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Global Geopolitical Challenges for Relations between European Union and China

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Abstract

The main aim of the paper is the presentation of global geopolitical challenges for relations between European Union and China. What indicates the importance and innovativeness of the research is the presentation of the technical progress especially in China, the growth of economic ties with the European Union and the benefits resulting from liberalized of the China foreign trade policy under WTO. Realistic point is important trends in the trade regime between EU and China. Their commercial relations are too important to become hostage to political grandstanding or airy rhetoric by politicians performing for domestic galleries. Europe is China's largest export market, and China now ranks second on Europe's list of key trading partners. Trade with China dwarfs any other trade relation Europe has with emerging Asia. Disturbing this relationship would have ramifications for sales, growth and employment. Economic growth is generally more preferable in China to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success. The Chinese government is less concerned today about Western criticisms of China's autocratic system, but the Chinese people have grown more nationalistic and represent a potentially greater threat to commercial relations. Commercial interests in autocratic regimes cause political dilemmas. EU-China trade has grown increasingly one-sided, and this is not sustainable. It is EU and China mutual interest that trade relations are balanced and fair, to benefit current and future generations. EU hope to go through other sectors of bilateral cooperation and how the EU and China can tackle global challenges. EU-China trade has grown increasingly one-sided, and this is not sustainable. It is EU and China mutual interest that trade relations are balanced and fair, to benefit current and future generations. European Union must have a realistic assessment to what extent it can somehow magically change the Chinese government's outlook and political choices. Chinese and European leaders must find a new normal – a functional relationship that works for both sides.

Keywords: *European Union, China, trade political relations, technical progress, foreign trade policy, global geopolitical challenges.*

1 Introduction

European Union trade with China dwarfs any other trade relation Europe has with emerging Asia. Carrefour, the French food chain, recently experienced a boycott after the French critique of China's policy towards Tibet. Any Western multinational company operating in China is cautious in its approach to Chinese politics in order to avoid hostile political reactions from Beijing as well as consumer boycotts. Commercial interests in autocratic regimes cause political dilemmas. On the one hand, European and other Western governments need to voice their criticisms and tailor. On the other hand, they have commercial interests to defend. Furthermore, their overall policies must be measured in order to avoid diplomatic brinkmanship, which risks leading to the opposite outcome: a slowdown, or even a reversion, of freedom enhancing reforms. With global uncertainties on the rise, it has become particularly important for the EU and China to find ways to deepen their bilateral economic cooperation. The EU and China, as the world's second and third largest economies, share a responsibility in upholding the rules-based, global free trade system and other forms of multilateral cooperation. The two sides have the opportunity to deepen their cooperation in areas such as trade and investment; infrastructure; energy, the environment, science, technology, innovation and industrial cooperation; financial services; people-to-people exchanges; and global governance. With new investments, China can transform its position through industrial expansion at home and sustain it through international trade. With or without further trade agreements between two partners, services will be more traded and trade policies will have to adjust to changes in the organization of global value change. China may continue their development to specialize in innovation especially in electronics and increasingly in services and knowledge based economy. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success. EU-China trade has grown increasingly one-sided, and this is not sustainable. It is EU and China mutual interest that trade relations are balanced and fair, to benefit current and future generations. European Union must have a realistic assessment to what extent it can somehow magically change the Chinese government's outlook and political choices. Chinese and European leaders must find a new normal – a functional relationship that works for both sides.

2 Research and Methodology

The primary research objective of this paper is to conduct a comprehensive analysis of trade political relations between European Union and China and global geopolitical challenges.. China will be significantly hurt by a tariff trade war in all indicators, including welfare, GDP, manufacturing employment, and trade. However, it has been pointed out that, although China will be significantly affected, the costs should be sustainable and not severely damage the Chinese economy. Both quantitative and qualitative research methods were used for analytical purposes. The main research method applied in this analysis was a method of scientific study that breaks down a whole (of individual items, their sets, and various phenomena) by means of logical abstraction. The analogy (comparative) method, which consists in finding similarities and differences between the items under study, the documentation method, and various statistical methods were also applied, as were other descriptive statistics and forecasting methods. Finally, deductive forecasting were employed.

3 Discussion

3. 1 An Effective Strategy of the European Union towards China

An effective strategy towards China should take account of foreign-policy objectives as well as commercial interests. They should, however, be separated. As the EU–China summit in

Beijing proved, it is possible to address China's policy in Tibet, as well as other concerns, without damaging commercial relations. Yet it is foolish to believe that Beijing will overturn its autocratic regime if Europe or the United States threaten to cut off Chinese companies from their markets. Such attitudes put Chinese backs up and lead nowhere. As China's integration into the world economy has stimulated greater freedoms in China, Western governments should tailor policies which deepen economic integration and make a greater part of China's population dependent on other markets. Other tracks of bilateral relations should be used to address political concerns; commercial-policy relations should stick to economic and business concerns.

A new bilateral approach if taken seriously by the Chinese and the European leaders, the new High Level Economic and Trade Dialogue can break the trend of souring relations. Evidently, this is the result of the US–China Strategic Economic Dialogue, which Hank Paulson, the outgoing US Treasury Secretary, initiated in late 2006. American firms, especially in the financial-services sector, have been granted better access to the Chinese market, one of the most liquid markets in the world. Banks can now issue cards in local currencies, and securities firms can now trade in local currency. Nasdaq and the New York Stock Exchange have been allowed to open branches in China. Equally important, the US–China dialogue has contained the slide towards China protectionism in the US Congress. If the EU–China dialogue achieves nothing but a containment of protectionist pressures on both sides, it will be valuable, as there is a clear risk of mutually enforced tit-for-tat protectionism. However, if the agenda is appropriately tailored, the new bilateral talks could solve commercial problems, facilitate oil negotiations, and create a positive atmosphere for the launched-but-sleeping negotiations of a Partnership and Cooperation Agreement (PCA), which involves an upgrade of the weak 1985 commercial agreement between China and Europe. A virtuous cycle of openness will not be created by default. What should China and Europe do to ensure that the new dialogue and the forthcoming PCA negotiations do not become a talkfest? Firstly, the talks must start from a proper appraisal of current trade and investment relations. More than anything else, this requires that Europe drops its obsession with its bilateral trade deficit with China. This deficit has grown rapidly and hit approximately 190 billion euros in 2007. Yet, Europe has benefited much from trade with China and the notion that a bilateral deficit represents a problem which must be corrected is simply bad economics. In contrast to the USA, Europe's overall current account is in balance and has remained consistently in the one-plus or one-minus region (percentage of GDP) for the last 10 years. If bilateral deficits really constitute a serious problem, Bulgaria, France, Romania, the UK, and several other trade-deficit countries in the EU should be more worried about their trade deficits with other European countries, which dwarf their trade deficits with China. But there is more to the story than meets the eye.

