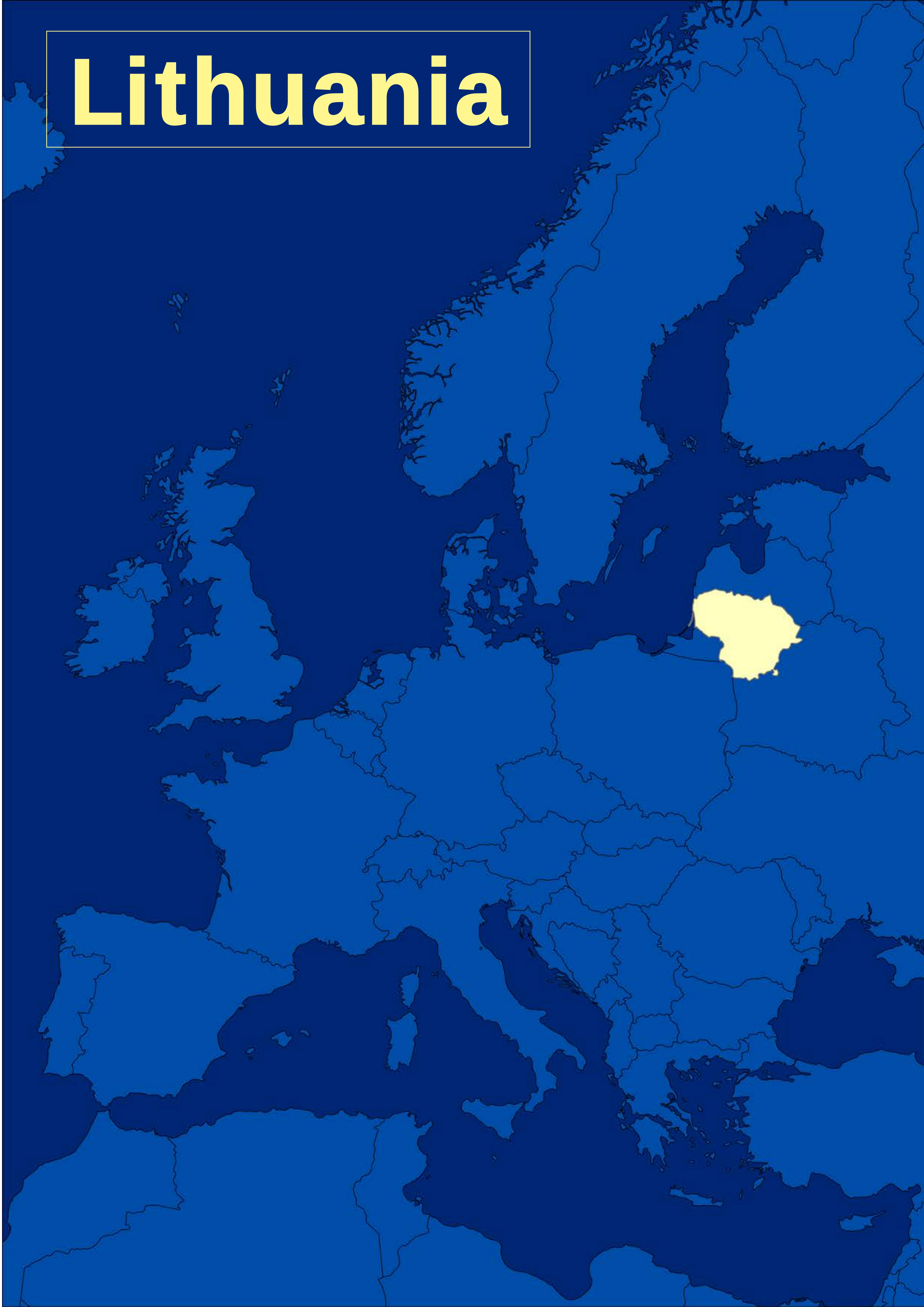
The Latvia-China relationship within the EU framework is a delicate dance where one must know where to put your feet and not to step on the other's toes. Latvia has reflected the position of the EU: China is a significant economic competitor and a powerful political force that cannot be simply excluded. Furthermore, there must be cooperation with China if the transatlantic community wants to tackle issues such as climate change, healthcare or the governance of artificial intelligence (AI). Latvia's commitment to the EU Green Deal makes such matters important to the country and Latvians therefore acknowledge the need to find common ground with Beijing.

At the same time, there are indications that Latvia does not want to be a pathbreaker political voice in the EU and would rather go along with other member states. Lithuania, Latvia's southern neighbour, is a loud critic of China's human rights abuses and a vocal supporter of Taiwan. This had severe economic consequences in 2021. The opening of a de facto embassy – Lithuania called the representative office "Taiwanese" rather than "Taipei", thereby indicating Taiwan's separateness from China – led to a harsh response. China banned imports and withdrew its diplomats from Lithuania. Learning a lesson from Lithuanians, Latvia would rather pursue China policy in concert with the EU than be singled out.

Globally, however, there has been an attempt to normalise the relationship between the US and China and between the EU and China. US President Joe Biden met with Xi Jinping in November 2023, resulting in an attempt to stabilise the relationship. As a result, military communication was reinstated and both countries pledged to work in areas such as AI and preventing drug trafficking.[382] While such efforts must be applauded, they will not affect the overall policy course pursued by the US. Similarly, on 7 December 2023, President of the European Commission Ursula von der Leyen, along with other EU leaders, met with Xi Jinping at the EU-China Summit. There, the EU reiterated the need to implement a strict de-risking policy by further diversifying supply chains and by insisting that China improve market access for European businesses. Simultaneously, the EU encouraged cooperation in the healthcare sector and underscored the need to tackle climate change.[383] Latvia has a significant interest in remaining politically aligned with the US, as a strategic ally for stability, but it continues to pursue the EU stance on China. Its policy is more moderate than US policy as it seeks political and economic competition on one set of issues while promoting cooperation on another set. This allows Latvia to align its position with the EU and add its voice at the EU level.

Russia's aggression in Ukraine is the dominant foreign policy agenda that pervades all levels of society and politics in Latvia. For now, Latvia sees China more in the context of its political alignment with Russia and as a challenge to the western-based international order than of opportunities for deeper cooperation. Having withdrawn from the CEEC, Latvia-China relations are in a dormant state following a failed attempt to find mutual benefits. This sense of withdrawal from bilateral relations reflects Latvia's general lack of interest, and any further engagement will be found mostly at the EU level. It is unlikely that any alternative to the de-risking policy will be attempted in the national context in the near future, given the already low level of dependency. However, Latvia will actively support the EU's position on upholding international law, defending human rights, enhancing supply chain resilience and ensuring fair trade with China, and continue to communicate calls for Beijing to condemn Russia's full-scale invasion of Ukraine.

Lithuania



Lithuania: “De-risking” before it became fashionable?

Konstantinas Andrijauskas, Associate Professor, and **Raigirdas Boruta**, PhD Candidate, Institute of International Relations and Political Science (IIRPS), Vilnius University

The recent crisis in Sino-Lithuanian bilateral relations was a significant factor in the rhetorical shift to de-risking the European Union’s ties with China. A couple of years before the concept emerged, Lithuania seemed to have partially embraced de-coupling in both word and deed, since the notion aligned with the government’s two principal coinciding policies on the Indo-Pacific: a major review of its relations with China and “strategic diversification” from autocracies to “like-minded” countries there. In these circumstances, Lithuania’s reaction to the de-risking proposal has been comparatively cautious at the international level and quite absent domestically. The country’s foreign minister is the only regular enough spokesperson on this question, and Lithuania’s rhetorical position has gradually shifted from scepticism to acceptance and even claiming credit for de-risking. While neither de-coupling nor de-risking were mentioned in Lithuania’s recent Indo-Pacific Strategy, the government closely associated both of those concepts with economic diversification in general and the high-tech domain in particular.[XVI]

Lithuanian partial embrace of de-coupling in word and deed

Since 2021, the Sino-Lithuanian bilateral relationship has become a significant factor in EU-China relations, including the most recent stage defined by Brussels as a so-called de-risking approach. This was clearly confirmed in the landmark March 2023 speech by President of the European Commission Ursula von der Leyen, which introduced the concept. While citing numerous challenges in the EU-China relationship, she specifically referred to Beijing’s “retaliatory measures against Lithuania” and European companies in response to the opening of a Taiwanese Representative Office in Vilnius as an example of economic coercion and “deliberate use of dependencies and economic leverage to ensure that China gets what it wants from smaller countries”.[384]

As a remind of the wider context presented in the 2022[385] and 2023[386] ETNC reports, Lithuania has since 2021 been at the forefront of an assertive Chinese foreign policy, due to its review of this bilateral relationship more generally and its semi-official embrace of Taiwan in particular. The challenge of Lithuania’s potential economic dependence on China lurked behind both of these policies, and the latter formed part of its “strategic diversification” from autocracies to preferably “like-minded” actors in the Indo-Pacific, which was singled out as a key aim of the country’s “values-based foreign policy” in the government’s 2020 programme.[387] An amendment made to the National Security Strategy one year later highlighted that in Europe: “China is consolidating its position mainly by building economic and technological dependence”.[388] It was notably indicated in the 2023 ETNC report that these Lithuanian policy shifts occurred without serious risk assessments, public discussion or a sufficient level of consensus among Lithuania’s elites.

One of this chapter’s authors has argued elsewhere that these strong convictions resulted in practical policies by the eighteenth Lithuanian government (2020–2024) that amounted to a significant de-coupling at both the political-diplomatic and the economic-technological levels as early as the first half of 2021.[389] In the initial six months of the centre-right coalition government’s tenure, Lithuania became the first to withdraw from the China and Central and Eastern European Countries cooperation platform (originally the “16+1”), later calling for the other 11 EU member states to follow suit by leaving this “divisive” format and dealing with Beijing together and equally under the “27+1 formula”.[390] In the case of economic or

XVI Editor’s note: The final draft of this chapter was submitted on 20 May 2024.

technological dependencies, the Lithuanian Parliament first blocked a controversial Chinese company, Nuctech, from installing its equipment in the country's airports,[391] and then banned Huawei from developing a local 5G network.[392]

It was, however, the announcement in July 2021 of the opening of a Taiwanese Representative Office in Vilnius that radically altered the Sino-Lithuanian relationship, and by the end of the year led to China's multidimensional and at times unique campaign of pressure. Alongside other punitive measures, the Chinese assertive toolbox involved a unilateral downgrading of official bilateral ties,[393] as well as undeclared "secondary" sanctions on Lithuanian components in global supply chains that led back to China, essentially punishing third country commercial actors for their links with Lithuania.[394] Most of the multinational companies affected by the latter actions were from the rest of the EU, especially Germany, and the dispute rapidly acquired EU-level proportions.[395]

These developments followed soon after the 2020 upsurge in de-coupling rhetoric to describe the state of the US-China relationship. It was therefore somewhat to be expected that Lithuania would borrow a term increasingly used by its strongest ally and near-existential security provider to gain extra attention and emphasise common challenges. In the meantime, Russia's early 2022 full-scale invasion of Ukraine naturally distracted the Lithuanian government and the general public from the country's dispute with China, providing a convenient opportunity for all sides involved to reappraise their positions. In September 2022, however, Lithuania's foreign minister, Gabrielius Landsbergis, whose role in the dispute with Beijing had previously earned him the moniker "the dragonslayer",[396] bluntly called for the West to decouple from trade with autocratic nations, particularly Russia and China, and provided his own country as an example to be followed in this regard.[397] Thus, at the time of von der Leyen's speech, Lithuania seemed to represent the most radical outlook on China in the entire EU.

Lithuania's cautious reaction to de-risking proposal

Given the recent salience of China in Lithuania's domestic political debates, it is surprising that public reaction to the de-risking proposal was rather muted in the country. While some politicians[398] and academics[399] who openly opposed the government's policy on China used it to implicitly highlight Lithuania's alleged clash with the EU's common approach, there have been few explicit references to it in the domestic political debate or the country's key foreign policy documents. As far as audiences abroad are concerned, the main if not the only Lithuanian politician to publicly reflect on de-risking was once again Landsbergis. While his statements appear conditioned by his personal role in recent challenges regarding Lithuania's and even the EU's relationships with China, one can only speculate about the level of support for such rhetoric among other key foreign policy actors in the country. Nonetheless, it is possible to identify a certain shift in Landsbergis' position.

When asked about the recent visit of President of China Xi Jinping to Moscow in March 2023, Landsbergis remained committed to his long-established stance of treating both China and Russia, as well as their nexus, in adversarial terms, essentially pointing out that the EU's de-risking should serve as only a first step towards eventual de-coupling from Beijing.[400] In the following month, however, he clarified that although Lithuania had chosen to de-couple from China, not all countries could do the same, but that in any case "[d]e-risking cannot be business as usual".[401] In May, Landsbergis said that while he was not advocating for the EU to de-couple from China, Russia's full-scale invasion of Ukraine had provided an example of such an outcome whether the EU liked it or not, and cited the Taiwan Strait as another potential flashpoint for which the bloc should be prepared.[402] By mid-2023, the foreign minister seemed to have embraced the concept of de-risking to the level of basically claiming credit for it in a practical sense, as exemplified by a remark made to a visiting reporter from New Zealand that: "We were happy that we de-risked before it was common knowledge in Europe".[403]

Lithuania's Ministry of Foreign Affairs had a great opportunity to reflect on the topic during work on its first-ever Indo-Pacific Strategy, which had been planned for at least two years, and was intended to promote its policy shift in that direction and better explain some of its resulting actions – including a review of the relationship with China. Perhaps reflecting the above-mentioned rhetorical vacillation, however, the document released in early July 2023 pointedly failed to explicitly mention either de-risking or de-coupling. On the other hand, the strategy did confirm "strategic diversification" in the region as one of its three pillars. This notion primarily implies the opening up of new markets that would decrease the country's dependence on dominant supply sources and attract investment, with particular priority given to high value-added sectors. A high-tech focus is also clear in the document's closest reference to the concept, when it explicitly mentions "risk-reduction strategies" associated with "emerging disruptive technologies" as something that Lithuania will pay more active attention to while building up its resilience.[404]

Where does Lithuania's new caution come from?

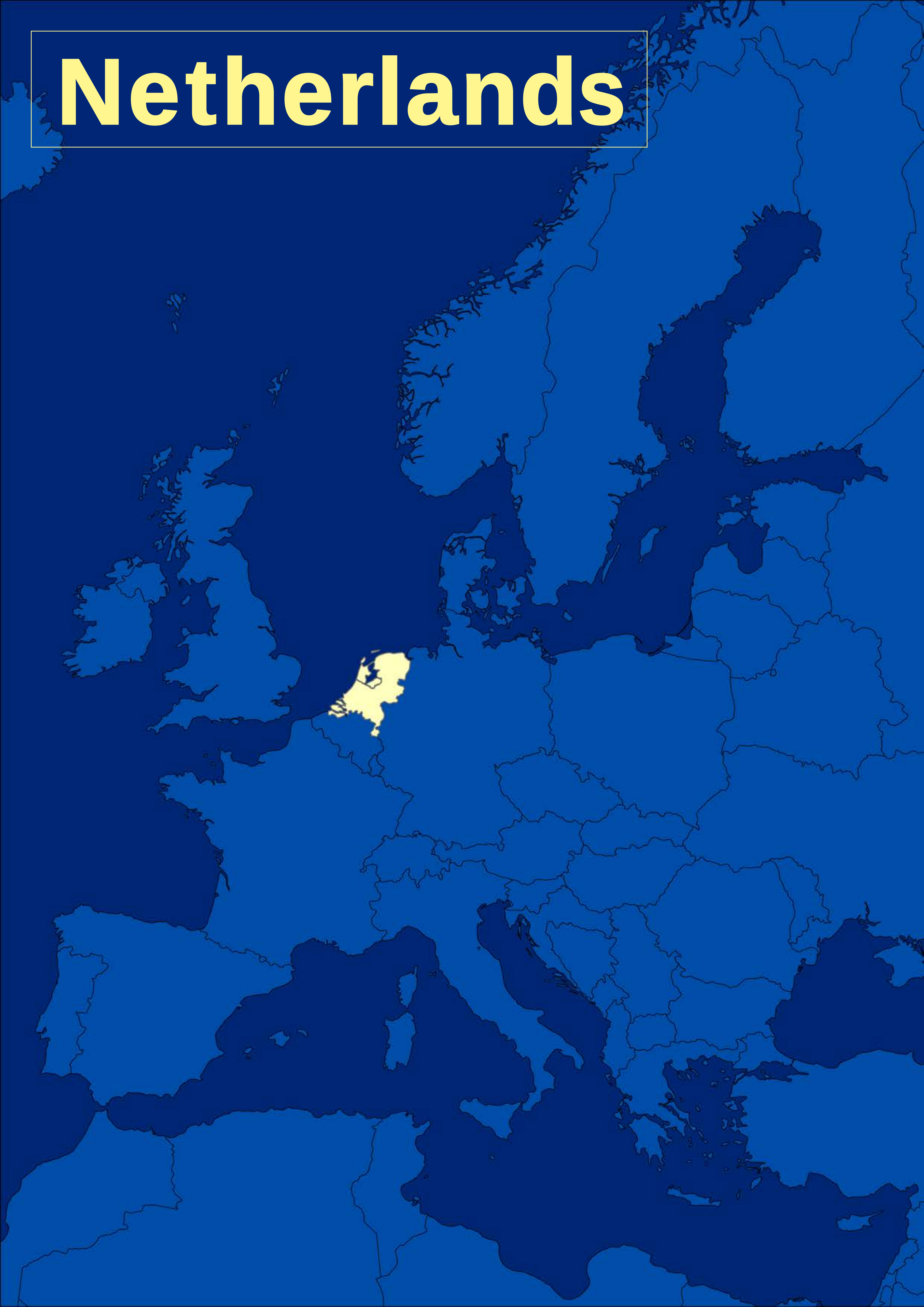
In sum, Lithuania's comparatively greater caution towards the China-EU relationship in general and de-risking in particular expressed throughout 2023 could arguably be linked to two principal factors. At the wider EU level, Vilnius remained visibly less scathing in its criticisms of Beijing at least in public, especially compared to the high-point of the bilateral dispute in late 2021 and early 2022, thereby following a trend that had become apparent since the beginning of Russia's full-scale invasion of Ukraine, as support for Kyiv naturally turned into the main focus of Lithuanian diplomacy. It would be hard not to interpret such behaviour as a conscious decision to refrain from creating extra problems for the EU and fellow member states in remarkably volatile times. This might also explain Lithuania's apparent restraint in defending the decoupling approach in the EU's internal debates.