The EU's trade deficit with China largely mirrors the replacement of other countries' exports to Europe. In other words, China's increasing exports to Europe have been accompanied by falling exports to Europe from other emerging countries. For example, in a typical sector of EU–China trade, machinery and transport equipment, China's surplus with Europe has increased by 50 billion euros since 2000. But the EU's imports from other emerging economies of goods in the same category have decreased by nearly as much in the same period. Similar patterns exist in other categories of trade: China replaces other trading partners. In the last decade, China has established itself as a hub for Asia's trade with Europe. Supply chains in multinational firms have been fragmented to take advantage of lower labor costs and specialization skills in various countries.

A large part of China's exports are therefore based on imports – and these imports are necessary for China to export. Processing trade, which is economic jargon for the refinement of an imported good before it is re-exported, has been a core part of China's outward-oriented export-development model and is estimated to represent between one-half and two-thirds of China's total exports. Thus, China's increased exports to Europe do not equal a fall in Europe's production. In fact, the typical export good of China to Europe is from a sector in which Europe has not had a comparative advantage for a long time, which means that Europe could only resume its own production at the expense of its own welfare (as it would need stop producing some of its current production). Furthermore, globally-oriented firms in Europe have been given better opportunities to increase their competitiveness by trading with China. Stronger demands by Europe on China to correct the deficit, by trade or macroeconomic measures, will, if realized, lead to falling welfare for both parties. If China, for example, was forced to appreciate its currency by 30%, which has been suggested, the main effect would be that European consumers would have to pay more for fewer goods. The deficit itself would not change much. Furthermore, the ensuing higher cost for input goods would push up the price of European exports. Secondly, China and Europe should tailor an agenda for the new dialogue and the PCA negotiations which facilitates a give and-get bargain of trade and investment openings. Such an aim is important. Inevitably EU–China talks must start from the basics: China's WTO commitments. Europe has legitimate commercial concerns that to some extent go back to China's accession to the WTO and the problems of meeting the commitments then agreed to. The concerns regard China's remaining tariff liberalization and enforcement of intellectual property rights (IPRs) [2].

The EU engages with China across four principle policy domains: global governance, trade and investment, technical assistance, and political and social change. Unfortunately, there are examples of bilateral difficulties across most of these spaces. The increasing absence of trust and the growing acrimony that has become visible bilaterally threaten to undermine the progress that in some areas has already been made, while inhibiting future opportunities to reach meaningful agreement on the numerous substantive issues where there is as yet no concord, even despite ample evidence of ongoing interdependencies and Trade and investment. There is ample evidence to show the extent of mutual economic interdependence. Although the Eurozone difficulties have certainly illustrated shifting patterns of power between some western economies and China, the picture of a prostrate and helpless Europe playing supplicant to a resurgent Middle Kingdom that economically bestrides the globe is too simplistic and one dimensional, failing to capture the complexities of the economic interrelationships between the two sides while ignoring indicators that China is by no means immune from the spillovers of global demand contraction and debt-led instabilities. The EU is China's largest trading partner, while China is now the EU's second most important destination for trade, behind only the United States. Equally significantly, as well as increased bilateral trade that stood at EUR428 billion for 2011, the most recent trend has seen a marked rise in EU goods exported to China, growing by 20 per cent in 2011. This key export relationship provides the Chinese with an important source of advanced machinery, transport equipment and chemicals, as well as a number of knowledge-based services. The bilateral trade relationship is undoubtedly a strong one, and has considerable opportunity for expansion and further development. Moreover, according to Chinese estimates, there were over 33 000 European businesses operating across China in 2009 that offered jobs, technical knowhow and management skills to those Chinese employed with them, in addition to generating an estimated EUR190 billion in total sales that will have undoubtedly cushioned the effects of recession at their European headquarters. However, China's own export-led model for growth has come under strain during the global recession due to external demand shortfalls inadequately compensated by domestic rebalancing, with consequential impact on confidence and business stability in previously thriving areas such as Wenzhou and Guangzhou.

The current difficult conditions faced by Europe and the impact that these challenges have had on China actually illustrate just how much both sides need each other. Outward foreign direct investment (FDI) from China into Europe has also been increasing, and although currently only a fraction of the value of total trade, this is an area of growing interest by Chinese enterprises. Within the broader context of China's government-encouraged 'going out' strategy for domestic firms, the Chinese see a myriad of opportunities from bilateral investment treaties with Member States and through taking advantage of the single market regulated by the European Commission with FDI reaching EUR3.1 billion by the end of 2011, and significantly up on previous years. A number of reasons have been suggested for this trend, beyond the weakness and instability of the euro making some asset prices lower in terms of international transactions. Further reasons include a Chinese desire for better access to the EU market through local sales offices, while the chance to buy European brands and technologies to gain competitive advantage in home and overseas sectors is also seen as an important driver, as is the objective to raise levels of China's domestic corporate innovation levels through knowledge acquisition by establishing R&D centers within the EU's single market. Investment of this kind is likely to significantly increase in the future. Nevertheless, despite this economic overlap and potential for synergy, tensions remain clearly visible. The web page of the EEAS delegation to China's trade section makes this explicit by asserting that 'China is the single most important challenge for EU trade policy'. This view is manifest in ongoing recriminations over fair market access to key domestic sectors, with the EU especially vexed over China's government procurement policies, ownership limitations and the operation of China's national security review mechanism for mergers and acquisitions involving foreign investors.

The EU has also expressed continuing criticism over China's inward investment restrictions imposed by national regulatory authorities. The Chinese are also concerned about many aspects of EU trade policy, and are particularly irritated about what they see as the unjustified and politicized application of trade defense measures, such as anti-dumping initiatives on Chinese input costs that help perpetuate what can be interpreted as European market protectionism. In terms of investment policies, there has been a growing conviction in some European quarters that a more vigorous role in defending key sectors from Chinese inward investment might now be appropriate as the Commission takes on greater responsibilities in this area after the enactment of the Lisbon Treaty. Policymakers have begun to explore the case for creating something similar to the significant review powers granted to the Committee on Foreign Investment in the United States (CFIUS). Capacity building and technical assistance in terms of capacity building exercises within China, European intervention has not been wholly unwelcome and shows genuine signs of achievement. Numerous initiatives take place within key industrial sectors of the Chinese economy, reflecting the broadly defined priorities of the EU's economic policy competences in trade, investment and services. In recent years, China has sought to construct technological skills and absorb methods to create a mixed market economy while also examining aspects of Europe's health and welfare provisioning as a possible template, illustrating the positive contribution of European sector expertise (Wu, 2010). Even in controversial areas such as intellectual property (IP) protection, where many concerns are yet to be resolved in the context of enforcement, the Chinese have acknowledged the visible benefits from initiatives such as IPR2, which introduced European-led judicial training program and regulatory assessment exercises into China's domestic legal evolution. This radical initiative was designed for practitioners in specialist fields of IP law and has been coincident with Chinese government-sponsored exhortations to build a knowledge-led economy capable of fostering genuine innovation and widening local understanding of the role of IP in this process. Although inevitably a rather technical exercise, it appears to have been at least partly successful in supporting greater legal rights for domestic Chinese inventors to defend their growing interest in patents and trademarks. Indeed, the Chinese State Intellectual Property Office is now one of the top three busiest in the world, with the majority of filings also now coming from domestic residents, illustrating a new phase in Chinese IP activism. There are other examples of initiatives that have also been met with mutual levels of appreciation. These include efforts within the Civil Aviation sector to improve pilot training and air traffic management through a EuropeAid project, and also examples in the area of clean-tech environment through promoting the Low-Carbon Economy Platform, and agreement on enhanced consumer protection policies within China's domestic manufacturing sector to better facilitate trade. Through offering a linkage between knowledge exchange and mutual learning benefits, these types of engagement, often far from the visible whirlwinds of international political dispute, seem to reflect the reality that when matching the interests of both sides, progress can be made and positive outcomes secured, even with China. Political and social transformation Disappointment in the EU–China relationship has been particularly acute across European institutions in the realm of securing meaningful political change in China. The EU has consistently postulated the view that Chinese leaders should embrace such change within their domestic political system in their own interests. The underlying message has been to encourage China to implement an internal transformation that better reflects an idealized norm of a society that more closely resembles Europe's own. There is prevailing pessimism over much of China's legal system development, in her attitude to human rights and the leadership's ongoing refusal to ratify the International Covenant on Civil and Political Rights, as well as in her hesitant progress with rule-of-law principles. All of this has undermined EU endeavors to facilitate change in multiple dialogues over many years at different levels of political seniority. Numerous China specialists concur that 'there is currently no such value consensus between the EU and China, and neither is there a will on Beijing's side to develop such common political values', to the extent that many consider such an attempted transmission as having significantly harmed bilateral relations. Ongoing irritants in EU–China relations Three key tensions illustrate how a values-led engagement can cut across policy spaces and perpetuate bilateral difficulties, while also tending to dominate dialogue between the two sides. These are, first, the ongoing refusal of the EU to grant market economy status (MES) to China under the WTO's antidumping assessment framework. Second, the continuing imposition of the EU arms embargo on the export to China of weapons and related technologies that was imposed after the Tiananmen Square crackdown in 1989, and third, China's domestic human rights record and her emphasis on economic development for society at the expense of political emancipation for individuals. Each of these issues provides friction that prevents long-term agreement of a true strategic partnership, exacerbates problems of mutual misunderstanding, and sharpens the emerging mistrust across many different policy domains between the EU and China. These strains show no signs of abating, and illustrate that burgeoning bilateral trade alone cannot achieve qualitative social transformation. Failure continues to blight the relationship and a timely re-appraisal of the causes of these tensions is required, together with a re-assessment of potential solutions. The Evolution of the EU's Values-based Engagement with China The turn of the twenty-first century heralded particular optimism in European circles concerning the opportunities presented by globalization for the EU to reach out to the world with their unique historic experience as a global civil power. This strategy of outreach, and the activist mood of values projection it implies, is perhaps most accurately captured in a speech by Romano Prodi in February 2000 speaking to the European Parliament as European Commission President, when he argued that 'Europe needs to project its model of society into the wider world' and that Europe offered 'a civilization deeply rooted in religious and civic values'. Indeed, it has long been argued that the normative element is one of the key features of power possessed by the EU as an international actor. This influence resides in the EU's capacity to shape positive perceptions of key values that other states then internalize, enabling these ideas to become constituent elements within international relations, and since its inception the EU has committed itself to 'placing universal norms and principles at the center of its relations with y the world'. The EU has therefore carved for itself an ambitious role and has tried to be distinctive from the United States in its approach to global order through promoting a vision of multilateral rules and world-order principles, projecting itself as a civilian power and aiming to construct the very definition of what is 'normal' into international behavior. This helps to explain why the ideals of democracy, equality, the rule of law and a respect for human rights are formally encapsulated into the Preamble of the Treaty of Lisbon as core values of the EU. The driving force behind this kind of evangelical outlook has inevitably spilled over into relationship building with key bilateral partners. Such a strategy has led to the EU promoting a foreign policy outlook that appears to have been focused far more on effecting behind-the-border change in societies as an outcome from dialogue rather than building interests-based cooperation as an objective from engagement. Significantly, although such an approach may have been successful when linked to the lure of prospective membership in Central and Eastern European states over the last decade, there is growing evidence to show that when moved beyond the confines of its near-neighborhood, positive outcomes from this approach are far harder to achieve. This is particularly the case with China. Despite over three decades of positive statements since the establishment of full diplomatic relations between the People's Republic and the (then) European Community in 1975 and the subsequent crafting of a relationship that has now become 'both extensive and intensive' in both political and economic affairs, there is now growing criticism about the efficacy of prioritizing this kind of values-based approach to dealing with China as a reemerging global power and a state that has its own particular priorities to promote and interests to defend. What is needed now is a better understanding of China's strategic positioning and a re-appraisal by EU leaders of engagement options. Over the years a complex web of relationships has been assembled, with this hierarchy topped by political summits attended by the post-Lisbon Treaty 'troika' of European Council President, European Commission President and the EU's High Representative for Foreign Affairs, yet unfortunately, despite activism on both sides, it cannot be said that this has led to either long-term harmony or increased mutual understanding. A plethora of meetings progresses down the chain of importance through a myriad of more than 50 different dialogues covering a mosaic of economic, legal, technical and social policy are. In 2003, the commencement of an historic strategic partnership between the two economies was announced, followed by an extensive series of bilateral meetings and EU Commission-issued policy papers, all of which seemed to be laden with good intentions and optimistic outlooks. That year, the Chinese also issued their own first (and currently only) strategy document on their plans for future cooperation with the EU, setting out a number of clear priorities for action in economic and political dialogue. This initiative to upgrade bilateral links was seen as vital to move the relationship beyond the trade-based framework encapsulated in the 1985 Trade and Economic Cooperation Agreement, which still remains the only legally binding document for the overall management of EU–China affairs. However, such early warmth soon cooled and negotiations have since become more problematic and politically charged. This trend can be traced back in part to the failure of attempts by China to persuade the EU to lift the arms embargo in 2005 but was also based on growing European perceptions of a distinctive nationalist edge in China's economic model that seemed set to disadvantage non-Chinese firms seeking to exploit market opportunities through fair access to China's domestic economic sectors. Elements of mistrust and disappointment began to enter the political lexicon, highlighted most markedly by the Commission's stance as outlined in its 2006 China strategy paper that, for the first time, included a harder edge into the tone of the EU's engagement strategy. Moves in 2007 to initiate further progress by upgrading the entire exercise to a full Partnership and Cooperation Agreement (PCA) have not as yet surmounted persistent mutual tensions. The requirement to include a 'democracy and human rights clause' in the PCA exacerbates problems in attempting to build trust between the two sides as this whole area continues to be resonant with great symbolism in the Sino-European relationship. For the EU, the clause can be seen by supporters of its inclusion as an indicator of the norms that Europeans are seeking to project, while on the Chinese side, its existence acts as further evidence of the EU's tendency to 'point fingers' at the Chinese political system and seek changes over this issue. Some analysts have concluded that finding a compromise position on the agreed choice of words in the clause might be possible if the text were to be better balanced than the wholly western interpretation of political values that it currently implies. For example, adding greater emphasis on economic rights and the characteristics of a harmonious society that underlie the Chinese leadership's own vision for social development might help bridge the values-gap. However, such a compromise seems difficult to achieve, as its inclusion also lays bare tensions within the Brussels institutional network over attitudes towards human rights in the Chinese bilateral dialogue. There are differences in emphasis about the importance of this clause between the European Commission, for whom it represents perhaps more of a procedural requirement to overcome, and the European Parliament, for whom the whole issue is far more serious, encapsulated by the Parliament's ongoing activism in hosting regular debates that are largely critical about China's human rights record. Given Parliament's strengthened post-Lisbon Treaty powers of consent on accords such as the PCA, these differences complicate the creation of a unified and coherent approach across EU institutions to securing progress with China. Coupled with divisions in Europe, the Chinese themselves have become increasingly confident and forceful at promoting their own distinctive perspective on a number of these politically sensitive issues, and this mismatch between different visions of political principles helps to explain many of Europe's difficulties dealing with China [1].