In addition, Lithuania has been guided by a strictly bilateral agenda. Although Landsbergis boldly declared his country "China-free" in October 2022,[405] statistics on trade and investment suggest a more nuanced picture. China's FDI in the country has generally been increasing, reaching €42 million by October 2023, whereas the value of Lithuanian goods exported to China in 2022 fell to €100 million from €228 million a year before only to go up again to €146 million in 2023. By contrast, imports from China in 2022 rose almost to €2 billion from €1.57 billion the previous year, but declined to €1.7 billion in 2023.[406]

As Landsbergis pointed out in late 2023, Lithuania is no longer facing any economic pressure from China, bilateral trade has been partially restored and related losses more than compensated for by its strategic diversification elsewhere, including in the rest of the Indo-Pacific. Therefore, the principal remaining goal for Vilnius in this regard is to "normalise" the bilateral diplomatic relationship, which implicitly means the return of ambassadors to each other's capital. According to the Lithuanian foreign minister, talks on this had been ongoing for the past year, largely coinciding with both the softening of Lithuania's public rhetoric on China and the EU's de-risking initiative.[407]

At the time of writing, however, normalisation of bilateral diplomatic relations appears to be a distant aim, as shown by China's temporary suspension of issuing visas for Lithuanians without explanation in late January 2024.[408] It should be expected that the issue of the relationship review and the resulting diplomatic crisis, potentially also including the topic of de-risking, will return to the Lithuanian public debate, alongside the three elections to be held in the country in less than six months in 2024: presidential elections in May, elections to the European Parliament in June and especially parliamentary elections in October. Indeed, Gitanas Nausėda, the current Lithuanian president seeking re-election, has already indicated his support for the name change of the Taiwanese Representative Office in order to stabilise relations with China while debating with fellow candidates in early May.[409] In the meantime, the outgoing eighteenth Lithuanian government seems to continue making a virtue out of necessity by presenting itself as a far-sighted actor that began to de-risk before it actually became fashionable.

Netherlands



The Netherlands: An extensive but fragmented de-risking approach

Vera Kranenburg, Research Fellow, **Celine Leurs**, Research Assistant, and **Raoul Bunskoek**, Senior Research Fellow
The Clingendael Institute

De-risking has been conducted extensively in the Netherlands. It spans many sectors and includes measures aimed at protection from Chinese influence, promotion of Dutch industry and partnering with third countries to address dependencies. The Dutch government's de-risking approach can be fragmented because all 12 ministries are involved. The debate on China has shifted over the past decade and is currently largely focused on risk. The US government has played a key role in waking The Hague up to the risks that stem from China. Since then, in line with European Union (EU) China policy and EU economic security policy, the Netherlands has initiated a significant amount of protection measures. Nonetheless, there is room for further initiatives on the promoting and partnering pillars. Although the Chinese government has stated its opposition to certain measures, the bilateral relationship has not deteriorated.[XVII]

Dutch Perspectives on De-risking

The Dutch government has stated that it agrees with the EU approach to focus economic security policy on de-risking, and that this should include the mitigation of strategic dependencies, economic openness and international cooperation.[410] De-risking is not further defined by the Dutch government beyond equating it with economic security. Economic security comprises the protecting, promoting and partnering pillars set out by the European Commission. The Dutch government views the EU as the "primary operating level for mitigating the risks of strategic dependencies".[411] Generally speaking, the Dutch government formulates economic security policies in a country-agnostic way, although they are implicitly motivated by (competition with) China. Sometimes, the link between China and economic security is made explicit, for example when in 2022 the Dutch General Intelligence and Security Service defined China as the greatest threat to Dutch economic security. This was based on concerns such as economic espionage and company acquisitions.[412]

The Clingendael Institute's annual public opinion survey, the *Foreign Affairs Barometer*, provides interesting insights on Dutch public opinion on de-risking and economic dependencies.[413] In 2023, it asked participants to rank a variety of issues, presented as a *threat hierarchy* and a *hope hierarchy.* The public considered "dependencies in vital sectors" to be one of the most pertinent threats (placed seventh out of 50). Interestingly, the public perceived the costs of "foreign protectionism" and "reducing dependencies on China" as a low threat (placed 49th and 50th, respectively). Conversely, the Dutch feel hopeful about the "capacity to strengthen domestic manufacturing industry" (placed third out of 50), as well as the ability to "decrease unwanted foreign dependencies" (placed sixth).[414]

In the run-up to the November 2023 Dutch parliamentary elections, all the major parties mentioned risks related to China and the risk of strategic dependencies in their electoral programmes. The notable exception was the far-right Party for Freedom (PVV), which currently has the most parliamentary seats (see table 1).

XVII Editor's note: The final draft of this chapter was submitted on 23 May 2024.

Table 1: Overview of the inclusion of China-related risks, dependencies, relevant sectors and de-risking measures in the electoral programmes of the six largest political parties

Party	Mentions risks that China poses to the Netherlands	Mentions risks of dependencies	Sectors mentioned	Proposals made for concrete de-risking measures
Party for Freedom (PVV)[415]	No	No	Not applicable	Not applicable
Green / Labour Party (GL-PvdA)[416]	More than once	Yes	- Raw materials - Green transition - Critical infrastructure	- Promote green industry
People's Party for Freedom and Democracy (VVD)[417]	More than once	Yes	- Raw materials - Internal market - Knowledge position	- Outbound investment screening - Diversification through trade agreements with Africa, Latin America and Asia - National semiconductor strategy
New Social Contract (NSC)[418]	Once explicitly	Yes	- Raw materials - Energy - Key technologies	- Establish strategic stocks - Prevent hostile acquisitions in sectors such as ports, energy, and agriculture
Democrats 66 (D66)[419]	More than once	Yes	- Raw materials - Medicine - Batteries	- Concrete alliances with third countries in national critical raw material strategy - Invest in sectors that "fit" with a climate neutral economy
Farmer-Citizen Movement (BBB)[420]	More than once	Yes	- Raw materials - Production processes - Transport chains	- Strengthening Dutch agribusiness - Ban Chinese companies from buying ports, agricultural land and intellectual property

The Dutch debate on China-related risks has evolved gradually but significantly over the past decade. Today's debate on China is mostly focused on risks, for example those related to Chinese technology and investments. This is visible in parliament[421] and in the increased media coverage of China-related risks. Dealing with risks has also become central to Dutch policy documents on China, as exemplified in the core tenet of the government's current China policy since 2019: "open where possible, protective where necessary".[422] Although the new Dutch government is still in its formation process and a detailed coalition agreement is yet to be published, the preliminary agreement states that strategic dependencies on China, for example in the field of critical raw materials, need to be reduced. This indicates a continuation of the current the de-risking approach.[423]

Identification of Risks

Dutch dependencies on China have been identified in reports on trade interlinkages between the Netherlands and China (2022),[424] and in the geo-economic monitor (2023).[425] Alongside these reports, each ministry and an interministerial taskforce on strategic dependencies map dependencies and potential mitigation options. These analyses cover sectors such as energy transition, generic medicine, strategic raw materials, food security and digital high-technology.[426] The government has expressed its support for the Commission's proposal to carry out extensive risk appraisals in four high-risk sectors: advanced semiconductors, artificial intelligence, quantum and biotechnologies.[427]

The US government has played a key role in making the Dutch government aware of the risks emanating from China. In late 2023, a Dutch newspaper reported that the US Department of Defense had put pressure on the Dutch government to prevent the takeover of the ailing chip company, Mapper, back in 2018 by a Chinese entity. In response, the Dutch Undersecretary of Economic Affairs asked Dutch semiconductor equipment manufacturer ASML to buy the company, which ASML agreed to do.[428] This case is particularly interesting because it shows that the Netherlands was already embroiled in the US-China rivalry in 2018. Moreover, it highlights the relative indifference of the Dutch government to reducing the risk of strategic technology transfer before then, and underlines the key role played by the US government in "waking The Hague up" to the risks of Chinese takeovers in strategic sectors. Since then, the Dutch government has, of its own volition, stepped in on several occasions to prevent unwanted takeovers and, in line with EU policy, established both foreign direct investment (FDI) screening and a protection fund (see below) to deal with this issue.[429]

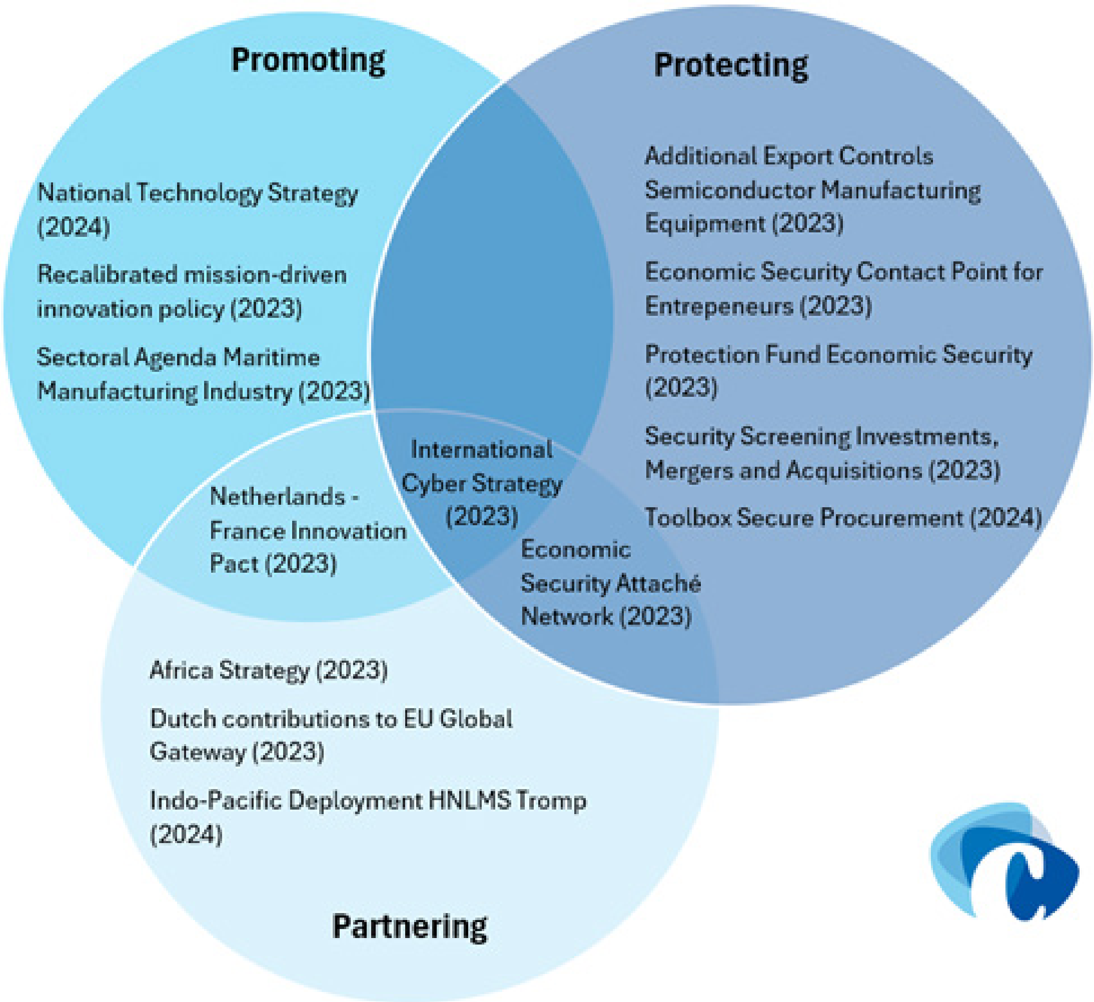
Dutch De-risking Measures across the Pillars: Promoting, Protecting and Partnering

The Netherlands has been proactive in recent years in establishing concrete risk-reduction measures. However, ministries are still finalising their analyses of dependencies and proposals for additional measures. These measures can be differentiated by the three pillars of promoting, protecting and partnering. The Dutch measures are fairly extensive and span many sectors. At the same time, the Dutch approach is fragmented as all 12 ministries are involved in carrying out the analyses, and many ministries and a government agency are involved in making and implementing policy.

Protection from Chinese influence

The protecting pillar is currently the most developed of the three. Risk-reduction measures include, for example, FDI screening legislation (2023), and the establishment of a National Contact Point for Knowledge Security (2022) and an Economic Security Contact Point for Entrepreneurs (2023).[430] Since the second half of 2023, new measures have been introduced, such as a protection fund for economic security,[431] and a toolbox for secure procurement.[432] A screening mechanism for knowledge security is expected in the next few years.[433]

Figure 1 Non-exhaustive overview of Dutch initiatives, measures and strategies related to economic security and de-risking in 2023 and 2024.[434] [XVIII]



In October 2023, the US government applied export restrictions to two older deep ultraviolet (DUV) machines produced by ASML. The Dutch government had already announced export restrictions on a number of newer models in response to earlier US restrictions. This meant that the Dutch government technically allowed the exports of these two types of machines while the US government did not.[435] Normally, when a product contains more than a certain amount of US-made parts (often 25%), a US export licence is required, unless the country the company is exporting from has the same export controls as the US. In its October 2023 measures, the US government decided to apply a 0% *de minimis* rule, which meant “the US is effectively asserting jurisdiction over foreign-made lithography”.[436] In January 2024, the Dutch national broadcaster reported that the Dutch government had already revoked the export licences for certain DUV machines to China in 2023, even though the new measures were not set to enter into force until 1 January 2024.[437]

XVIII In some cases, measures or strategies clearly contain elements of two or even three of the pillars, among these are the Economic Security Attaché Network established in 2023 (protecting and partnering) and Innovation Pacts with other European states, such as the 2023 Dutch-French Innovation Pact (promoting and partnering). The Dutch International Cyber Strategy was published in 2023. It contains elements of all three pillars: combating threats, strengthening coalitions and promoting the private sector. It names “the effects of China’s assertiveness as an economic and military power” as one reason for the need for such a strategy.

As a result of a study commissioned by the Dutch government on Chinese influence on the Netherlands' future maritime logistics hub, the Netherlands has taken a proactive role at the EU level in the domain of maritime infrastructure and logistics. It has done this by initiating discussions with the Commission and with other member states with the aim of establishing a European approach to managing foreign influence in this sector.[438]

Promoting Dutch industry and competitiveness

Established policies that could be categorised as promoting Dutch competitiveness and industry are the Top Sector Policy (since 2011)[439] and the National Growth Fund (since 2021).[440] More recent initiatives on reducing strategic dependencies by promoting Dutch alternatives include a national raw materials strategy,[441] and a recalibrated mission-driven innovation policy (2023) (see figure 1).[442] The Netherlands is also involved in EU promotion efforts such as the European Digital Innovation Hubs,[443] and the Important Projects of Common European Interest.[444]

To strengthen the international position of the Dutch maritime manufacturing industry, the Netherlands established the Sectoral Agenda for the Maritime Manufacturing Industry in 2023.[445] The agenda recognises that this industry is essential to vital processes such as infrastructure, energy transition and defence. It mentions China over 30 times and refers to China's "assertive role" as a threat to the sector.[446]

In January 2024, the Dutch government identified ten sectors that it considers crucial technologies for the economy, society and security.[447] Among these are quantum technologies, semiconductors and artificial intelligence.[448] On the same day, the government published a National Technology Strategy that aims to enhance development, application and scaling-up in these key technology sectors through innovation, entrepreneurship and industrial policy.[449] The latter policy mentions China over 40 times and specifically names China as a threat to the competitiveness of the Dutch technology industry.

Partnering with third countries

Next to protecting and promoting, the Dutch government is also seeking to partner with third countries to build relations that can help reduce strategic dependencies on China. In November 2020, the Netherlands was one of the first EU member states to launch an Indo-Pacific strategy to promote partnerships with countries in the region.[450] Deployment of the frigate *HNLMS Evertsen* to the Indo-Pacific in 2021 is a clear example of maritime diplomacy and an effort to reach out to regional actors.[451] [XIX] A similar deployment of *HNLMS Tromp* to the Indo-Pacific has started in March 2024.[452] Most importantly, these deployments complement ongoing Dutch diplomatic efforts at constructive engagement with countries in the Indo-Pacific.