3. 2 An Opportunity to Achieve Effective Commercial Relations

Yet the EU–China talks cannot end there. If the ambitions are not higher than implementation of WTO commitments the likelihood that China will change its policy in these areas will certainly be smaller. More importantly, both parties will sign off an opportunity to achieve further deepening of commercial relations which go beyond WTO commitments. Mapping an EU–China bargain Thirdly, the negotiations should focus on the areas which cause real frictions in current commercial relations. There are irritations and demands on both sides. Europe particularly wants increased access to Chinese service markets, which are heavily protected, and better tailored policies to prevent infringements of intellectual property rights in key areas of innovation, such as pharmaceuticals and through forced technology transfer. These two areas also hang together. For European services to enter the Chinese market, or sign contracts with Chinese service input suppliers, there needs to be a better enforcement of key intellectual property rights as many services have IPRs at the center of their business model. For many firms in the financial, software and telecommunications sectors, it is today too risky to invest in China as their intellectual property is likely to be infringed. Better and targeted enforcement of IPRs are also in the interest of China. If Chinese firms want to climb the value-added chain and become a hub for trade in services, Beijing must give better assurances of IPR protection. China desires better discipline in the EU's anti-dumping policy and wants to be granted so-called Market Economy Status, which would prevent the EU from using some of the 'innovative' and highly dubious techniques available to motivate anti-dumping duties. China justifiably feels that its companies are not fairly treated in Europe's anti-dumping policy. In 2007, a year of deliberate restraint in the launch of new anti-dumping investigations, China was highly represented in the EU's trade-remedy activities. In fact, European anti-dumping policy appeared to be directed predominantly at China. Chinese companies were involved in all six new anti-dumping investigations (in only one case were companies from other countries involved). Of the six investigations that in 2007 concluded with the imposition of provisional duties, Chinese companies figured in four. Of the eight cases that concluded in 2007 with the imposition of definite duties, Chinese firms were involved in seven. As the EU's trade-defense policy is gaining speed again, with an increase in the number of new cases, China's concern is understandable. Furthermore, China is concerned more generally with the EU's contingent protection against export and investments from China, and wants disciplines to avoid hidden protectionism. Demands for the Chinese sovereign wealth funds (SWFs), especially the China Investment Corporation which controls approximately US$200 billion, to display corporate–governance structures are naturally part of this concern. Yet Chinese anxieties are less about SWFs, which typically only acquire small stakes in companies or in funds, and more about its outward-oriented companies, some of which are awash with cash and in search of companies to buy in Europe. China also knows that while European governments eagerly welcome foreigners investing on their stock exchanges, they are wary of foreign companies buying entire companies, especially European 'champions' or those previously owned by a government. China especially requires from Europe better restraint of governmental action in the so-called 'pre-establishment phases' of mergers or acquisitions (when an investment is made). Post-establishment phases are generally well-governed in Europe (partly because governments have subjected these matters to single-market disciplines), but governments have recently interfered on several occasions when foreigners have been involved in mergers and acquisitions. Furthermore, some European governments have introduced 'poisonous-pill' regulations, which immediately slow the acquisition process down when a foreign investor is involved. Other countries, like Germany, toy with the idea of introducing more far-reaching legislation.

Europe and China's core commercial concerns are legitimate and can be addressed in bilateral negotiations. These negotiations should be sequenced: a smaller bargain can be achieved in the new EU–China dialogue and a larger bargain can be facilitated in the forthcoming PCA negotiations. To make such progress possible, however, it is also necessary for political leaders to adopt a constructive approach and stay away from political grandstanding and empty phraseology [2].