In 2023, the Ministry of Foreign Affairs published the Dutch government's first Africa Strategy, in which the aims of reducing European dependencies on China and economic opportunities for African countries converge: "Many of the raw materials extracted in Africa are currently shipped to China for refining before they reach Europe. This makes the EU vulnerable and denies Africa scope to profit from adding value on the continent itself and from trading directly with Europe".[453] The Netherlands proposes raw materials partnerships with African countries, providing room for cooperation between the Netherlands and African governments that are also pushing for domestic value addition to raw materials.

XIX It should be noted here that the Dutch frigate Tromp was involved in an incident with the China's People's Liberation Army on June 7th in the East China Sea. This incident highlights that efforts to partner with third countries in the Indo-Pacific region can also have an impact on the relationship with China.

Opposition to Risk Reduction Measures

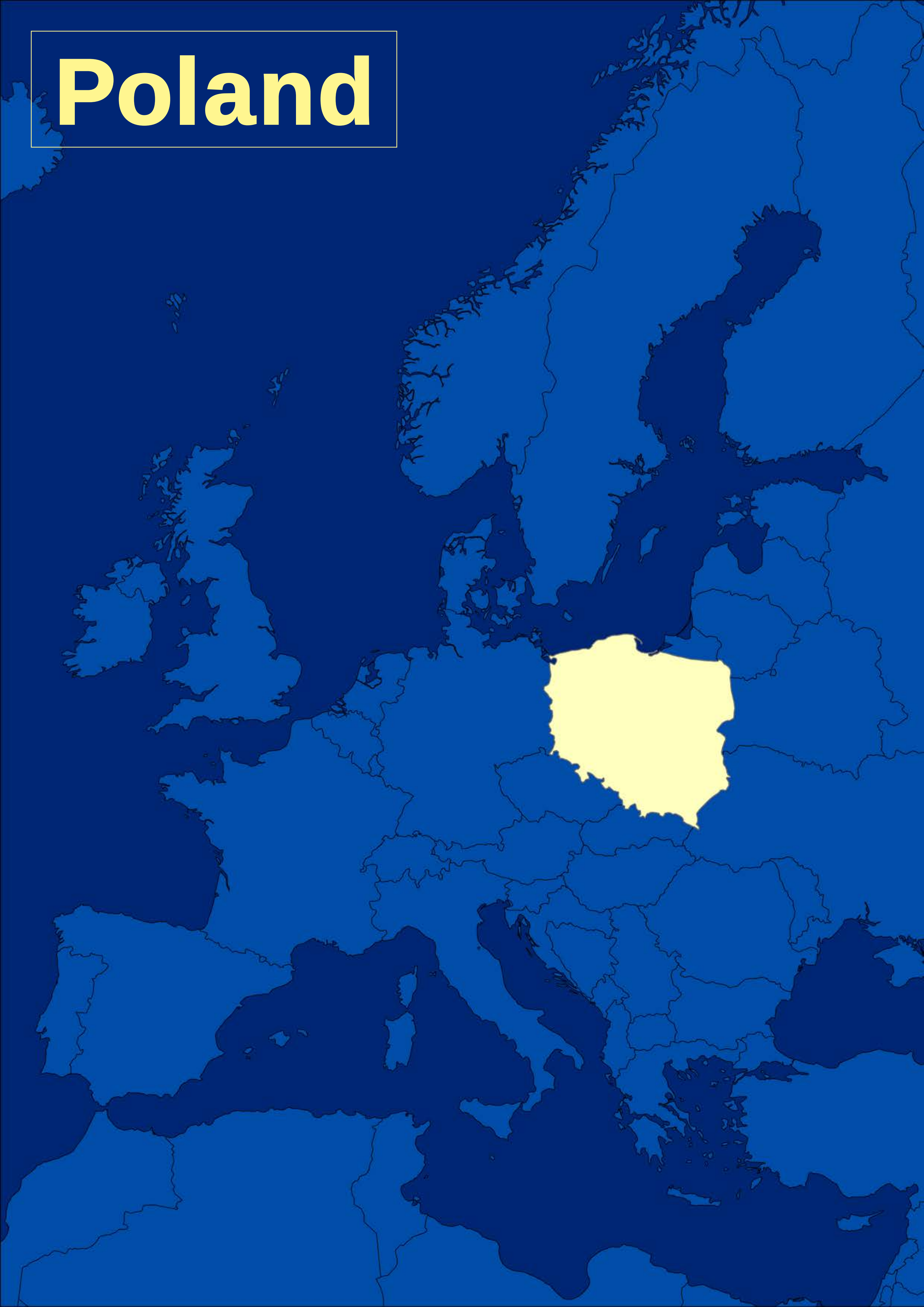
Opposition to specific risk reduction measures can be found in both business and academic circles. One example is opposition from quantum technology companies to the FDI screening implemented in 2023. They argued that the screening is stricter than the ones implemented by neighbouring countries.[454] ASML Chief Executive Peter Wennink has stated that export controls on China will only force the country to become more innovative.[455] In a recent study on the decoupling strategies of companies, Dutch business circles companies criticised the government for “siding with the US” and indicated a preference for a “more balanced approach” to the US-China rivalry.[456] Similarly, the Royal Dutch Academy for Arts and Sciences has been critical of an anticipated law on screening foreign students and researchers.[457]

De-risking and the Bilateral Relationship

Thus far, the bilateral relationship between China and the Netherlands has not suffered significantly as a result of the Dutch de-risking approach. This is linked to the “charm offensive” that China is currently deploying towards Europe. For example, the Chinese government expressed its displeasure with the decision to limit ASML’s exports to China,[458] but no countermeasures were directly targeted at the Netherlands, not least because China still needs the remaining ASML imports.

There is currently no reason to expect the Dutch government to pivot away from de-risking. De-risking fits within the broader concept of economic security that is gaining traction and follows logically from concepts popularised in recent years, such as Open Strategic Autonomy and strategic dependencies. Moreover, Dutch China policy has been explicitly developed in alignment with EU policies. There is broad political support for de-risking in the Netherlands, and for developing it further in the coming years. It should therefore be expected that the Dutch government will stick to its current approach for as long as the broader geopolitical picture remains one of great power rivalry and competition. The next hurdle for the government is convincing companies, knowledge institutes and other societal players to join in. The Dutch government wants to keep the bilateral relationship with China stable, and de-risking as opposed to outright decoupling could provide an opportunity to do so while reducing strategic dependencies.

Poland



Poland: Gradual increase in awareness of de-risking needs

Justyna Szczudlik, Deputy Head of Research, China Analyst
The Polish Institute of International Affairs

Although the public debate on de-risking in Poland is relatively sparse, the debate within the administration is ongoing and the term is widely used. While the newly coined buzzword is mainly linked to the European Economic Security Strategy, in reality, efforts have been made to reduce reliance on China since 2017, when Poland changed its approach to investments from the People's Republic of China (PRC). Thus far, de-risking in Poland has been low-profile. The debate is conducted within the administration, country-agnostic, in that no official document names any one country, and driven by the European Union.[XX]

Two-fold Polish de-risking debate

The fact that de-risking is a new buzzword that came to the fore only on 30 March 2023, in a speech by President of the European Commission Ursula von der Leyen,[459] as well as its vagueness, mean that it has not been widely used in the Polish public debate. The term "de-risking" appears in the media mainly with reference to recent speeches or initiatives by European Union institutions, such as following von der Leyen's speech or the launch of the EU's Economic Security Strategy (ESS) in June 2023.[460] Analyses of de-risking have also been published by think tanks and research institutes in Poland, in which the focus is usually on the whole European context rather than necessarily on Poland.[461]

However, this does not mean that a debate on de-risking is not happening in Poland. In fact, there are two types of debate: public and non-public. In the case of the public debate, the expression de-risking rarely appears. "Dependence" or "strategic autonomy" seems to be used more often to refer to the People's Republic of China (PRC) as an economic and security challenge. A likely reason for the limited public discussion is the general lack of public interest in international affairs. The situation is even more complicated when dealing with a distant country such as the PRC, of which there is little knowledge among the public in Poland. Moreover, as de-risking is still a new and indeed complex topic, which, for example, makes it difficult to publicly explain and draw attention to issues such as dependency in value chains, the prospects for wider interest among the Polish public are slim.

Beyond the public debate, however, there is also a debate that is mainly conducted behind the scenes within the administration. In this context, while the term "de-risking" is widely used, there is no official Polish definition. There is a belief within the government that, as with the concept of strategic autonomy, the definition of de-risking, its content and scope, will gradually be shaped by the actions of the EU and the EU member states.[462]

The main reason why the government debate is not resonating with the general public is that the process of mapping risks and reflecting on ways to mitigate them, which is mainly driven by the EU, is still at an early stage. A good example of the EU-driven approach and initial stage of Poland's de-risking is the ESS and the first step towards its implementation, which was the European Commission's request to member states to assess technological risks and leakages in the four areas of artificial intelligence, advanced semiconductors, quantum technologies and biotechnology by the end of 2023. This was not an easy task for the Polish administration, as it required the completion of complex questionnaires and coordination with various institutions within the Polish administration within a very short timeframe. (The newness of the concept means that there is no single lead institution responsible for de-risking in Poland yet.)[463]

XX Editor's note: The final draft of this chapter was submitted on 4 June 2024.

In a nutshell, however, Poland officially supports the de-risking concept, has complied with the Commission's requests and supports the ESS implementation plan announced on 24 January 2024. Poland also supports the EU's anti-subsidy investigation of the import of electric vehicles (EVs) from the PRC, as well as the trade instruments and defensive measures, or "toolbox".

Broader meaning of risks

Even though the debate on de-risking is quite sparse and the term itself fairly new, in the months since the term was coined and spread around the world, the focus in Poland has been on two main topics: raw materials, especially those needed to produce batteries for EVs;[464] and, in government circles, the ESS.

In the public debate, the discussion on Europe and Poland's dependence on Chinese rare earth minerals is led by a growing awareness of their importance to Poland as a key producer of batteries for EVs. Poland plays a leading role in the supply chain for the battery sector. Lithium-ion batteries already account for 2.4% of Polish exports and the value of exports in the battery sector has increased 38-fold in the past six years.[465] Battery production in Poland accounts for 9% of the global share.[466] Most of the plants in Poland are owned by companies with no links to the PRC, such as South Korea's LG Chem, SK Innovation and LG Energy Solutions (the largest EV battery production centre in Europe), as well as Sweden's Northvolt and Germany's Mercedes-Benz Manufacturing Poland.[467] However, most of the minerals needed for EV batteries, such as lithium and graphite, come from the PRC. China's 2023 export restrictions on gallium, germanium and graphite have raised awareness in Europe, including in Poland, about how dependent the country and Europe could become on the PRC. These Chinese restrictions have also triggered a discussion in Poland about the EU's planned green transition, due to Europe's high dependence on the PRC's green technologies. Awareness of the dependence on the PRC in this regard was reflected in meetings of Poland's European Union Affairs Committee during the previous term of the Polish parliament (Sejm), which ended in November 2023.[468]

While the term is new, activities similar to de-risking, in the sense of mapping dependence on the PRC, have been happening in Poland for several years. It is apparent that risks related to the PRC are seen as a broader topic than they were a few years ago. A good example is the change since 2017, when the Polish authorities modified their approach to Chinese investments, from being very open to projects offered by Chinese companies to increasing caution. Since 2017, the emphasis has been on the predominance of Polish capital when it comes to infrastructure investment by the PRC, to avoid ceding control over projects. According to a representative of the Polish government speaking in mid-2017, "we would like to avoid the situation in which projects are entirely financed by China. […] Infrastructure investments must be carried out with caution, with a predominance of Polish capital. This applies not only to Chinese capital, but to any other. We believe that capital has a nationality. It would be unreasonable at this point to 'allow' investors entry into infrastructure projects, giving them all the funding possibilities".[469]

Among the reasons for the hardening of Poland's policy on Chinese investment were the debate within the EU on setting up an investment screening mechanism, as well as examples of takeovers by Chinese companies of European enterprises such as the German company Kuka, which produces highly advanced robots. The modification of Poland's approach to Chinese investments was followed by a European debate on 5G in the context of potential threats from the Chinese companies Huawei and ZTE to the security of telecommunications and other critical infrastructure. The Covid-19 pandemic and the PRC's coercion of Lithuania in 2021 significantly increased awareness of Poland's indirect dependence on the PRC. Russia's full-scale invasion of Ukraine and the Sino-Russian "no-limits friendship" announced on 4 February 2022 also played a role in reinforcing the perception of the PRC as a potential challenge and even a security threat.

De-risking in practice

Efforts to reduce risks coming from China has been implemented in Poland since 2017 when Poland began to modify its approach to the PRC. Most of the steps taken have been in line with EU policy and, especially since the emergence of the term de-risking, the EU has been and continues to be the driving force behind the process.

Poland has its own national foreign direct investment (FDI) screening, the "Law on control of certain investments", which was adopted in July 2015 and last amended in March 2023.[470] The law is country-agnostic but the main reason for its implementation was concern about hostile takeovers or Russian infiltration of strategic sectors and Polish infrastructure. Nonetheless, it can be applied to FDI from other states, including investments by the PRC. Activities given special protection – which means prevention of dominance or even of reaching the level of "significant share" – are energy production and distribution; petroleum production, processing and distribution; telecommunications; the manufacture of and trade in explosives, weapons and ammunition; transshipment in ports of primary importance for the national economy; the mining and processing of metal ores used in the manufacture of explosives; and products and technologies for military or police use. These sectors and activities are considered essential to the country's security.[471] According to the "Law on control of certain investments", the government may also decide and then publish the list of particular entities to be protected, taking into account the relevant market share, the scale of its operations, the actual and sufficiently serious threats to the fundamental interests of society posed by the conduct of the entity's activities. The latest list was published by the government on 27 December 2023. It contains 17 companies from the energy, chemical, logistics, defense and cyber sectors.[472]

During the Covid-19 pandemic, the Polish government adopted the "Shield 4.0" law, the main objective of which was to protect Polish companies, jobs and consumers from the negative effects of Covid-19. Part of the law was considered an additional element of strengthening the investment monitoring mechanism, as it focused on temporary provisions aimed at protecting Polish companies from being taken over by non-EU investors or non-members of the Organisation for Economic Co-operation and Development.[473]

It is also worth noting that in 2013, Poland adopted the National Programme for the Protection of Critical Infrastructure, last amended in 2023.[474] In late March 2024, the new parliament's Special Forces Committee discussed and then recommended the government to formally recognize the part of the port of Gdynia – that for years has been operated by a company with Chinese capital – as a critical infrastructure .[475]

Following the pandemic, the then Polish government began a process of mapping the country's dependence on the PRC. The early and highly general conclusions were that Poland is dependent on trade, but not on investments in or by the PRC. When it comes to trade, the dependence is on imports rather than exports in two main commodity groups: active pharmaceutical ingredients and electro-mechanical products, including components for factories located in Poland but run by foreign companies.[476] Representatives of the Polish administration emphasise that these are only preliminary results and a more in-depth study is needed and planned.[477]

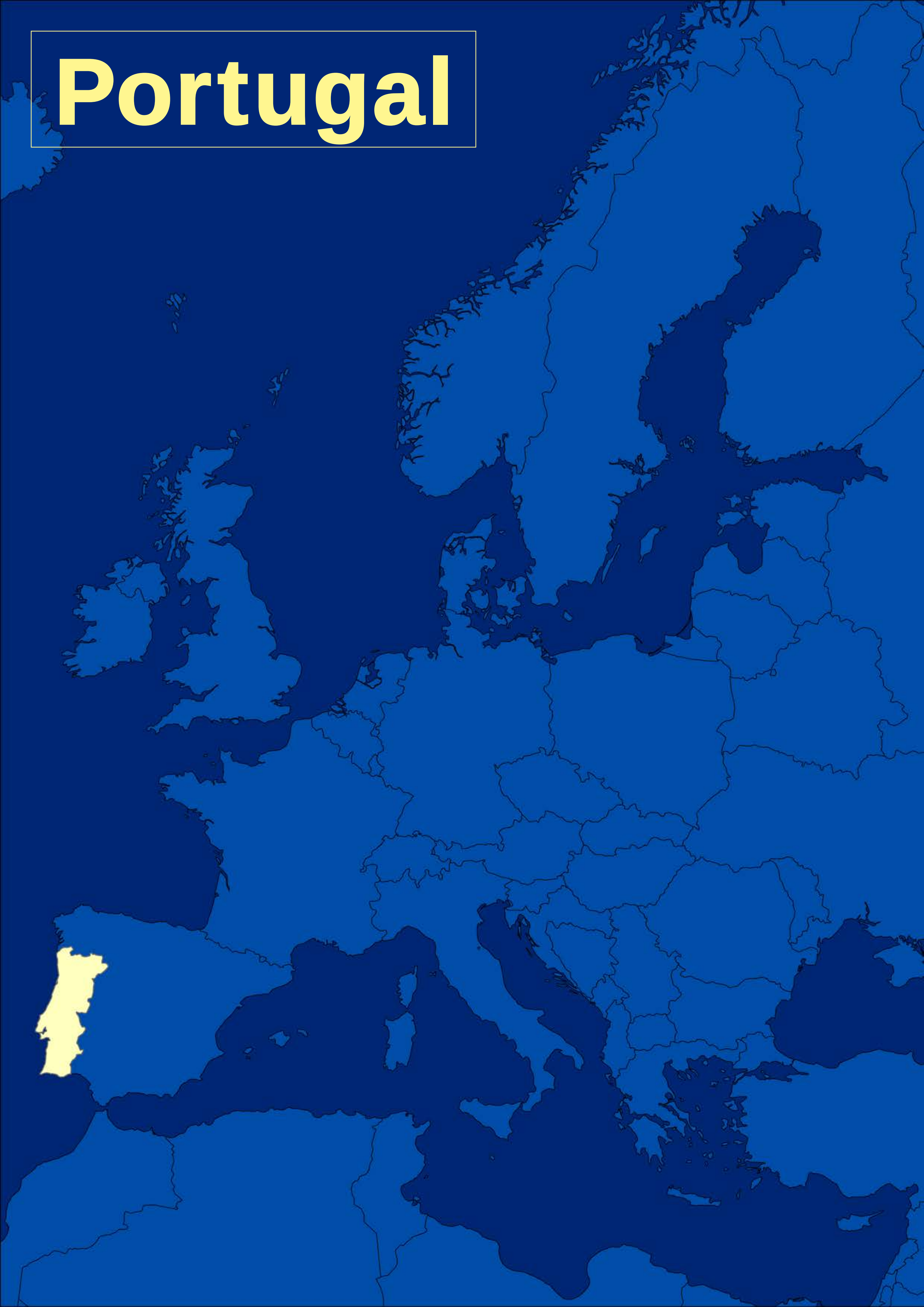
There has also been a step forward when it comes to de-risking in regard to the 5G standard in Poland. A planned Cybersecurity Law has not yet been passed.[478] One of the reasons for its enactment, however, is said to be to prevent Chinese telecom companies from deploying China's standalone 5G standard in Poland. However, it is worth noting that the 5G frequency auction by the government's Office of Electronic Communications ended in October 2023, and vendors deemed high-risk suppliers (those posing a serious threat to defence, state security or public safety and order, or to human life and health) were not allowed to participate. Furthermore, successful bidders or vendors were obliged to remove from their network within five years any hardware, software or service from a manufacturer deemed to be high risk.[479] The auction was won by four Polish operators.

Other risk-reducing measures in adoption of the National Raw Materials Policy was adopted in March 2022.[480] The main objective of this policy is to ensure raw material security, including access to energy raw materials. The document defines two types of raw material: strategic and critical. The latter are seen as raw materials where the extraction from either primary or secondary sources is either high risk or very difficult, with little possibility of substitution. These are, in particular, raw materials included on the EU list of critical raw materials, but also raw materials that, despite being present in large quantities, are impossible to extract due to planning conditions, social protest, and so on.[481] The National Raw Materials Policy is closely linked to the Energy Policy of Poland until 2040,[482] which was adopted in March 2021 and emphasises energy security, and the National Environmental Policy 2023,[483] which was adopted in 2019 and concerns the country's environmental security. There is also an inter-ministerial team on raw materials policy chaired by the Ministry of Climate and the Environment, which was established by Polish prime ministerial executive order in 2016 (the most recent amendment was in early 2023).[484] However, it should be underscored that all the above are country-agnostic and no reference is made to the PRC or any other country.

Conclusions: a low-profile, country-agnostic and EU-driven de-risking agenda

Poland has been implementing a de-risking agenda but the process is taking place with little visibility. Both the debate and concrete actions are carried out within the administration, without being made public. At the same time, the public debate on de-risking is rather sparse. Moreover, Polish de-risking activities are country-agnostic and often driven by the EU. As Poland is generally supportive of EU initiatives on de-risking, the topic has led to closer cooperation between the country and the EU institutions. An additional factor in bringing Poland and the EU closer in the case of the PRC is Poland's focus on Russia's full-scale invasion of Ukraine, and its awareness of close Chinese-Russian cooperation. In terms of de-risking, Poland is in the EU mainstream and can be described as an unproblematic follower. A new centrist Polish government was formed following mid-October 2023 elections and sworn-in in mid-December 2023. The largest party, Civic Platform, which belongs to the European People's Party Group in the European Parliament, will not change the overall approach to the PRC and the de-risking agenda. A more detailed examination of risks and implementation of measures to mitigate them can be expected.

Portugal



Portugal: Aligned with the EU strategy but wary of any confrontation with China

Carlos Rodrigues, Associate Professor,
University of Aveiro

The EU de-risking strategy is far from the centre of political debate in Portugal. The government insists that it is fully aligned with the European Union while doing its best to maintain good relations with China. Representatives of the Portuguese business community do not hide their concerns about the risks of de-risking, notably its potentially harmful effects on attempts to keep up with China and enhance business relations with it. In this context, the sudden and somewhat surprising decision to ban Chinese 5G operators and suppliers unsettled the hedging that normally characterises Portugal's position in relation to China.[XXI]

De-risking is far from the center of political debate

The European Union's de-risking strategy is far from being a topic for political debate in Portugal. Even within the government sphere, little has been said or written, apart from sporadic statements to the press in the context of EU-related initiatives. Despite Portugal's overall alignment with the EU's strategy, little is known about de-risking. The Portuguese Secretary of State for European Affairs, Tiago Antunes, has stated that: "We agree with the conceptual framework of the European Economic Security Strategy, with the logic of strengthening strategic autonomy, but this must not lead to Europe closing in on itself".[485] This is in line with the warning by the then Portuguese prime minister, António Costa, of the risk of "EU protectionism over China investment screening", in an interview in the *Financial Times* in March 2019.[486] Hence, it is possible to argue that the Portuguese standpoint on the de-risking relies on the possibility of a balance between alignment with the thrust of the European strategy, on the one hand, and keeping the door wide open to foreign direct investment (FDI) and trade, on the other. China in this context is highly valued as both a market and a source of investment.

The lack of political debate on de-risking is no surprise as silence surrounding any potentially controversial China-related matter is a consistent trend. In a predictable but speculative vein, it seems that Portugal has adopted a deliberate strategy of hedging, aimed as far as possible at avoiding any unease in its relations with China, while affirming its full alignment with the EU approach that could be considered as rivalry-driven. This trend becomes even clearer when rare direct questions are put to government representatives on China-related issues. For example, on the eve of the European Council meeting in June 2023, two right wing members of the Portuguese parliament asked Costa about the government's position on de-risking and the status of China as a rival. Costa's reply focused on the "centuries-old relationship with China" and the "very clear and stable position" of Portugal's foreign policy on China: "We understand that we must have the best possible commercial relations and a relationship of mutual respect with China".[487]

A few notable, mainly discursive, exceptions can be found. The most prominent, albeit vague, has Minister of Foreign Affairs João Cravinho as the protagonist and the delivery of Chinese military equipment to Russia the matter at hand. The minister stated assertively that if the deliveries went ahead, "we would have to review the meaning of our political and economic relationship with China".[488] Nonetheless, the same Cravinho kept China totally out of the picture in a comprehensive interview with a magazine for the Portuguese diaspora, where the main topic was the "highly turbulent and changing moment for international politics".[489]

XXI Editor's note: The final draft of this chapter was submitted on 21 May 2024.

5G: de-risking in practice?

The prevalent hedging approach was disrupted in May 2023 by Portugal's decision to ban Chinese operators and suppliers, as well as any other operators using equipment and/or services produced in countries that are "domiciled or linked to a country that is not an EU member state, or a member of NATO and the OECD",[490] following verbatim the recommendations of the National Higher Council for Cyberspace Security. This decision made headlines in the media not only for its strategic relevance, but also for the possible turbulence it might bring to Portugal-China relations, as well as the swift and peremptory way in which it was taken. The major telecommunications operators seem to have been taken by surprise, as they did not expect such comprehensive restrictions. While promising to comply with the decision, the operators were highly critical of the deadline for removing non-compliant equipment,[491] as well as the uncertainty over who would cover the increased costs. Moreover, as Ana Figueiredo, Chief Executive of one of the major Portuguese operators noted, "there are suppliers that, despite being based in NATO, EU or OECD countries, also depend on supply chains outside these geographies".[492]

The ban imposed by the Portuguese government appeared to represent a 180-degree turn on Portugal's official position. In his 2019 interview in the *Financial Times*, António Costa had praised the "highly positive experience of Portugal with Chinese investment" and its "full compliance with our legal structure and market rules" [493]. The U-turn cannot be detached from the strong pressure on Portugal from the US to revise its "friendly" positioning on China. Initial criticism of and resistance to this external interference during the Trump years gave way to what could be considered as a submissive stance. Obviously, Russia's invasion of Ukraine in 2022 also played a role, as a reinforced western alliance was critical of China's alleged tacit support for Russia. By 2023, Costa was clear that "Portugal can live without Chinese investment", [494] adding, "It would not entail a dramatic change in our situation, as it was for Europe to free itself from two-thirds of its gas supplies from Russia from one day to another". [495] Obviously, Portugal's decision to ban Chinese operators and suppliers did not go unnoticed in China. Although expecting some sort of restrictions, it was also caught by surprise by the far-reaching impact of the decision. This became clear in a press release sent to Portuguese media by the Chinese Ministry of Foreign Affairs: "We hope the Portuguese side will make rational policy choices autonomously and adhere to the creation of an open, fair and non-discriminatory business environment".[496] The Chinese authorities insisted that "building walls and barriers and breaking ties only harms the most vulnerable".[497] China added a threatening undertone by admitting that the 5G decision "could have political and economic consequences for Portugal, with the Beijing authorities considering retaliation if removal of the technology company from that country is confirmed".[498]

Huawei was particularly shaken by the government's decision. The company had built up a significant presence in Portugal over the years, which went far beyond its position in consumer markets. Huawei, for instance, is a partner of the largest Portuguese telecommunications operator, Altice Portugal, in the development of new applications using 5G technology. It has also provided large amounts of money to fund research and teaching facilities, and projects in several Portuguese universities, such as the 5G+IA Networks Reliability Centre at the University of Aveiro and the ICT Academy at the University of the Algarve.[499] As might be expected, Huawei challenged Portugal's decision in the courts in September 2023. A company press release talked about a "significant detrimental impact on the company and its partners" caused by the government's decision, while highlighting its "20 years indelible contribution to Portugal's development".[500]

Against this backdrop, the Portuguese business and financial sectors did not hide their concerns about an eventual degradation of Portugal-China relations. A strategy analyst and financial consultant, Jorge Oliveira, voiced these concerns in a media interview: "We hope that the decision on Huawei, taken by an obscure independent body that at no time said a word when it was public knowledge and notorious that US agencies were spying on European allies, does not ruin Portugal's image in the eyes of large Chinese investors".[501] Miguel Farinha, an Ernst & Young consultant, stated that: "we cannot strive to attract foreign investment and then decide what kind of investment we want and what country should invest or not on basis on the colour of the passport".[502] Bernardo Mendia, secretary general of the China-Portugal Chamber of Commerce and Industry, spoke to the media about the "negative effect" of the government's decision on "the credibility of Portugal in international markets and among foreign investors".[503]

The 5G restrictions Imposed by the Portuguese government led the analyst Michael Sheridan, like many other western observers, to conclude that "Lisbon is also heeding a tougher EU line on trade, investment, and 5G technology", and that the "Chinese checkbook, hitherto a reliable source of generosity, may now be a political liability as doubts grow over influence-buying by an expansionary, authoritarian foreign power".[504] The issue, however, is not as black and white as suggested by Sheridan.

Is it that the dogs are barking but the caravan has moved on?

Although far from the high expectations raised by Xi Jinping's visit to Lisbon in December 2018, and the "enthusiastic" approach to China that had preceded it, the "Chinese checkbook" continues to attract interest and bear fruit in Portugal. This seems true in trade, investment, cultural exchange, and higher education and research cooperation, which, in overall terms, have all been on the rise in Portugal in recent years.

Taking as an illustration the realm of investment, a huge flow of Chinese FDI began in 2011 directed at the acquisition of large Portuguese companies operating in strategic sectors such as energy supply, insurance, banking, construction and healthcare. The current state of affairs is a less visible and much lower value flow of FDI. Nonetheless, the €11.2 billion stock of investment sourced from China (fourth behind Spain, France and the United Kingdom) has been accrued by investments in a wide range of sectors, from wineries to electric mobility, and from trading services to car parts.

Despite the political alignment with the EU-driven tougher line on China, there is evidence that Chinese investors are keeping their eye on Portugal as a recipient of greenfield investments.[505] A particularly impactful one that stands out is the electric vehicle battery manufacturing plant that the Chinese state-owned China Aviation Lithium Battery (CALB) Technology plans to install in Sines, in partnership with Xpeng (a Chinese electric car producer) and Volkswagen. This represents an investment of over €2 billion. According to media reports, the plant, which is planned to be operational in 2025, will be the biggest battery manufacturer in Europe and, according to Nuno Gameiro, CALB's representative in Portugal, "will positively impact Portuguese GDP because all sales are exports".[506] He added: "If everything goes as expected, in a horizon year between 2028 and 2030, this factory may represent 4.2% of GDP". [507]

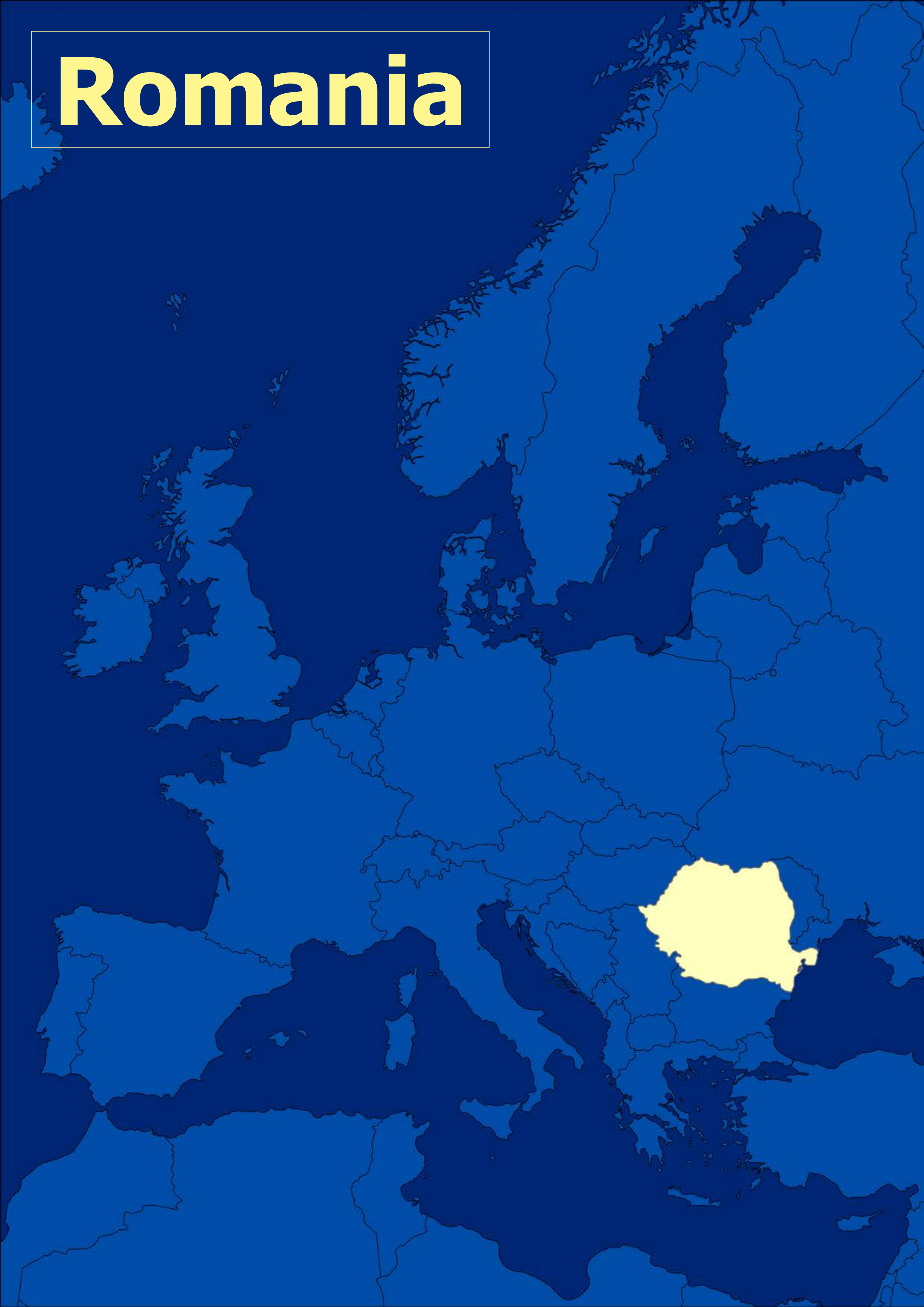
At the political exchanges level, the official visit to Portugal in May 2023 by China's vice president, Han Zheng, stands out not only because it was his first visit to an EU member state, but mainly due to the reiterated promises by both sides to strengthen bilateral cooperation in a wide array of fields and deepen the secular friendship between the two countries. Although underappreciated and even neglected by the mainstream media,[508] Zheng's visit was further evidence that Portugal is hedging strongly to avoid troubled waters in its relations with China. In an illustration, the Portuguese President stated that Portugal "is ready to further strengthen high-level exchanges with China, deepen cooperation in trade, science, technology, culture and people-to-people exchanges, among other fields, and continue to promote cooperation between Europe and China".[509] A few days later, however, the Portuguese government endorsed the draconian 5G ban, heavily harming Chinese interests.