Question is why should the EU grant Market Economy System (MES) to China? In addition to the symbolism inherent in such a move, denying China the same status as already accorded to Russia and India does seem difficult to justify and exacerbates mistrust and frustration over politically led decisions. Moreover, China’s perception is that denial of MES is used by the EU as a tool to impose unfair anti-dumping levies on Chinese manufacturing as part of trade defense measures that do little more than legitimize the EU’s protectionist instincts and further engender mistrust. Although granting MES would have some material impact on the methodology of assessing China’s input costs in trade defense measures, according to the European Commission’s own trade directorate-general only around 1 per cent of Chinese imports are subject to such trade defense instruments, calling into question the real value of something that is clearly symbolically counter-productive. By removing the thorn of MES status from high-level trade and economic dialogues, negotiations could then move on to tackle meaningful changes to China’s restrictions on investment in valuable service and technology sectors in which EU firms hold a competitive advantage, using reciprocal access to the EU’s single market as the key bargaining counter. Discussions on market access fairness between the EU and China have been subject to setbacks over recent years in many different ways, in arguments over indigenous innovation, sector-based ownership restrictions, enforced technology transfers and IP enforcement. In all of these disputes, the alleged lure of being granted MES appears to have done very little to persuade China to review its behavior. EU market access is a much more compelling argument to use in negotiating with the Chinese. Entry into European industrial markets could thus be directly linked to progress on achieving the same fair basis as demanded by the EU into China’s domestic sectors. The EU currently presents a genuinely more open market to Chinese foreign investment than does, for example, the United States, where some Chinese enterprises have particular difficulty in achieving traction due to imposed controls on ownership and supposed national security concerns – Huawei is one notable example, but others also exist (Puślecki 2020). For the Chinese, Europe’s openness is especially valuable, as it coincides with a time when their most successful businesses are internationalizing their activities and where the EU’s single market offers genuine attraction. FDI into the EU from China is a mix of technology seeking and market seeking varieties but it also has considerable political salience in achieving ongoing sustainable development for China, as well as overlapping with the Communist Party’s economic legitimacy in delivering future levels of growth. An EU-wide monitoring role for the Commission already forms part of their post-Lisbon remit and presents an opportunity to add teeth to calls for reciprocal market access into China. Such moves need not be necessarily institutionalized along the lines of the CFIUS but could work within existing templates that review intra-EU competition policy, and could still give Chinese state actors pause for thought. Moreover, an EU-wide implementation of some form of monitoring and control mechanism would not be an unreasonable step given the recent Chinese decision to create their own national security review regulations on foreign mergers and acquisitions. European moves along these lines have been discussed by various Directorate Generals within the Commission and prompted an EU-wide consultation document in May 2011, although no agreement on future policy action has yet to emerge. Political and social change: Human rights dialogues and civil society empowerment What is the value to the EU of continuing in human rights dialogues with China? They appear to have been manifestly unsuccessful in achieving meaningful change in China, and they seem very unlikely to make any appreciable difference in future. Existing dialogues have been criticized as giving too much power to the Chinese side to set the tone for discussion. In an online review by Human Rights Watch in China of perspectives from NGO representatives, EU official involvement was characterized as having become ‘progressively inhibited’ for the sake of ensuring at least some semblance of a successful outcome. Even the most experienced international human rights organizations continue to face formidable challenges in trying to operate in China, after years of EU activism on this issue, with the best progress being achieved by these bodies through patiently building links with domestic Chinese civil society groups rather than through the rhetoric of political elites. Moreover, the very continuance of such dialogues appears to empower the Chinese side with an ability to constrain European behavior through the constant threat of them being publicly postponed as some sort of punishment for errant actions by the EU in its human rights discourse. Normative-led engagement, to all intents and purposes, appears to have failed and it would not be an illogical response for the EU to cancel further exercises in futility. Indeed, the very symbolism of such a public cancellation could carry its own message internationally. This would not mean that the EU renounces the importance of human rights in the wider philosophy of European society, nor does it mean inhibiting the ability of EU elites to promote these principles in speeches and policy documents to the wider world, and to the Chinese leadership in particular. Instead it eliminates the need to perpetuate the pursuit by the EU of an unlikely transformation in China’s social system at an official dialogue level, thus redirecting effort to make more headway in other policy areas. It should also be remembered that democracy has previously taken root within East Asian societies through a number of interconnected influences, as in Taiwan and the Republic of Korea. Structurally, factors of socio-economic development have favored traction of democratic principles, which have been coupled with both actor-centered elite commitments supporting democratic transition and the dissemination of self-expressed (internalized) values that coalesce within a citizenry around democratic ideas. Although external influences may play some part in such transformations, the driving forces appear to be endogenous, and no such trend can be observed within China that could currently overlap with the combination of these conditions. Indeed, in an internationally respected survey of domestic attitudes by the Pew Research Center, over 80 per cent of Chinese citizens expressed satisfaction with their country's direction and their own sense of personal progress. Given these realities, any kind of offensive normative strategy by the EU would seem bound to fail [1].

3. 3 China in the Process of Rebalancing its Economy

China will enter a world market in which many of the spoils have already been appropriated. But fewer and fewer major firms may actually dominate the world economy. Some countries, like Mexico, will posses few, if any, decreasing cost industries. They will have to send their labour elsewhere to retain economic advantage. China will be studded with United States, Japanese, and European firms contributing high technology to Chinese development.

China is already in the process of rebalancing its economy towards greater reliance on domestic drivers of growth, in particular consumption. This transition was underpinned by the 12th Five-Year Plan (FYP) and has been encouraged by the development of social program, such as public health and pension systems, which are also helping make growth more inclusive. In order to continue its fast convergence in living standards with more prosperous societies, China will also need to increasingly rely on multifactor productivity gains as the key engine of growth. Labor productivity in both manufacturing and services are under 10% of the US level, demonstrating the distance to the technology frontier. Although the agriculture sector is a much smaller share of the economy than in the past, there is also ample scope to improve its productivity while easing resource constraints by strengthening agriculture innovation. A possible policy roadmap for sustaining this transition towards a more inclusive, high-productivity.

Under these circumstances, even very strong countries economically will be at least partly dependent on industries headquartered somewhere else. Even today, America does not represent the attainment of unipolarity in economics, whatever its military might. It is dependent upon money market and foreign direct investment from China, Japan, and Europe. Economic concentration today has three or four different nodes, not just one. The same will be true in 2020 or 2030. Decreasing cost (increasing returns) industries will be located in different zones and no one Great Power will monopolize them all. Europe will boast the London-Frankfurt and Zurich-Milan corridors. America will find large-scale competitive champions in two zones-Boston to North Carolina and San Diego to Seattle. China will have industrial or software concentrations in north China, Fujian, and Guangdong terminating in the Pearl River Delta. But no country, however powerful in terms of GDP, will incorporate all worldwide industrial or service potential. It is even possible that the defence industry on an international basis is one of increasing returns to scale. Under the circumstances, there will be overlapping zones of economic competency among Great Powers, and some countries will be left out altogether.

The assumed result of one Great Power hegemony replacing another and a shift between unipolarities will not be obtained in the next few decades. Thus, even very powerful countries militarily will find themselves needing the products and markets of countries (and corporations) located somewhere else. In theory, a very strong power militarily might be able to expand to take over the industries on which it has become dependent, but for a host of reasons this is unlikely. Again, cost-benefit reasons would cut against any attempt at conquest – openness would provide access to such industries much more efficiently than seizure that would not be successful in the longer term [5].

History shows that states sometimes engage in war for insufficient reasons, neglecting the ties that bind nations together. Short-term motives take precedence over long-term maximization. But they are not likely to do so between the United States and China, both long-term maximisers. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success.

In addition, should she decide otherwise, there are neighboring power that would present barriers to extensive expansion. Japan, a unified Korea, India, and Russia all border on China. Even if the United States were not a major power guarantor of the existing settlement, these powers would make Chinese external expansion difficult if not impossible. Japan, perhaps, has traditionally underused her power, but this is not true of Russia or India. A unified Korea will represent another uncertainty for China. Again, economic ties with these nations will be preferable to military expansion against them. And the presence of the United States and its military bases will occasion additional hesitation. No one can be certain that relations among Great Powers will be peaceful ones over the long term. But the current economic, political, and military relationships make that prospect much more likely than it has been in the past [5].

It is important underline that intensive development through economic growth is generally preferable to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. Access to the economies of other nations is sufficient; a rising nation does not need territorial control of them. Peaceful development can thus take the place of aggressive expansion. Since World War II, a number of economies have adopted this principle, including Germany, Japan, China and other East Asian Nations [5]. Afterwards, Asian demands for modification to the international system will likely increase, and unless resolved, will be increasingly likely to be imposed by force. The question raised by this empirically grounded extrapolation is whether the West will see China's rise as an opportunity for cooperation (as former European enemies did when responding to the post-World War II resurgence of Germany by creating the EU) or for conflict [4].

3. 4 The Current Position in Relations between EU and China

The current position in relations between the two sides begs two questions: why have EU policies to secure a closer partnership in so many areas with China manifestly failed, and what should the response in Brussels be to such failure? On the first question, a couple of reasons appear to stand out in answer. On the one hand, there has been a failure by EU actors to properly understand how Chinese strategic interests overlap with different policy areas in ways that make Europe's normative strategy almost bound to collide with immovable positions on certain matters of national importance. On the other hand, there has also been an inadequate attempt by the EU to embrace areas of potential com- promise with the Chinese in ways that could more effectively link to Europe's own policy priorities on a broad range of bilateral concerns within a wider interests-led foreign policy positioning.

How can the EU better understand the Chinese and their perspectives? One particularly apposite description of China is as a country with a 'dual identity', combining a 'developing country reality and world power aspiration' that creates 'issue-oriented national interests', which can easily conflict with the type of values-based relationship most preferred by the EU [1]. Others have pointed out that China is not only 'becoming more assertive by the day', but it is also 'undeniably becoming a regional power'. The EU needs to respond to these changes in the international order, but its policy engagement strategy with China indicates that it may not have yet recognized these current realities. One starting point is to appreciate just how important the role of history continues to be in shaping Chinese attitudes to the outside world, perhaps best described by one scholar as a strategic emphasis on 'keeping the past alive'. Historically, China learned about the principles of European society during the nineteenth and early twentieth centuries through the barrel of a gun, as powers such as Britain, France and Germany sought to carve out by force not only economic gains across the country but also to impose a sense of social and cultural superiority over the traditions of Chinese society and of the East Asian international system of which China was at the center.

This focus on past humiliations has created what many analysts have characterized as a continuing legacy of victimhood at the hands of foreigners that still resonates deep within the sensitivities of the Chinese psyche and that is regularly refreshed by the infusion of patriotic education and identity construction across all levels of society. These legacies matter in China, making both elites and the wider populace alike more predisposed to view warily the projection of yet another western rights model on to an Asian society as a new form of cultural hegemony.

Moreover, this narrative has consolidated China's hard-power strategic culture. In this context, the EU's post-modern liberal institutional manifestation is radically different from a Chinese state focused on re-emergence as a power both within Asia and at global forums such as the United Nations and WTO. Confucian Institutes and bilateral cultural festivals can and do certainly play some part in Chinese foreign relations, with the much-heralded EU–China 'Year of Intercultural Dialogue' launched at the EU–China Summit in February 2012 being one such notable example (Puślecki 2020). However, none of these initiatives can be seen as having trumped the significance of China's own national interests in bilateral negotiations and the importance of prioritizing these in negotiating relationships.

China's foreign policy towards the EU is constructed through interplay among a diverse group of traditional and non-traditional actors. Principal among the former category comprise the Communist Party's Foreign Affairs Leading Small Group that has included key members of the Politburo Standing Committee and State Counsellors such as Dai Bingguo, the Ministry of Foreign Affairs and the Ministry of Commerce. In the non-traditional category, government- controlled financial institutions, key state-owned enterprises and an emerging group of major think-tanks all have their role to play in the evolution of foreign policy.

Nevertheless, despite this complexity and the reality of sometimes competing interests in determining objectives, China's key priorities in national strategy, which underpin policy preferences, have more recently become clearer to discern. Evidence of the nature and content of these interests needs to be constructed from various sources, but can be derived from documents such as work reports from the Chinese Communist Party (CCP), speeches of China's national politicians, and articles by leading Chinese academics who are sometimes used as a proxy for debating forthcoming leadership strategy. Taking these as the basis for an examination of China's strategic concerns, there are a number of recurring themes, such as defending sovereignty, maintaining social stability and fostering economic growth. Indeed, these principles are at the heart of the country's proclaimed 'core national interests' that have been projected by official sources over recent years [1] and which underpin the focus of many in China's political elite on achieving what has been termed the 'rejuvenation of the Chinese nation' into a recognized re-emerged regional power.

In this way, China's policy priorities become clearer: first, the empowerment of the government to prioritize economic development over political pluralism as a function of the CCP's modern-day legitimacy with the people; second, safeguarding the absolute leadership of the CCP within the political system in China that it controls; third, the necessity of maintaining social stability across different provinces through reducing material inequality by promoting further domestic economic development and sustainable growth; and fourth, safe- guarding the integrity of the motherland through an intolerance to separatistunrest in Tibet and the secession of Taiwan.

Viewed through a Chinese prism, ongoing policy tensions with the EU are perhaps easier to understand. The Chinese see the arms embargo as 'an insult to the strategic partnership' at best and deliberate political discrimination and the pursuit of a containment strategy against China at worst. Similarly, the issue of MES is typically interpreted by China as one of prejudice, inequality and a lack of respect by the EU towards China as an equal that engenders memories of long-expired but still emotionally charged unequal treaties of past centuries, coupled with concern over how its application is used to constrain China's current economic prosperity. Moreover, it can now be more clearly seen why dialogues with China over issues such as human rights, political pluralism, Tibetan nationalism and the Chinese state's activism in the economy are likely to have very limited effect in realizing significant policy shifts as they represent the bedrock issues on which the legitimacy of the CCP's right to rule continues to be maintained [1].

3. 5 EU Responses to Reset the Engagement Strategy

Question is what options exist for the EU to recast its engagement with China in such a way that meaningful progress can be made? Before addressing this directly, some practical assessments are needed of just how much of an effective foreign policy actor is the EU today, so as to put options and outcomes into context. The EU's role in foreign affairs is made particularly challenging by the method though which priorities in foreign policy are constructed within the Union. The Common Foreign and Security Policy emerged from the Lisbon Treaty as a special competence, whereby engagement could be categorized into two distinct levels. The first at Union level, led by Brussels-based activism manifested in a number of thematic and geographical directorates and led by a High Representative for Foreign Affairs and Security Policy (who holds the dual post of Vice President of the Commission), and the second at Member State level, led by national governments acting independently through individual, and sometimes mutually competing, initiatives that 'reflect a lack of faith among Member States that the EU can act as a guarantor of their national interests'.

This arrangement has been characterized as inadequate for effective strategic decision making, and the largely intergovernmental nature of foreign affairs renders the Union's contribution as unhelpful at best and counterproductive atworst. The system has been criticized as having led to unwieldy complexity that has led some to posit that 'there is no European position on the growth of Chinese power' and that in terms of effective power projection and decision making coherence, the European project 'is on the verge of collapse'.

Nevertheless, it is impossible to ignore the very real progress that has been made over the last few years to enhance and consolidate the Union's credibility and capability in the foreign affairs domain. There is now a greater opportunity for the EU as an international actor to create and defend an effective foreign policy position on a range of matters. For example, the EEAS was brought into being by the Lisbon Treaty in January 2011 and has a budget of EUR464 million, employing more than 3600 staff both in Brussels and spread over 140 diplomatic delegations around the world.