Concerns about the risk of de-risking

The EU de-risking strategy is causing concern in Portugal, in that part of the business community that is informed and attuned to the matter, in sharp contrast to the more aloof and acquiescent political community. In addition to the lack of political debate, there is also a lack of awareness or indifference among the general public. This state of affairs is unlikely to change at least in the near future, particularly in the aftermath of the corruption probe in connection with lithium mining concessions, a hydrogen production plant and a planned data centre that led to Costa's resignation in November 2023, and the scheduling of general elections for March 2024.

In the long term, whether more or less attention is paid to de-risking at the political level will be heavily dependent on the impacts on the real economy and on employment that result from eventual implementation of the principles underlying the EU strategy. Amid the officially stated full alignment with EU policy, the assertive 5G decision and the occasionally less friendly discourse, maintaining "business as usual" or the status quo in relation to China seems to be the prevailing aim of Portuguese politics.[510] The extent to which these inherent hedging dynamics can persist over time is a critical issue. For its part, the business community is not hiding its concerns about the risks of de-risking, or its engagement in avoiding paths that could be harmful to the maintenance and further development of business relations with China.

Romania



Romania: Early progress before the launch of de-risking but little since

Andreea Brinza, Vice president,
The Romanian Institute for the Study of the Asia-Pacific (RISAP)

While de-risking is not a topic either on the government agenda or in the public debate, Romania has already taken steps to de-risk from China in a series of measures it has undertaken in the past five years. This was made possible mainly by the limited nature of economic and political relations between Romania and China, and was catalysed by the deterioration in United States-China and European Union-China relations. Still, if Romania is to implement further de-risking measures, especially with regard to imports from China, the main barriers will not be political or economic, but institutional, such as lack of government transparency, governmental reticence to engage with other stakeholders or a general lack of interest in foreign policy debates.[XXII]

Reducing risks before de-risking

Romania entered the de-risking era even before the European Union launched its new approach to relations with China. Since 2019, when it signed a Memorandum of Understanding on Huawei with the United States,[511] Romania has implemented a variety of measures to reduce dependencies and risks, while also actively distancing itself from China, further reducing its political and economic links with China. In theory, this should mean that Romania would receive high marks in a de-risking evaluation but the picture is more complicated.

Judged from a narrow definition of de-risking limited primarily to technology-related and cybersecurity issues, Romania has arguably already de-risked its relations with China. Since 2019, the Romanian government has restricted Huawei's participation in the country's 5G network and cancelled energy projects with Chinese companies, including China General Nuclear Power's involvement in the Cernavoda nuclear power plant. It has also banned Chinese companies from participating in public tenders and implemented a strict foreign direct investment (FDI) screening mechanism,[512] all the while cooling, but not completely abandoning its political engagement with Beijing.

Seen from the perspective of a broader de-risking approach that includes risks linked to import dependencies, however, Romania still has a distance to travel. It is unclear what risks such dependencies pose for the Romanian economy. In addition, resolving these issues once identified will prove much harder, as finding alternatives and diversifying imports will be more difficult than for the larger EU member states. Nonetheless, the definition of de-risking adopted from the EU approach by the Romanian Ministry of Foreign Affairs is quite broad and open to interpretation: reducing the risks regarding supply chains, critical infrastructure and technological security, especially dependencies that can be weaponized for economic coercion.[513] By this definition, even though it has already made considerable progress, especially in the area of critical infrastructure as its 5G, energy and infrastructure building measures leave China with almost no involvement in Romania's infrastructure, it is likely that Romania still has a lot of work ahead.

No debate, no problem

Even so, de-risking at either the national or the EU level is not a topic for public or even government debate in Romania. It is not raised in the political discourse even by parliamentarians affiliated with the Inter-Parliamentary Alliance on China (IPAC), who hold more critical views and positions on Beijing.

XXII Editor's note: The final draft of this chapter was submitted on 15 May 2024.

Even though de-risking is currently fashionable in much of Europe, it is still a distant or unimportant topic in Romania.

The lack of public debate is a consequence of a lack of tradition of such debates in Romania, especially when it comes to foreign policy, even if the topic is important. All of the measures on China implemented in the past five years were taken without public consultation and without much public attention, having been designed behind closed doors by government officials. Arguably, the only vague exception was the 5G law. While the initial Memorandum of Understanding signed with the US in 2019 came out of the blue, Huawei, as a direct target of the law, attempted unsuccessfully to marshal public support against the law. One tactic involved inviting parliamentarians to visit its 5G exposition booths,[514] but this sometimes backfired when some invitees lashed out against such lobbying. Another was to reach out to the public and especially to the relatively small Chinese diaspora in Romania to ask them to leave negative feedback on the webpage where the legislative proposal had been put up for "public debate" – a formal procedure of little importance. Huawei also tried to commission articles by various pundits, ranging from technical experts to generalist commentors. However, even though one of the authors later (after the law was passed) became minister of finance, as a key advisor and ally of the current Romanian prime minister, the tactic had little effect as the law had widespread support among the leadership of the main parliamentary parties.

Even in the absence of public debate or much public or political attention, however, Romania changed its perspective on and its approach towards China. As the changes took place after 2019, many of them were influenced by the US-China rivalry and later the EU's own turn to a firmer and more critical stance on China. For example, the Romanian government and Huawei had signed a Memorandum of Understanding on developing the IT sector in 2013,[515] including smart traffic systems and smart cities. Six years later, however, Romania signed the Memorandum with the US banning Huawei from its 5G network. This change took place despite there having been little or no attention focused on Huawei or on cybersecurity issues in the intervening period, as Huawei remained probably the leading player in Romania's telecommunications market. It was only after the US began its global campaign against Huawei that the Romanian government took action, although again without this translating into increased public or government attention on the subject of cybersecurity. For example, a recent media investigation revealed that important Romanian government facilities, including military bases, use surveillance cameras from Chinese companies such as Hikvision and Dahua, which could pose security risks – a subject that has been ignored by the government until now.[516]

Another eloquent example is the decision to restrict Chinese companies from participating in public tenders, especially targeted at infrastructure. The law deals with companies from non-EU member states that do not have public procurement agreements with the EU. When announcing the measure, however, Romanian leaders explicitly called it a means of restricting the involvement of Chinese companies. The measure was announced by a newly installed government without any prior notice and with very little public debate – and a key argument was that it was following an EU recommendation.[517]

Close to the EU, distant towards China

Ironically, although Romania has been closely following EU recommendations on topics linked to China, largely as a way to signal its status as a responsible member state and a loyal partner, this has not led to increased or closer cooperation with the EU more generally, as close cooperation, or rather loyal following, is already the norm. For this reason, Romania is not active in shaping EU policy, especially on a subject such as China, and therefore any cooperation is unidirectional. Romania simply implements EU instructions or recommendations without providing key inputs, engaging in or seeking to shape ongoing debates.

Romania-China relations are at a historic low. While diplomatic relations continue as usual, albeit with a vastly reduced Romanian diplomatic presence in China, political relations are almost non-existent. There has been no important official visit between the two countries in the past five years. The last meeting between high-ranking Romanian and Chinese officials was that between the then Romanian Prime Minister Viorica Dancila and Chinese Premier Li Keqiang in Dubrovnik in 2019, on the sidelines of the then-17+1 summit.[518] China has tried to keep its relations with retired or semi-retired politicians alive, however, inviting former prime ministers Viorica Dancila and Adrian Nastase to China in 2023.

Nonetheless, it is noteworthy that despite the measures taken by Romania, Bucharest and Beijing have avoided a total breakdown in relations. China has refrained from engaging in public criticism or threats regarding Romania's policy changes over the past five years. At the same time, Romania has avoided criticizing China and subjects perceived as sensitive by Beijing, such as human rights or Taiwan.

The future of de-risking

As de-risking evolves from a new term to a coherent policy, Romania has a head start thanks to its previous measures which have already decreased some dependencies on and risks with regard to China. Nonetheless, if de-risking is to be extended to imports and supply chains, this will be more difficult than before. Romanian imports from China stood at US$ 7.8 billion in 2022,[519] which represents around 6% of Romania's total imports. This highlights an area where risks could exist and action might be necessary. On the other hand, Romanian exports to China only amounted to US$ 1.2 billion.[520] Thus, the risk of dependency on the Chinese market is small, a fact further reinforced by the almost non-existent Romanian investments in China. Chinese investments in Romania are also relatively small, estimated at around US$ 407 million,[521] mostly concentrated in non-sensitive and non-critical sectors. Even if on paper Romania hosts a community of around 13,000 Chinese companies,[522] many of these are small or family businesses and their influence is very small.

While Romania has little de-risking to do when it comes to investments in or exports to China, the picture is less clear when it comes to imports. There is no public information about the Romanian government having undertaken any risk assessments regarding dependencies on China, but it seems likely that no such assessments have been made. Thus, it is difficult to evaluate the risks that come from the relatively high level of imports from China or the costs or difficulties associated with reducing them. Such assessments will probably be a problematic aspect of future de-risking efforts, as the Romanian government has a predisposition for opacity, which is combined with the absence of a culture of public debate, public engagement or close cooperation with non-governmental stakeholders and private sector companies.

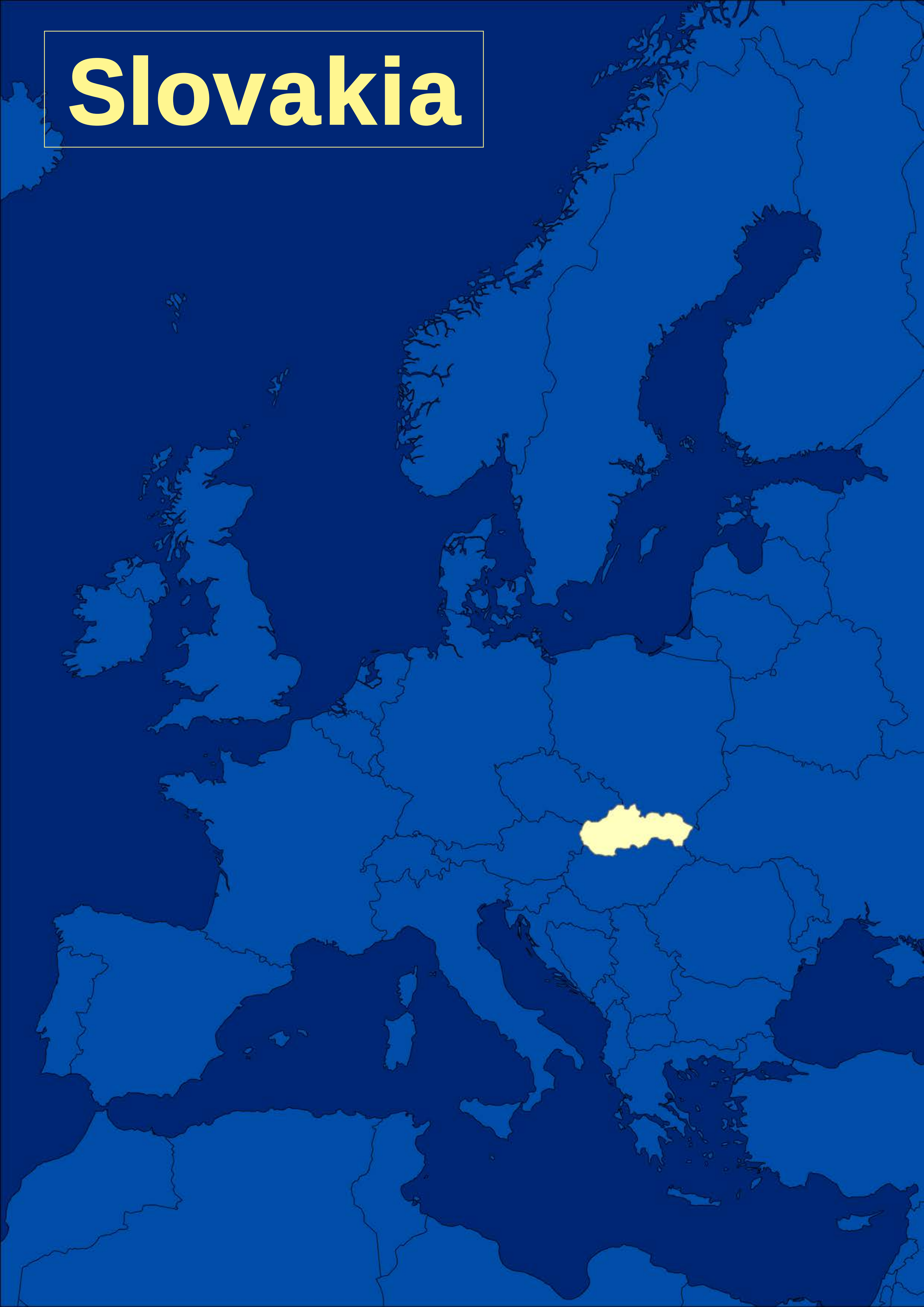
That said, past experience of measures already taken, combined with economic and political realities, show that there is no political opposition and probably few economic barriers to implementing a de-risking approach with regard to China. As few Romanian companies have much exposure to China, especially in critical sectors that might be the target of de-risking, it is unlikely that there would be vocal opposition to future measures. Some opposition might arise if efforts are made to implement broader restrictions, but even then Romanian political realities, past experience and a political tradition of largely ignoring worries from the business sector or civil society would mean that companies that might have their interests affected or might oppose such measures are unlikely to prevail.

Thus, the main barriers to future de-risking are the lack of governmental interest in the subject, combined with the problems of lack of transparency and lack of engagement with the private sector and civil society. Given the government's relatively limited resources, unless other stakeholders are involved in the process, it is unlikely that risk assessments and follow-up policies and measures will be well designed and implemented – especially if targeted at a broad range of sectors.

Conclusions

Generally speaking, while de-risking is a non-subject in Romania, it could be said that Romania already has a good scorecard on de-risking because of its relatively low level of economic ties with China, especially in critical sectors such as state-of-the-art technologies, and because of a range of measures that the Romanian government had already taken before the EU adopted this mantra. Nonetheless, if de-risking is to be implemented in a broader fashion, many issues could still arise, chief among them a lack of clear understanding of dependencies on China and the associated risks. The general lack of public debate, especially on foreign policy issues, and the absence of a history of successful private sector opposition to government policies mean that future de-risking measures will probably face few barriers. However, it is unlikely that Romania will be a trendsetter on de-risking. It is far more likely that Romania will closely follow EU steps and try to implement them with varying degrees of success.

Slovakia



Slovakia: High risks, little action on dealing with China dependencies

Martin Šebeňa, Chief Economist, **Matej Šimalčík**, Executive Director and, **Richard Turcsányi**, Program Director,
Central European Institute of Asian Studies (CEIAS)

Slovakia's dependencies on China are primarily concentrated in its car making sector, which is the backbone of the Slovak economy. In the absence of debates on China-related risks in the public discourse and amid ambitions to transition the industry to electric vehicle (EV) production, existing dependencies will probably deepen, as recently announced EV and battery investments by Chinese companies suggest. This is exacerbated by the recent re-election of Prime Minister Robert Fico for a fourth (non-consecutive) term. He has repeatedly called for strengthened economic relations with China. Nonetheless, Slovakia has already adopted some economic security measures, such as the 5G Security Toolbox and foreign investment screening.[XXIII]

De-risking is barely on the agenda

There is little or no political or public debate on Slovakia's de-risking approach to China. The only related topic that has been publicly discussed[523] is Slovakia's dependency on Chinese medical products during the Covid-19 pandemic. It should be noted that while dependencies on China objectively exist and should be considered (see below), dependency on Russia[524] with regard to energy sources is arguably a much more important issue for Slovakia. It is this that has taken the spotlight in public discussions, especially since Russia's full-scale invasion of Ukraine. The low level of attention paid to the de-risking concept in relation to China is also in line with the relatively low priority that consecutive Slovak governments have given China. This has resulted most often in a pragmatic approach to China that follows majority opinion in the EU no matter which government is in office at any given time.[525]
At the same time, there have been notable shifts in approach to China between administrations, depending on their strategic orientation. In 2020–2023, Slovakia was governed by a pro-western administration that was more sceptical of engaging with China and took concrete steps to improve relations with Taiwan.[526]

Since October 2023, however, the Slovak government has been led for a fourth time by Robert Fico of the SMER-SSD party. (Fico and his party were in government in 2006–2010 and 2012–2020.) SMER can be considered economically left-leaning on issues such as higher taxation or support for pensioners but also socially conservative, for instance, opposing migration or LGBTQ+ rights. However, its most notable characteristics are populism, close links with various oligarchs and more recently high reliance on disinformation through so-called alternative media in the country, which also tends to be friendly towards Russia.[527]

When previously in power, Fico and his party sent mixed signals regarding their strategic approach. Fico took a rhetorical position that he wanted to engage with China but did not invest much energy in developing relations or even attend the 16+1 summit in Suzhou in 2015, probably because he did not see any immediate material benefits in doing so.[528] However, the current Fico administration seems more adamant about developing relations with China. This change of the course can be partly explained by domestic political needs, such as a need for collaboration with various anti-western forces, but also by the prospect of recently announced Chinese investment projects (see below).

Fico has already said that he plans to visit China in June 2024, and his communication suggests a rather one-sided China-friendly approach that shares some similarities with Orbán's Hungary. The

XXIII Editor's note: The final draft of this chapter was submitted on 17 May 2024.

focus is on attracting Chinese investments, cooperation in infrastructure building in Slovakia, praising China's international role and even criticizing those who are critical of China's human rights, thereby largely rejecting the EU's strategic approach.[529] Fico's support for China's "Ukraine Peace Plan" is also indicative of this approach, as he ostensibly opposes a "military solution" and calls for negotiation and a ceasefire without stipulating support for Ukrainian territorial integrity.[530]

At the same time, the Fico government relies on a relatively fragile majority in parliament, so it is questionable how long it can stay in power. Moreover, it remains to be seen whether Fico will indeed invest more effort in engaging with China, unlike during his previous terms.