This physical infrastructure is coupled with greatly enhanced visibility in international affairs, which include a defined legal status in all international institutions for the EU as a whole, its special status at the United Nations, its role at the annual Asia Europe Meeting, the EU's presence at ASEAN Regional

Forums, and the forthcoming EU membership of the East Asia Summit facilitated by the anticipated ratification of The Treaty of Comity under the Plan of Action of the Nuremberg Declaration. All of this could represent a potentially formidable arsenal to use in asserting European interests into the Asia region, and with China in particular.

3. 6 Priorities for the European Union-China Summit 2025: Rebuilding Trust, Enabling Cooperation

Marking the 50th anniversary of the establishment of EU-China bilateral relations, the summit 24 July 2025 was an opportunity to engage with China at the highest level and to underline the importance the EU attaches to a fair and balanced relationship with China. The focus of the summit was the state of bilateral relations and global geopolitical challenges, including Russia's war of aggression against Ukraine. The leaders discussed ways of ensuring a more balanced, reciprocal and mutually beneficial trade relationship and biodiversity**.** The EU is also advocate the need to protect and uphold multilateralism and the rules-based international order.

According to Chinese policymakers, the economic outlook is positive, despite the trade war ignited by President Donald Trump, and China's growth target has been kept at 5 percent. However, to reach that level in 2024, China needed a massive $1 trillion trade surplus. Chinese trade is now threatened by a more protectionist external environment.

Laxer fiscal policies have seen the official deficit eased from 3 percent to 4 percent of GDP, the largest on record, and a less strict monetary policy. However, no stimulus has been announced – a rather conservative response to the external environment. Meanwhile, China's inflation target has been cut from 3 percent to 2 percent, but the reality is that China is already suffering from entrenched deflation, which the government does not seem ready to fight.

This may be because of the need to remain competitive in export markets, even at the cost of a deflationary environment. Export prices fell in 2024 and have continued to fall in 2025. Even consumer prices in China have fallen since February 2025. While pushing prices down to compete is not without risk (Japan's experience in the 1990s is a good example), President Trump's tariffs and the ongoing weakness of the dollar do not leave China much space.

China has also confirmed it will continue to step up manufacturing as a growth engine – there is no intention of correcting overcapacity by reducing supply. Because the increase in the fiscal deficit seems directed at supporting the debt restructuring of local governments rather than boosting domestic consumption, and because China's labor market remains weak and disposable income stagnant, Chinese consumption cannot be expected to jump substantially in 2025. China will thus need to continue to force exports to reduce overcapacity.

For Europe these trends are worrying because Chinese products may further flood the European market and because European companies in China will face even more competition from Chinese players, given the strong deflationary pressure. China also intends to step up self-reliance in critical technologies, including artificial intelligence (AI), quantum computing and semiconductors – areas in which China still lags the US. Large-scale US investment program such as the Stargate AI project have pushed Beijing to channel more resources to AI and quantum with China looking much more credible after the launch of the DeepSeek AI platform in January 2025.

The EU and China together account for almost 30% of global trade in goods and services, and for over a third of global GDP. In 2024, EU-China trade in goods and services exceeded €845 billion. In 2024, the EU exported goods worth €213.2 billion to China and imported goods worth €519 billion.

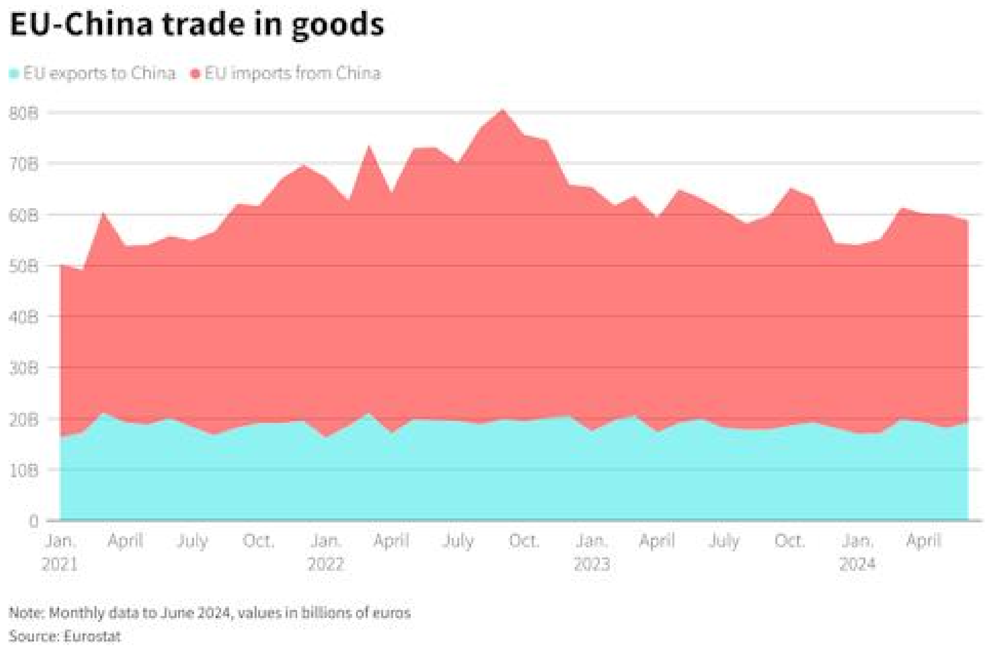

Figure 1. EU-China trade in goods

According to EU data:

- The Netherlands (€109 billion), Germany (€96 billion) and Italy (€50 million) were the three largest EU importers of good from China in 2024.
- The three largest EU exporters to China were Germany (€90 billion), France (€24 billion) and the Netherlands (€24 billion).
- Only Ireland and Luxembourg had trade surpluses with China 2024 year. The remaining 25 EU countries had trade deficits.
- Exports of medicines and motor vehicles fell by €5.0 billion and €4.9billion respectively between 2023 and 2024.

European leaders demanded a more balanced relationship with China at a summit with President Xi Jinping in the Chinese capital on July 24, 2025, as the bloc runs a massive trade deficit with the Asian giant of around €300 billion. European leaders were pushing for rebalancing trade at the EU-China summit with President Xi Jinping on July 24, 2025. Focusing their opening remarks on trade, they called for concrete progress to address Europe's yawning trade deficit with China. "As our cooperation has deepened, so have the imbalances," European Commission President Ursula von der Leyen said. "We have reached an inflection point. Rebalancing our bilateral relations is essential. Because to be sustainable, relations need to be mutually beneficial"said also President Ursula von der Leyen. They come amid financial uncertainty around the world, wars in the Middle East and Ukraine, and the threat of US tariffs. Neither the EU nor China is likely to budge on key issues dividing the two economic juggernauts. European Council President António Costa called on China to use its influence over Russia to bring an end to the war in Ukraine — a long-running plea from European leaders that is likely to fall on deaf ears.