Troublesome automotive sector: concentration of dependencies

Slovakia is dependent on China for imports of both finished goods and intermediate inputs for manufacturing. In terms of finished goods, the topic of dependency on China emerged in 2020, in the early stages of the Covid-19 pandemic, when Slovakia was scrambling to procure a sufficient amount of protective and medical equipment, which is largely produced in China.[531] Slovakia is also highly dependent on imports of manufacturing inputs for its automotive industry, especially due to its linkages with German companies that have manufacturing facilities in China. Recent reports estimate that over 6% of Slovak manufacturing inputs from abroad originate in China.[532] Nonetheless, this significant dependence has received little attention either in the media or among the wider public policy community.

The de-risking narrative is more pronounced when it comes to exports, due to the country's homogeneous economic structure. Slovakia makes a significant proportion of direct exports to China~~,~~ concentrated in the exports of vehicles and machinery, which account for more than 3% of Slovakia's exports by value – among the highest in Europe. This exposure is exacerbated by the fact that it is concentrated in the car making sector, which accounts for 75% of exports to China. Volkswagen Slovakia, the largest car producer in the country, makes 25% of its sales, predominantly of sport utility vehicles (SUVs), in China.[533] Volkswagen's excessive dependence on the Chinese market is a risk in itself. Furthermore, due to Slovakia's deep embeddedness within European supply chains, there is also a significant proportion of indirect trade between Slovakia and China. In fact, Slovakia's combined (direct and indirect) export exposure to China is the highest among the Visegrád 4 countries (Poland, Czechia, Slovakia and Hungary), at 5.3%. Like direct exports, indirect exports are also concentrated in the car manufacturing and machinery sectors.[534] Unlike direct exports, however, dependencies within supply chains are notoriously difficult to quantify, which creates an additional level of complexity and precludes efficient risk management. As a result of the Slovak economy's one-sided orientation to vehicle and machinery manufacturing, the rise of China's electric vehicle (EV) industry poses an increasing challenge to the economy.[535] Direct exports to China have not yet been significantly affected, since high-end SUVs face less competition from EVs. However, as more Chinese vehicles enter the market in Europe and elsewhere, Slovakia-based car manufacturers are poised to lose market share.[536] These developments cause considerable concern among industry representatives who voice their worries in the media,[537] as well as in meetings with government officials.[538] Nonetheless, there does not seem to be a coherent government strategy to address these concerns apart from supporting the transition to EV manufacturing by way of direct and indirect subsidies.

While building out or transitioning to a domestic EV manufacturing cluster to counter Chinese automotive competition is certainly a viable and laudable approach, it has created a paradoxical situation in Slovakia in that it has attracted large-scale investment from China itself. The largest disclosed EV manufacturing-related investment to date is by Volvo, owned by the Chinese firm Geely, which announced an investment of €1.2 billion in 2022, with potential for a further increase.[539] It is notable that public discussion in Slovakia about this investment has tended to overlook its Chinese aspect and focus on Volvo's Swedish origin. Another notable Chinese investment in this space is by Gotion High Tech, a battery producer, which has purchased a 25% stake in the Slovak battery producer InoBat,[540] and since announced the construction of a gigafactory in Slovakia for an undisclosed sum, thought to be in hundreds of millions of euros.[541] This investment by a Chinese battery manufacturer might engender increased dependence on China for inputs, leading to what some view as the opposite of de-risking.

Finally, it has been estimated that 6% of Slovakia's foreign trade in 2016, regardless of whether with China or not, was dependent on transit through the South China Sea, leaving it open to geopolitical risks associated with China's contentious territorial and maritime claims in the region.[542]

Lagging policy response

Despite recognition in official policy documents of the potential security and economic risks of over dependence on China, Slovakia is somewhat lagging behind other EU member states when it comes to implementing various tools on de-risking and enhancing economic security.

Slovakia's Security Strategy, adopted in 2021, calls economic and technological dependencies an increasingly prominent "hybrid threat".[543] While the dependency issue is primarily treated in a country-agnostic fashion, the Security Strategy notes explicitly that "China is significantly increasing its power potential and political influence backed by rapidly growing military capabilities that, combined with economic power and strategic investments, it is assertively using to advance its interests".[544] It should be noted, however, that the document was adopted by a government with markedly different views on China compared to the current Fico-led coalition.

A follow-up Action Plan on Countering Hybrid Threats adopted in 2022 lists several measures that should be implemented to improve Slovakia's economic security and capacity on countering hybrid threats. Chief among these were the adoption of a Foreign Investment Screening Mechanism, improvements to the country's freedom of information and beneficial ownership transparency regimes, and due diligence procedures for the establishment of international academic cooperation.[545] At the time of writing, Slovakia has adopted the following tools aimed at de-risking and improving its economic security:

- **5G security toolbox**: Following adoption of the EU 5G Security Toolbox and the signing of the 2020 Slovakia-USA Clean Networks Memorandum (a political agreement in which Slovakia undertakes to maintain principles on 5G security largely aimed at curbing the presence of Chinese technology),[546] Slovakia amended its Cybersecurity Act, which provides for the blocking of vendors or specific products/services on national security grounds.[547] At the same time, the National Security Authority has conducted effective advocacy and dialogue with mobile network operators to ensure that no Chinese vendors are now present in Slovakia's 5G radio access networks (RAN),[548] despite initial worries that some might have to rely on components from the Chinese company ZTE to launch the network.[549]

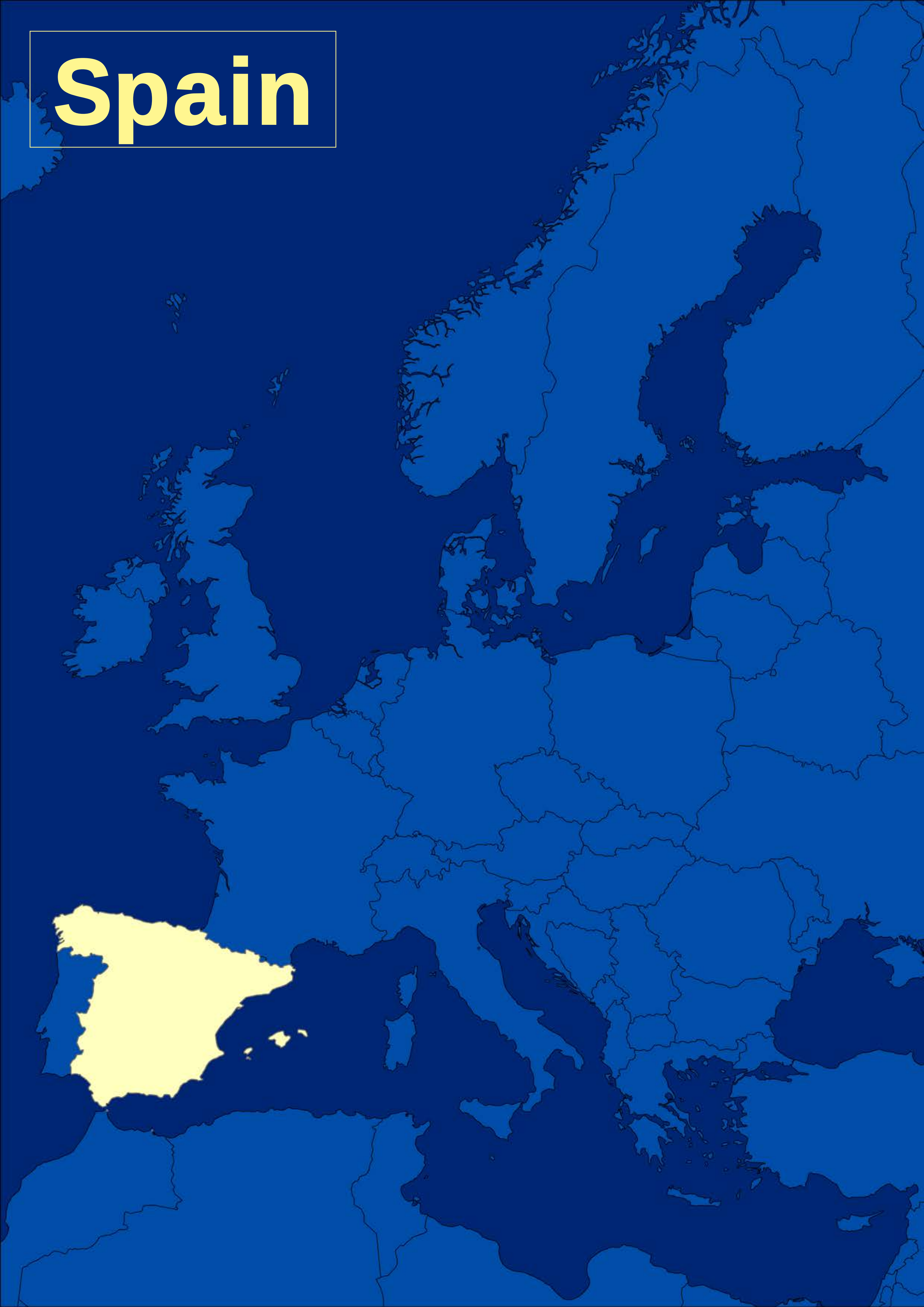
- **Investment Screening Regime**: A comprehensive investment screening regime came into effect in Slovakia in March 2023.[550] The regime provides for two types of foreign investment: (a) critical investments in the production of weapons and military technology, dual-use technology, biotech in the healthcare sector, critical infrastructure, providers of basic services under the Cybersecurity Act, providers of digital services in cloud computing, companies involved in the development of data encryption technology, and certain categories of mass media and press services; and (b) non-critical investments, meaning any other investment that does not fall under the critical investment screening regime. Mandatory screening is required for foreign critical investments in select sectors, starting at the acquisition of 10% equity, voting rights or another form of control over an undertaking. In the case of non-critical foreign investment, screening is not mandatory but can be initiated ex-officio by the Ministry of Economy for acquisitions of 25% of equity, voting rights or any form of control over an undertaking. Given how recently the law was adopted, its effectiveness and ability to withstand political pressure remain to be seen.[551]

- **Beneficial ownership transparency:** Slovakia put in place a radical beneficial ownership transparency regime in 2017.[552] While initially targeted at preventing graft and reducing the influence of domestic oligarchs, its scope has since been expanded to cover media ownership as well as ownership of any enterprise that has been subject to a foreign investment screening procedure. This makes it a valuable tool for improving transparency in China-funded investment projects. The law provides for a robust verification and sanctioning regime, which makes it much stricter than similar beneficial ownership transparency obligations under the EU's Anti-Money Laundering Directives.[553]

Future outlook

Overall, the Slovak approach towards China in general, and toward de-risking in particular, will chiefly depend on two aspects. First, it depends on whether the newly announced Chinese investments and infrastructure projects in Slovakia materialize as planned, as this could increase the willingness of the government to pay more attention to China. If, however, imports of Chinese EVs cause a sharp downturn in Slovakia's automotive industry, this could force the government to implement de-risking measures despite its China-friendly signalling. Second, it will depend on how long the Fico government actually stays in power, given that his government relies on a relatively fragile majority in the parliament and there are already some turbulences among his coalition partners.

Even if the government maintains its current China-friendly approach, however, advances in Slovakia's de-risking and economic security policy may still occur if they are mandated by EU law. One impetus for this might be the economic security package announced by the European Commission in January 2024, which seeks to improve existing investment screening, export controls and research security regimes.[554]


Spain

Spain: No de-coupling, some de-risking from China and more strategic autonomy for the EU

Mario Esteban, Professor Autonomous University of Madrid and Senior Analyst, Elcano Royal Institute, and **Miguel Otero-Iglesias**, Senior Analyst, Elcano Royal Institute[555]

Spain plays a passive but constructive role in European policy on China, broadly supportive of the EU's approach and working with other member states while promoting continuous economic engagement with Beijing. Some concerns have emerged in the public debate over Beijing's holdings of Spanish debt, overreliance on China for strategic assets and China's influence over Spain's critical infrastructure. However, there is no acute feeling of vulnerability, given that Chinese investments are not perceived as a threat to national security and Spanish companies have limited exposure to the Chinese market. In response to the changing geopolitical context, the Spanish Government advocates open strategic autonomy. Hence, it is seeking to strengthen the EU's resilience and welcomes the European Commission's economic security instruments in this regard. Nonetheless, Spain has adopted a narrow definition of de-risking, aimed at reducing specific vulnerabilities from both the US and China while avoiding a spiral of protectionist policies and a decoupling from China.[XXIV]

An incipient debate on the security implications of economic relations with China

As in other European countries, the debate in Spain around decoupling and de-risking from China has entered the political and public discourse, albeit with less prominence than in countries more exposed to trade with, and especially exports to, China. For now, China is seen by the majority (51%) of the Spanish population as a necessary partner, whereas only 22% perceive it as a rival, 9% as an adversary and 3% as an ally (the remaining 15% did not reply).[556]

Spain remains a somewhat passive team player when it comes to the EU's policy on China, perhaps with the caveat that Spain places more emphasis on the partnership component of bilateral relations. Spanish officials perceive Brussels as having leaned towards the "economic competition" and "systemic rivalry" elements of the tryptic view presented by the European Commission in March 2019, while the Spanish Government has tried to keep a more balanced perspective on reinforcing the "partnership" dimension of the relationship, especially in terms of economic cooperation.[557]

Overall, the Spanish government, as well as the business and expert communities, focus on foreign affairs, and specifically with regard to China are aware that the geopolitical landscape has changed. The rules-based international order is under considerable strain. We are increasingly in a multipolar world defined by the great power rivalry between the US and China, and the view of the Spanish government is that, in this context, the EU needs to strengthen its open strategic autonomy. The word "open" here is important because it derives from a 2021 joint non-paper by the Spanish and Dutch governments, which expressed fear of a protectionist spiral in global economic relations.[558] Spain has traditionally been a more open economy than some of the other Mediterranean countries and this openness is still seen by the two main Spanish political parties as a positive asset to be preserved.

Spain's view on de-risking from China

The Spanish Government does not have an official definition of de-risking but, in general terms when it comes to China, the official position is that de-coupling would be extremely difficult and undesirable, and that de-risking should not lead to a protectionist turn. In this regard, the most substantial official document is one produced during the Spanish Presidency of the Council of the European Union in the

XXIV Editor's note: The final draft of this chapter was submitted on 14 May 2024.

second half of 2023, *Resilient EU 2030*,[559] which was prepared in consultation with the foresight units of the other 26 EU member states. The mission of these publications was to carry out analyses and make policy recommendations. As far as the authors of this chapter are aware, this was the first substantial attempt by all 27 EU member states to forge a joint diagnosis of and strategy on strategic autonomy, although it was not explicitly labelled as such.

The document draws attention to European dependencies on China in the green technology domain, noting that: "without implementing strong measures, the European energy ecosystem could have a dependency on China by 2030 of a different nature, but with a similar severity, from the one it had on Russia before the invasion of Ukraine".[560] This sense of overreliance on China for strategic supplies became quite evident in Spain during the first stages of the Covid-19 pandemic.[561] That experience triggered an active public debate on the risk of depending for strategic goods on a distant supplier with diverging values, for example in terms of economic statecraft and geopolitical interests, as well as conflicting alignments vis-á-vis other key international players, such as the United States and Russia.

At the same time, however, there is an implicit reference in *Resilient EU 2030* to European dependence on the US in the digital domain. Three US companies, Amazon Web Services, Microsoft and Google, have a European market share in cloud storage of over 70%.[562] They therefore manage large amounts of European personal data. In addition, the US e-commerce platform Amazon is the leading online marketplace in Europe.[563] This is starkly outlined in the document, which points out that: "Only 14% of the cloud services used in the EU are produced by EU companies, and less than one-tenth of the data generated by Europeans is stored on European soil. The same applies to digital commerce and its associated services. European companies control less than 25% of the marketplaces and 10% of the digital payments used in the EU".[564]

As many public sector and private sector stakeholders interviewed for this chapter told the authors, this has led the Spanish government, business and the foreign policy community in Spain, broadly speaking, to advocate for stronger open strategic autonomy for the EU. De-risking is seen as necessary and Spain welcomes some of the recent tools acquired by Brussels, such as the foreign direct investment (FDI) screening mechanism, anti-subsidy legislation and the anti-coercion mechanism, but it rejects a zero-sum mentality vis-à-vis China. Trade and investment with China can still produce positive outcomes for both China and Spain, and the EU at large. This is the mainstream view among the political and economic elite in Spain.

Rather than impeding the rise of China, the Spanish Government puts much more emphasis on strengthening the EU. The above-mentioned *Resilient EU 2030* focuses on nine key areas where this can be achieved: (a) fostering domestic production of key goods, services and raw materials; (b) monitoring and limiting foreign ownership of strategic sectors and infrastructure; (c) setting out contingency plans to respond to possible shortages; (d) enhancing domestic resource efficiency; (e) fostering circularity; (f) replacing raw materials with accessible alternatives (g) launching a new trade expansion with like-minded countries; (h) rebalancing effective relations with China to ensure fair competition and reciprocity; and (i) leading renovation of the multilateral architecture.[565]

Limited risks as yet when it comes to China

The first public debate in Spain on whether China represented a strategic risk to the country was during the euro debt crisis in 2010–2012. At that time, there was talk of China holding excessive levels of Spanish public debt, but this faded quickly when China's Spanish debt stock was found to be in line with that of other major economies.[566]

A second debate took place more recently, focused on Chinese equipment, especially that of Huawei, in the 5G networks in Spain.[567] This debate was mostly triggered by pressure first from the US and then from the EU, and it is still ongoing. The 5G cybersecurity law, effective since 30 March 2022, specifies that a risk analysis of suppliers must be conducted, taking account of both the technical specifications of products and potential interference by a foreign government within a particular company.[568] Given these requirements, it was generally assumed that Chinese suppliers would be designated high risk and therefore excluded from the deployment of 5G networks. In addition, in June 2023 the government approved a call on supporting the deployment of 5G networks, which obliges operators to bear the full cost of dismantling 5G networks if they use suppliers classified as high risk. This has been challenged in the National Court by Huawei and Vodafone,[569] which uses Huawei equipment in 70% of its network. As of December 2022, 38% of the 5G network in Spain had been sourced from Chinese suppliers, mainly Huawei.[570] Nonetheless, as pressure on Huawei increases in the EU, most telecommunications operators now try to avoid using its products, at least in their core networks. However, there is a lack of transparency in this field and a sense that it is not easy to substitute Huawei equipment without incurring major costs. Perhaps for this reason, the Spanish government has refrained from publishing a list of what it considers high-risk vendors of 5G equipment, as demanded by the European Commission under the 5G toolbox framework.[571]

Another topic for discussion is the presence of Chinese investment in several Spanish ports. Here too, however, there is no sense of urgency or danger. China is just one among many actors in the port sector, while the Spanish state retains long-term ownership of the ports and there is constant scrutiny of what comes in and out of all port terminals, including the Chinese-run terminals.

Like the EU, Spain has a large trade deficit with China. The biggest trade-related concerns are imports of green technology, from wind turbines to solar panels, and increasingly, albeit from a very low level, Chinese electric vehicles. There is a general view that, given that Spain is the second biggest producer and exporter of vehicles in the EU, it might be willing to attract Chinese investments to produce electric vehicles in Spain. Several Spanish cities, such as Vigo and Gijon,[572] have shown interest in hosting a potential BYD factory similar to the one planned for Hungary.[573] Officials in the Spanish government and the business associations in this sector consulted for this research confirm this positive attitude. It seems that China, which is leading in this sector, might be expected to produce cars in Spain as happened in the past with carmakers from Germany, the US and Japan. One caveat would be that it would have to draw on the car making ecosystem in Spain, especially the suppliers' sector, and not import the complete value chain from China.

Overall, then, there is some debate and concern about China's presence in key strategic sectors and infrastructure, but the general sense is that this presence – at least for now – is not seen as encroaching on national security. In addition, the risk of overdependence on Chinese consumers is quite limited for Spanish companies, since most of them have little or no exposure to the Chinese market.

What measures have been taken to reduce the risks?

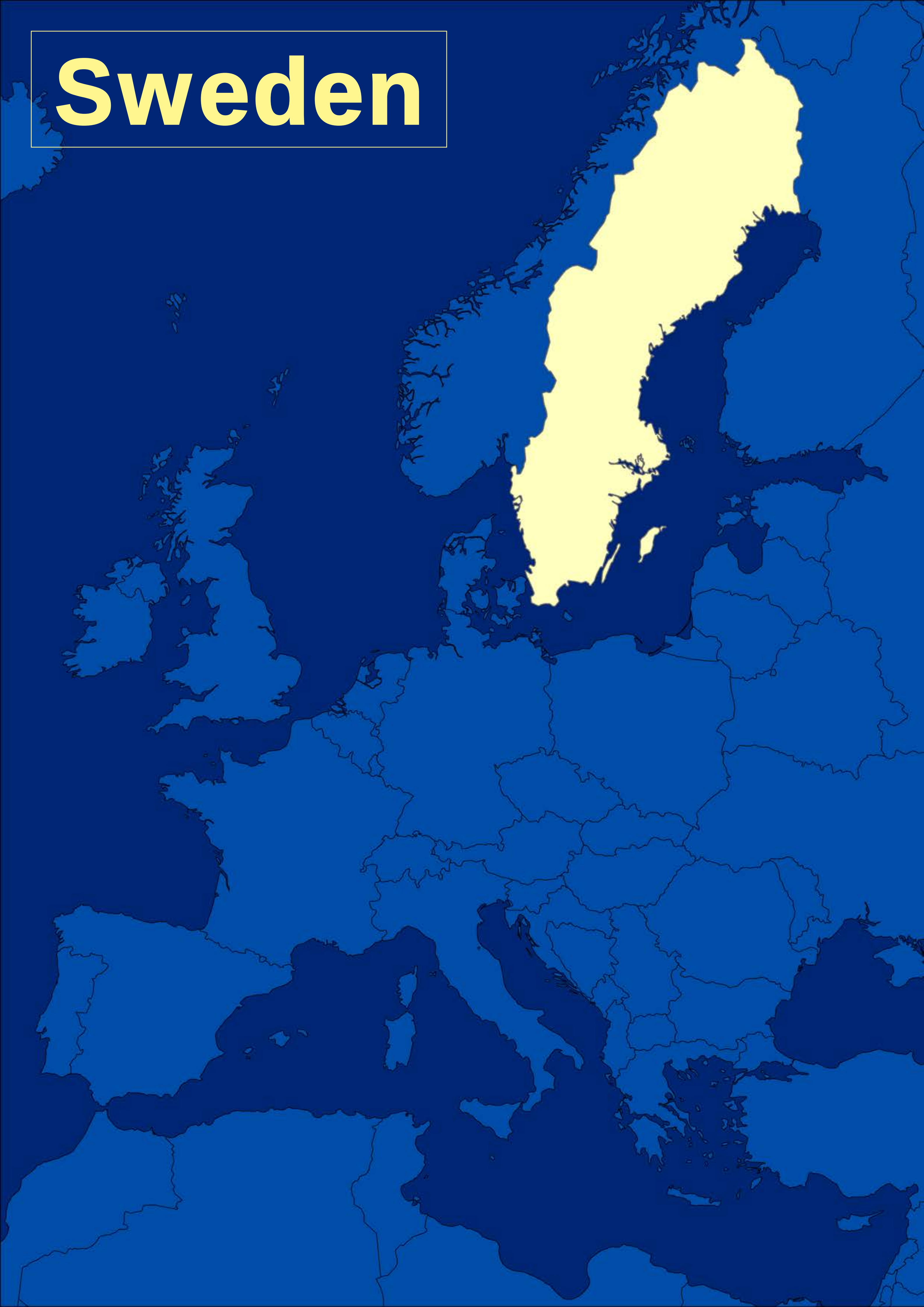
Since becoming a democracy in the late 1970s, Spain has had a state mechanism for blocking the foreign ownership of strategic sectors and companies. This framework has been revised in recent years since the Covid-19 pandemic and the emergence of a new geopolitical landscape. During the pandemic, when the stock market was at historic lows, there was a fear that foreign buyers, including Chinese entities, might use the opportunity to buy up some strategic Spanish companies, such as Telefónica, and these were protected accordingly. This angst has receded since a 2023 law introduced further protections from foreign takeovers for such companies.[574]

In another important development, the Spanish government is trying to improve its mapping and analysis of Spanish dependencies and vulnerabilities, for example in preliminary analyses by the Ministry of Industry. However, gathering such information from the business community is not an easy task and the process is still at an embryonic stage. There is a clear understanding that cooperation with the private sector is key, but there is also a reluctance to intrude in the business plans of private sector companies. Unless there is clear evidence that trade or investment can be categorised as of dual use and might end up in the hands of the People's Liberation Army, there is no willingness to curtail Spanish exports to or investments in China. Thus far, no concrete de-risking measures have been enforced by the Spanish government.

As noted above, Spain opposes de-coupling and zero-sum game approaches in relation to China and wants to define de-risking in a narrow sense. The Spanish position, as stated in the major strategic review cited above, is that "it is in the world's best interest for the EU and China to have stable and fluid relations".[575] However, Spanish officials also make clear that if China fails to generate a level playing field based on transparency, predictability and reciprocity, it is likely that the EU will have to close its own market to Chinese business interests, for example through higher tariffs on Chinese cars, and this would be a lose-lose proposition.

In sum, Spain will continue to be a constructive player in EU-China policymaking. The current government is comfortable with the Commission's approach to economic security and believes that open strategic autonomy vis-à-vis both China and the US is the way to proceed.

Sweden



Sweden: A difficult balancing act between openness and de-risking

Helena Löfgren, Analyst,
Swedish National China Centre

Changes in the global security situation have led Sweden to align itself with the European Commission on economic and security relations with China. Sweden-China relations have stabilised to some extent following a period of deteriorating bilateral relations. However, China has been identified as a security threat by the Swedish security authorities, notably linked to unauthorised information and technology transfer. China's dominance in certain supply chains creates a vulnerability for Sweden, as a small but advanced economy. To address these risks, Sweden has enacted a comprehensive Foreign Direct Investment Screening Act and restricted Chinese investment in its 5G deployment.[XXV]

Challenges for a small economy in a changing geo-economic landscape

For Sweden, discussion on "de-risking" takes place in a broader security context in which China is one concern among many. In fact, it is possible to argue that Sweden staggered into a new security era in 2020 with the Covid-19 pandemic, while Russia's full-scale invasion of Ukraine in 2022 highlighted the need for diversification of supply chains. Sweden's own security commitments were also put to the test, which resulted in an application to join the North Atlantic Treaty Organisation (NATO) in 2022, as well as an expansion of domestic civil defence.[576] This organisational transformation also concerns other actors on which Sweden is highly dependent, such as China, as one of Europe's and thus also Sweden's leading trading partners.

During Sweden's presidency of the European Council of Ministers in the spring of 2023, Prime Minister Ulf Kristersson gave a speech at the Stockholm China Forum in which he emphasised that the European Union's line is also Sweden's position – that the intention is not to decouple, but to de-risk from China.[577] Kristersson referred to President of the European Commission Ursula von der Leyen's statement that de-risking does not mean decoupling, and nor does it mean disengagement.[578] He went on to say that Sweden's "relationship with China should be open-minded, honest and of a multi-dimensional nature", referring to China as an integral part of the global economy and an important player in resolving global problems.[579]

In Sweden, public political discussion on de-risking or decoupling as explicit concepts has been fairly sparse. In 2023, Minister for Foreign Affairs Tobias Billström stated that "China is the world's second-largest economy and a technology leader" but…"the country remains under authoritarian rule and has growing global ambitions. This is something we have to consider".[580] However, Billström also welcomed dialogue and cooperation with China and highlighted the need for cooperation in areas such as fair and free trade, and work on climate change. In addition to cooperation with China, Billström also argues that Sweden, together with rest of the EU, should be a voice for human rights.[581]

There is no general definition of the term de-risking in the public debate and no clear distinction is made between decoupling and de-risking. The distinction made between the concepts in political rhetoric, however, is generally aligned with the stance of the European Commission.

XXV Editor's note: The final draft of this chapter was submitted on 21 May 2024

Deteriorating relations and increased risks in Sweden's relations with China

Sweden's bilateral relations with China have been strained for several years. The starting point is often regarded as 2015, when the Swedish publisher, Gui Minhai, was imprisoned in China.[582] The strained relationship also stems from Sweden's criticism of China's human rights record and its decision not to allow the Chinese companies Huawei and ZTE to participate in the rollout of the 5G network.[583] The relationship did not improve when the then Chinese ambassador, Gui Congyou – a so called "wolf warrior" – made vocal criticisms of the Swedish media, journalists, researchers and political parties. During his time as China's envoy to Sweden, he was considered one of the most confrontational diplomats in Europe.[584] His posting in Sweden ended in 2021. Since the new Chinese ambassador to Sweden, Cui Aimin, took office in 2022, the openly confrontational approach has been toned down.[585] Nonetheless, China still criticises Swedish politicians, especially regarding their position on Taiwan.[586] Although bilateral relations have recovered to some extent, this can still be considered a deviation from the historically good relationship between the two countries. Sweden was the first western country to establish diplomatic contacts with the People's Republic of China in 1950 and has since had almost constant political contact, albeit interrupted by the Tiananmen Square massacre in 1989.[587]

The Swedish Security Service (Säpo) regards China as "a long-term and growing threat". It lists the main risks in Sweden's relations with China as: (a) Chinese intelligence activity in Sweden; (b) Chinese advocacy of policies that seek to reshape global norms and values, (c) activities such as research and business exchanges, strategic product procurement, investments and acquisitions, and technology and knowledge transfers; and (d) China's ambition to become a leader in several technology areas, such as space technology. Säpo argues that "Chinese activities such as the strategic acquisition of companies, and the procurement of technology, particular products and expertise, may pose a serious threat to Sweden and Swedish interests."[588] Sweden's bilateral trade with China is fairly small, however, as most trade is trilateral through other EU member states.[589]

The areas where Sweden might face risk in relation to China are examined below. These areas have been identified by Säpo and concern use of the economy as a means of political pressure, dependence on functioning supply chains, and the transfer of knowledge and expertise from Sweden to China.

Chinese economic pressure: the risk of supply chain disruption

The previous confrontational approach to Sweden taken by China should be viewed as part of China's foreign policy strategy, which has also been directed against countries such as Lithuania and Norway. When Lithuania decided to open a "Taiwan Representative Office" in Vilnius, China cut-off trade.[590] China's constraints on Norway were based on the Norwegian Nobel Committee's decision in 2010 to award the Nobel Peace Prize to Chinese dissident Liu Xiaobo. Beijing responded with economic sanctions and an import ban on specific Norwegian goods.[591] These are examples of how China has used economic instruments as leverage when other countries have made statements on what the Chinese Communist Party (CCP) considers to be internal matters, or when the political narrative provided by other countries does not fit with the CCP's own narratives.

One example of how China uses its dominance in parts of supply chains is the suspension of graphite exports to Sweden. In 2020, the Chinese Ministry of Commerce (MOFCOM) stopped issuing licences to Chinese exporters to export graphite to Sweden.[592] This measure was not used in relation to explicit political pressure from China and has rather gone under the radar. This example is similar in some ways to the economic punishment directed at Lithuania and Norway, but without the explicit political leverage – at least not in public. One interpretation of China's objectives in taking this action is that it might be linked to Sweden's expansion of domestic battery production.[593] This development, primarily in northern Sweden, involves a strong expansion of and large-scale public investments in green industries, battery manufacturing and the production of carbon-neutral steel.[594]

The risk of transfers of Swedish intellectual property and know-how

According to researchers and analysts, China is seen primarily as a threat to Sweden's economy and innovative business community.[595] Previous research highlights the risk of knowledge transfer through Chinese acquisition of Swedish companies, and of intellectual property (IP) by illegal means such as industrial espionage and cyberattacks, or simply by attracting Swedish expertise to China.[596] The main economic risk is the difficult balancing act of securing Swedish industry and innovation from knowledge transfer to Chinese companies, on the one hand, while protecting healthy exchange as the lifeline of the type of economy that Sweden is, with its dependence on functioning trade in both goods and expertise, on the other. As Swedish technology, products, knowledge, and innovation are deemed to be of great value to China in achieving its long-term industrial goals, Säpo concludes that: "Chinese activities in the form of strategic acquisitions, procurement of technology, special products and specialised knowledge can pose a serious threat to Sweden and Swedish interests".[597]

However, there are differences in opinion on how risk in relation to China should be managed. There is no desire in the corporate sector to cease trading with China, and Swedish observers argue that an open trading environment has served Sweden well, as a small, advanced economy.[598] In addition, despite shortcomings in human rights and the lack of reciprocity, which are considered problematic by actors in the Swedish corporate sector, there is still a desire to find forms of cooperation with Chinese counterparts. According to Marcus Wallenberg, one of Sweden's most prominent business leaders, "reducing the risks in relation to China [...] does not mean decoupling completely or withdrawing. It is a matter of 'both-and' rather than 'either-or', that is, operating both in China and in other markets".[599]

Measures to manage economic risk in relation to Chinese stakeholders

One means of managing risks related to Chinese investments is the *Foreign Direct Investment Act*, which monitors inflows of foreign direct investment (FDI). Another initiative regarded as a de-risking measure in Sweden is the decision not to allow two Chinese companies, Huawei and ZTE, to participate in the construction of the Swedish 5G network. These examples are discussed below.

The Swedish Foreign Direct Investment Act

At this point, an FDI Act has been enacted in most EU member states. The Swedish act is based on the European Parliament's decision in 2019 to establish a framework for screening incoming FDI to the EU.[600] In 2019, the Swedish government set up a government inquiry to prepare a proposal for a Swedish act on the screening of FDI. This resulted in a new Swedish law on screening FDI, which entered into force on 1 December 2023.[601] The agency with overall responsibility is the Inspectorate of Strategic Products (ISP). As of 8 March 2024, it had received 300 registrations, of which it had decided to examine eight, none of which have thus far been denied.[602] The origin of the investments is not made public and there is not enough data at this point to evaluate the possible results of the legislation.

The legislation put in place in Sweden is quite far-reaching and has a national security focus, as well as a focus on investor intentions. Western observers argue that this probably means that despite the country-agnostic format of the law, many Chinese investors will be subject to screening within the framework of the legislation.[603] In carrying out its assessments and review of foreign investments, the ISP will consult with other authorities such as the Swedish Armed Forces, the Swedish Defence

Materiel Administration, the Swedish National Board of Trade, the Swedish Civil Contingencies Agency and Säpo.Table 1 shows the categories covered by the Swedish Foreign Direct Investment Act.

Table 1 Areas covered by Sweden's FDI legislation [604]

Socially important activities
Activities, services, or infrastructure that maintain or ensure the societal functions necessary for the basic needs, values, or security of society.
Safety-sensitive activities
What constitutes a safety-sensitive activity is not clearly defined and there is no list that clearly identifies which organisations carry out safety-sensitive activities. It is the responsibility of the operator to assess whether it is carrying out safety-sensitive activities under existing legislation.
Critical raw materials, metals or minerals
Exploration, extraction, enrichment or sale of critical raw materials, metals or minerals that are otherwise strategically important for Sweden's supply.
Sensitive personal data or location data
Large-scale processing of sensitive personal data or location data in or through a product or service.
Armaments or technical assistance related to armaments
The manufacture/development, research or provision of military equipment, or the provision of technical assistance related to military equipment.
Dual-use items or technical aid
The manufacture/development of, research on or provision of controlled dual-use items, or provision of technical assistance for such products.
Emerging technologies or other strategic protected technologies
Research into, or the provision of, products or technologies in emerging technologies or other strategically important technologies, or activities with the capability to produce or develop such products or technologies.

The Swedish 5G rollout and Chinese actors

In October 2020, the Swedish Post and Telecom Authority (PTS) announced that operators participating in Sweden's 5G rollout would not be allowed to use equipment manufactured by ZTE or Huawei.[605] The Huawei appealed the decision, but it was upheld by the Stockholm Court of Appeal.[606] Huawei has subsequently sued the Swedish state in an ongoing arbitration procedure. Säpo, one of the security authorities relied on by the PTS in the legal process, stated that infrastructure such as trains, medical systems and water supplies would have been left exposed.[607] Western researchers argue that action to stop Chinese participation in the rollout of the Swedish 5G network shows how security has become increasingly important in relation to economic issues. Researchers further argue that when decisions are based on security rather than economics, this creates challenges for small economies like Sweden's that are highly dependent on open trade. In addition, it can be difficult for small countries like Sweden to compete with large actors such as China and the US on protecting their own industries.[608]

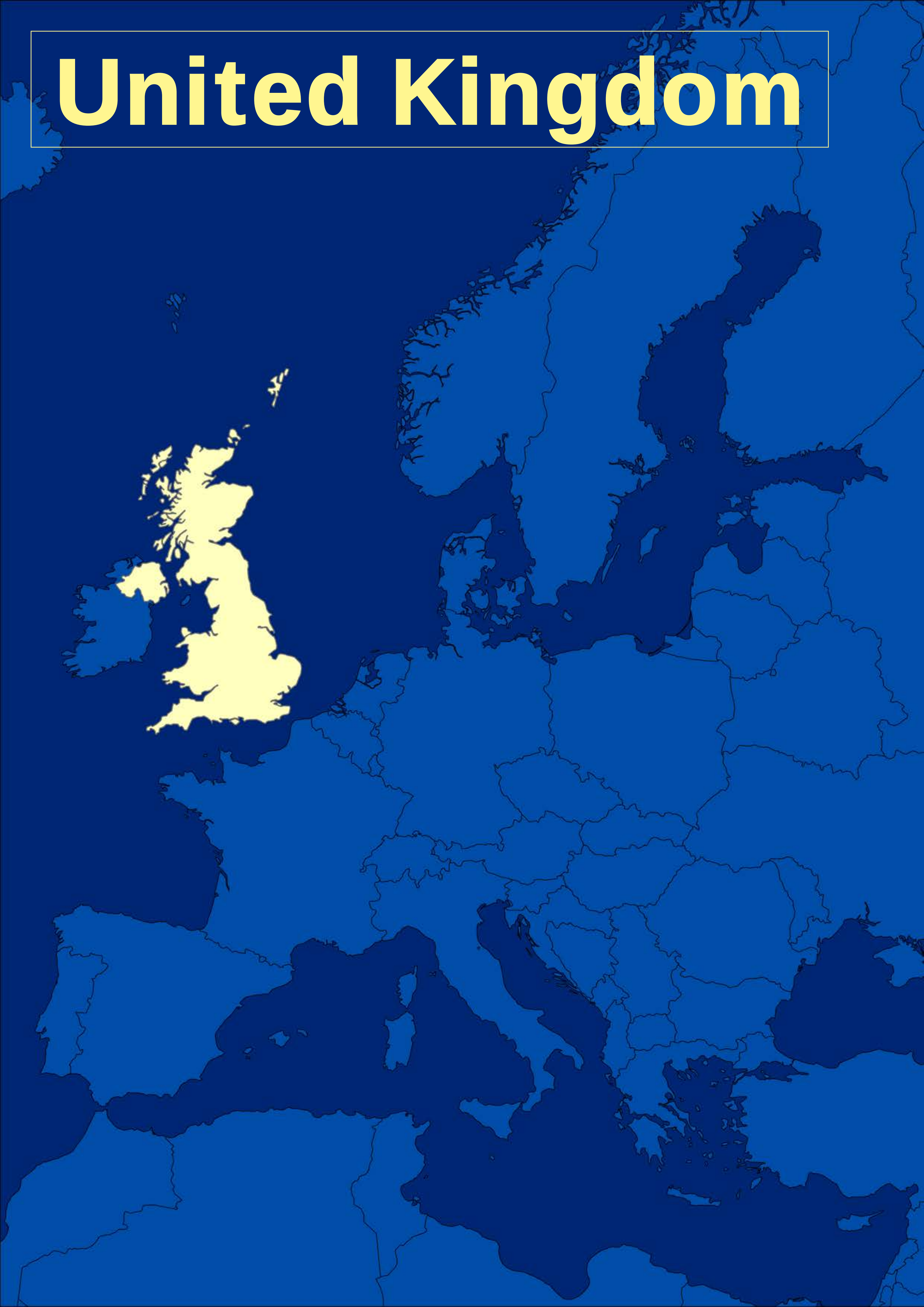
A report by the Swedish Defence Research Agency emphasises that Chinese investments in Sweden largely coincide with the CCP's future technological ambitions.[609] In accordance with its long-term industrial and scientific initiative, Made in China 2025, the CCP's ambition is to become a world leader in high-tech sectors and AI, among other things. There are therefore concerns among security agencies that Chinese investments in and acquisitions of Swedish companies pose an imminent risk of knowledge transfer to Chinese companies and eventually to the Chinese authorities. This demonstrates a potential tension between security policy and business perspectives.

Challenges ahead

Future challenges for Sweden will include its heavy dependence on certain minerals where China dominates the supply chain. Although Sweden is currently developing domestic extraction of rare earth metals and battery manufacturing, dependence on China will remain in the short to medium term.[610]

While Sweden has finally adopted FDI screening legislation, the European Commission has set out a new package of proposals on economic security initiatives. One proposal is that the existing EU FDI regulation should become mandatory for and be harmonized among all EU member states. A regulation on outbound investments has also been proposed. These proposals are under discussion and demonstrate a new type of economic reality for EU member states, national authorities and companies – as well as for citizens.

United Kingdom



UK: Following the de-risking trend

Tim Summers, Research Affiliate,
Lau China Institute, King's College London, United Kingdom [611]

The idea of 'de-risking' entered British policy debates on China in 2023. It has been presented as a natural approach by the UK and other 'like-minded' countries, but the term's use is ambiguous. Perceived technological and economic risks have attracted more practical policy responses, while the surrounding rhetoric highlights apparent political risk or China as a 'systemic challenge'. There is pressure for a harsher 'de-risking' approach, in particular from the conservative right, but there is little substantive difference between the official positions of the two main political parties. This means that significant change under a Labour government would be unlikely. The policy focus on risk has worsened relations with China. There is limited discussion of the downsides of de-risking or the impact on wider British global policy goals.[XXVI]

Introduction

The idea of 'de-risking' in relation to China entered the British policy debate in 2023. Prime Minister Rishi Sunak used the term at a G7 press conference in Japan in May 2023 to describe a joint approach to dealing with China.[612] This came not long after the first use of the phrase by President of the European Commission Ursula von der Leyen.[613] In line with the European Commission's approach, Sunak explicitly contrasted de-risking with 'decoupling'. Other senior government ministers have used the term; then Foreign Secretary James Cleverly talked about de-risking as a natural approach adopted by many countries in their economic policies on China.[614]

The context is an overall policy approach to China set out in the March 2023 'refreshed' Integrated Review of Security, Defence, Development and Foreign Policy (IR2023). This shapes China policy around three keywords: protect, align (with partners) and engage (with China), with protect seen as the clear priority. Foreign Secretary David Cameron reiterated this trilogy in a November 2023 interview soon after his appointment.[615]

IR2023 does not use the language of de-risking or decoupling.[616] Nor can British policy on China be reduced to de-risking. Nonetheless, both the range of references to risk across a range of traditional and non-traditional security challenges in IR2023 and the specific emphasis on 'protect' in describing China policy suggest that handling risk has been an important driver of the policy approach. Sunak has described China as 'an epoch-defining and systemic challenge with implications for almost every area of government policy and the everyday lives of British people'.[617] Since 2018, there has been a growing 'securitization' as more areas of interaction with China have been viewed through a security prism.[618]

There is limited substantive debate on China policy in the United Kingdom but the government does face various pressures. Policy is made in the external context of a strategic shift on China by the United States, as well as domestic pressure from various parliamentarians and lobby groups in the UK – especially on or linked to the right of the Conservative Party – to disengage more rapidly from China, which is generally seen as having become more assertive and authoritarian.[619] These pressures have shaped the emphasis on the perceived risks that the UK faces in its interactions with China.

XXVI Editor's note: The final draft of this chapter was submitted on 14 May 2024.

Perceived risks: technological, economic, political

Analysis of the UK's China policy since early 2023 suggests that the risks identified by government and politicians are broad in scope, but that assessments of their immediacy, importance and urgency vary. The risks the government talks about most frequently are in the areas of technology and the economy, and here some policy measures have already been put in place. Given that past policy approaches have embraced openness and engagement in these areas, this has required a rhetorical shift – or 'securitization' – to talk of the risks to national security that come from economic and technological engagement.

The risks highlighted in this chapter relate primarily to government policy. It has been observed, however, that the primary work of 'de-risking' may be economic and carried out by the corporations that have to operate in a new geopolitical environment and respond to their home governments' political and risk agendas.[620] This includes the risk that the United States might implement further China-related sanctions.

Technology

This area came to the fore in 2020, most notably when the government reversed its long-standing policy of encouraging Chinese investment (mainly by Huawei) in the development of the UK's 5G networks. This was largely the result of pressure from the United States, including through practical measures that would have made it difficult to maintain Huawei's participation in UK networks, rather than the British government's own risk assessment, which had consistently stated that the risks were manageable.[621]

Since then, there has been a gradual broadening of policy discussions about technology provided by Chinese companies. Providers of closed-circuit cameras, Hikvision and Dahua, have been increasingly criticised in the public policy debate for possible links to the Chinese government, and some British government departments have taken steps to remove them from 'sensitive' sites.[622] Concern has also grown about possible Chinese government influence over TikTok, the social media app. Lobbyists have raised concerns about cellular internet-of-things modules, which have very broad use, including in 'smart' household appliances.[623] There have also been suggestions that electric vehicles manufactured by Chinese companies might pose a security risk.[624] Officials have also highlighted risks from alleged Chinese cyberattacks.[625]

Investment

There has been a similar shift in the policy debate around and government approach to Chinese investment. Although previously welcomed as a sign of the benefits of globalisation and the UK's longstanding economic openness, the mainstream political view is now that such investment should be monitored carefully and limited in scale. This is partly related to the technology risk, but the key argument deployed here is that Chinese companies should at most only have a limited presence in 'critical national infrastructure'.[626]

The government has shifted the legislative and regulatory environment to manage apparent risks. The National Security Investment Act of 2021 enhanced screening of investment in the UK.[627] High-profile cases include rejection of Chinese investment in a planned Nexperia takeover of Newport Wafer, a small semiconductor business in Wales,[628] and the buyout by the government of China General Nuclear's stake in the Sizewell C nuclear power project.[629]

Education

There has also been a growing securitization of education ties. The significant contribution of fee income from Chinese students, and the strength of Chinese research in certain – particularly science-related – areas are frequently described in terms of creating an 'unhealthy' dependence on China. The government has introduced a Research Collaboration Advice Team, which advises research institutions on 'the national security risks linked to international research'.[630] Government ministers are also promoting the Higher Education (Freedom of Speech) Act 2023, which is intended to protect freedom of speech on university campuses, something which goes well beyond China-related issues.[631]

Politics

Emphasis on these risks and the securitization of different areas of engagement with China are predicated on a political narrative about China that is reflected formally in the policy statement that China is 'an epoch-defining and systemic challenge with implications for almost every area of government policy and the everyday lives of British people'.[632] The language is often sharper in wider political discussions, and there is some pressure on the government to describe China as a 'threat'. Whatever language is used, the relevance to understanding risk is the idea that China could use engagement with the UK, in particular in areas where some level of British 'dependence' has developed, as leverage to challenge British interests or undermine the UK's democracy. Thus far, this has proved hypothetical, and political disagreements between the two governments relate mainly to developments in China, notably in Xinjiang or Hong Kong, rather than in the UK.[633] As in other areas, there has been little analysis of whether describing China as 'an epoch-defining and systemic challenge' is an accurate way of encapsulating the realities of China, and its approach to the UK in particular. There has, however, been a policy response to this perceived political risk through the introduction of the National Security Act (2023), which introduces a broader remit for 'national security' prosecutions.

Military

There have been a small number of attempts to argue that China might pose a military risk to the UK, such as in a Foreign Affairs Committee report on the Indo-Pacific policy 'tilt' from August 2023.[634] These are peripheral concerns, however, and this risk is described not as an immediate one, but in highly indirect terms. British naval manoeuvres in the Indo-Pacific could be seen as a response, although the political reality is that it is the United States, not the UK, that will decide how to deal with the Chinese military presence there.

Assessment: following the trend, but with limited debate

While Sunak has sought to draw a distinction between de-risking and decoupling, there does not appear to be a wider clear understanding of what the distinction is or whether a meaningful one exists. A former head of the Secret Intelligence Service, Alex Younger, recently argued in favour of de-risking, but stated that 'talk of wholesale decoupling from China is frankly nuts', while in contrast another former official, Charles Parton, has argued that de-risking 'is decoupling, even if western politicians use euphemisms'.[635]

Further uncertainty remains over where the boundaries of risk should be drawn. The government has taken a gradual approach to this, mainly in response to political pressure, and with an eye to policy measures in the United States, the European Union and Australia, albeit without following these precisely. Prominent commentators are also ambiguous in their calls for de-risking; for example, Parton argues that 'there must be decoupling in telecommunications, data, artificial intelligence, quantum computing and most new technologies' (emphasis added). However, he goes on to say that 'we must not allow decoupling to spill over into non-critical areas', without being clear about how these boundaries should be drawn.[636]

The underlying message is that China-linked technologies can be used for espionage or as a tool of influence, or even have dual military-civilian use. This is encased in a negative political assessment of China. Rather than demonstrate actual risk, advocates of further measures argue that the best policy approach is to limit the use of technology with a Chinese connection. In the United States, the federal government has talked about a 'small yard, high fence' approach to de-risking from China, but the net effect of lobbying efforts in the UK is to push for the 'yard' (the areas where risk should be managed) to grow larger.

A number of issues are not being addressed in the British policy discussions about de-risking. One is that de-risking from one counterparty (China) usually involves increasing risks elsewhere. In broad foreign policy terms, British dependence on the United States has grown in recent years, as set out in IR2023, while in particular areas, such as nuclear power, dependence on other partners and risks to the British treasury have grown as the government has de-risked from China.

Also absent is any discussion of potential opportunity from engagement with China. The dominant assumption is that reducing contact with China (less technology, investment, and so on) will benefit the UK by 'reducing risk' without any balancing assessment of the potentially negative downsides, such as from reduced access to cutting-edge research or competitively priced technology or products – with the exception of some comments on the costs of the change in 5G policy. More widely, there is limited discussion of how de-risking might have an impact on other British policy goals, such as becoming a 'science superpower' or a 'major education hub'. In the latter case, one exception is a pair of reports published by King's College London, which identify both potential risks and opportunities from educational collaboration with China.[637] Nor is much airtime given to whether de-risking is the best way to respond to a 'competitor' or 'challenger'.

In conclusion, the idea of de-risking has entered British policy debates about China, reflecting its use by other 'like-minded' countries. Government understanding of risk is based on the positions set out in IR2023, although use of the term de-risking remains ambiguous. Perceived technological and economic risks have attracted more practical policy responses while the surrounding rhetoric highlights apparent political risk and contributes to an increasingly 'hawkish' policy environment in relation to China. There is little substantive difference between the official positions of the two main political parties, so a Labour government is unlikely to bring any significant change if it comes to power after the election on 4 July 2024. In the meantime, there is pressure for a harsher de-risking approach. This policy focus on risk has worsened the relationship with China through less contact and a reduced ability to engage or work with China in different areas. It is also unclear whether it benefits the UK overall, given the limited discussion of the downsides of de-risking measures or of their impact on wider British global policy goals.

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Swedish National China Centre
The Swedish Institute of International Affairs
Drottning Kristinas väg 37, 114 28 Stockholm, Sweden
Mail: nkk@ui.se
www.kinacentrum.se

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