The European Union's top officials were meet with the Chinese leadership in China from 24-25 July 2025 against a backdrop of strained relations, limited preparatory engagement and unresolved trade tensions. These factors suggest that any major breakthroughs are unlikely, even though the summit marks the fiftieth anniversary of EU-China diplomatic ties.

The most likely outcome was a continuation of the stuttering progress of the last few summits. The 2020 summit, held amid the COVID-19 pandemic, was marked by the EU's recognition that China is not only a partner, but also an economic competitor and systemic rival. Furthermore, the pandemic exposed the EU's over-reliance on China for strategic goods and highlighted China's assertive 'wolf warrior diplomacy', including the practicing of disinformation and coercion. Notwithstanding the EU's hardened tone, China still managed to push the negotiations on the EU-China Comprehensive Investment Agreement (CAI) to the finish line by the end-2020 deadline that had been agreed.

After a one-year hiatus, the 2022 summit, only a couple of months after Russia's invasion of Ukraine, was tougher than ever. The EU ratification of the CAI had been suspended after China imposed sanctions on several members of the European Parliament, academics and think tanks. China also refused to condemn the Russian aggression. Meanwhile, the EU was concerned about the growing bilateral trade deficit. This dominated the summit, which ended without a joint communiqué.

The difficulties continued at the 2023 Summit. China's enabling role in Russia's invasion of Ukraine became even clearer and the EU's trade deficit with China reached €400 billion, a consequence of unfair Chinese industrial policies. Chinese localization requirements and cross-border data issues also topped the EU's concerns ahead of the summit. China, meanwhile, criticized the EU's carbon border adjustment mechanism and the ongoing EU trade investigations into Chinese products. The result was another summit with no relevant agreement and no joint communiqué.

After another hiatus in 2024, the 2025 summit was take place under the shadow of the return of President Donald Trump to power and his continuing threats to the transatlantic alliance. This change in circumstances has led some European leaders to wonder if the EU should reset relations with China. But so far, there has been little sign of any reorientation.

To start with, the 2025 summit should have taken place in Brussels, but President Xi Jinping declined the invitation so it was have to take place in China. Furthermore, rather than attend himself, Xi appears to have decided to send Premier Li Qiang as China's top representative. Preparations for the summit have also been constrained because both the EU and China have been preoccupied with their respective negotiations with the United States, meaning not enough time and energy has been devoted to addressing the grievances of both sides.

Other negative signals include China's imposition of export controls on rare earth minerals, essential inputs to European electric vehicle (EV), defense and renewables industries. The European Commission remains frustrated with China's lack of reciprocity and market access, ongoing discriminatory practices against European companies and persistent barriers to fair competition. Consequently, the EU declined to hold the usual High-Level Economic and Trade Dialogue with China ahead of the summit – a clear signal of frustration and skepticism.

From China's perspective, the EU has refused to lift its tariffs on Chinese EVs, currently including anti-subsidy duties of up to 35.3% on top of a 10% base tariff, which China reads as protectionist. As part of a charm offensive to persuade Europe to soften its tone, China in April 2025 lifted sanctions on some members of the European Parliament, in the hope that the CAI could be revived. But China is also making more threats, opening new investigations into European cognac, dairy products and beef. China's goal is to eliminate the EU's tariffs on EVs or, at least, agree minimum price commitments and restart negotiations on the CAI or another form of trade/investment deal.

It thus seems clear that the 24-25 July EU-China summit will once again end without much agreement. That this is the fifth year without a constructive dialogue between the EU and China might need to be read as a structural reality, rather than a temporary problem – especially as difficult EU-US relations currently could have favored a renewed EU-China dialogue. Unfortunately, the opportunity is set to be missed again [3].

The EU and China have frequently sparred over issues such as human rights and political oppression in locations including Hong Kong, Tibet and Xinjiang, but the relationship took a turn in 2021 when the EU sanctioned Chinese officials for their oppression of ethnic minority Uighur Muslims. China responded with sanctions of its own on 10 Europeans, including members of the European Parliament, and several think tanks.

Beijing lifted sanctions on the European MEPs in April 2025 in a gesture of goodwill before the EU-China summit, but other political fractures remain over China's ongoing and close relationship with Russia since Moscow launched its full-scale invasion of Ukraine in 2022. Beijing is also widely seen as keeping Russia afloat economically amid ongoing international sanctions, particularly by buying Russian energy exports. The EU has also accused China of skirting arms embargoes by selling "dual-use" goods to Russia, which can be used for civilian and military purposes. China has defended its actions, saying that it has long wanted to see a "negotiation, ceasefire and peace" in Ukraine.

The bloc continues to scrutinize Beijing's economic ties with Russia, in July 2025 sanctioning two Chinese banks for the first time as part of its latest package of sanctions against Moscow aimed at ending the war. Five companies based in China were also included on the EU's sanctions list. China's Ministry of Commerce said that the sanctions on Chinese banks and companies "seriously harmed" trade and economic ties with the EU and threatened to respond with its own measures against Europe. William Yang, a senior analyst for Northeast Asia at the Crisis Group, a Brussels-based nonpartisan think tank, said these issues will cast a shadow over the EU-China summit 2025. "Beijing considers its relationship with Russia as a core interest amid ongoing competition with the US, and it keeps denying the EU's criticism that it is an enabler of Russia's war against Ukraine," Yang said. "With these fundamental contradictions, prospects of any significant breakthrough at the upcoming summit are unlikely."

Besides the trade imbalance and the Ukraine war, Von der Leyen and Costa were expected to raise concerns about Chinese cyberattacks and espionage, its restrictions on the export of rare earth minerals and its human rights record in Tibet, Hong Kong and Xinjiang. "Europe is being very careful not to antagonize President Trump even further by looking maybe too close to China, so all of that doesn't make this summit easier," said Fabian Zuleeg, chief economist of the European Policy Centre. "It will be very hard to achieve something concrete."

China's stance has hardened on the EU, despite a few olive branches, like the suspension of sanctions on European lawmakers who criticized Beijing's human rights record in Xinjiang, a region in northwestern China home to the Uyghurs. China believes it has successfully weathered the US tariffs storm because of its aggressive posture, said Noah Barkin, an analyst at the Rhodium Group think tank. Barkin said that Beijing's bold tactics that worked with Washington should work with other Western powers. "China has come away emboldened from its trade confrontation with Trump. That has reduced its appetite for making concessions to the EU," he said. "Now that Trump has backed down, China sees less of a need to woo Europe."

China and the EU have multiple trade disputes across a range of industries, but no disagreement is as sharp as their enormous trade imbalance. Like the US, the 27-nation bloc runs a massive trade deficit with China — around €300 billion 2024 year. It relies heavily on China for critical minerals, which are also used to make magnets for cars and appliances. When China curtailed the export of those minerals in the wake of US

President Donald Trump's tariffs, European automakers cried foul. The EU has tariffs on Chinese electric vehicles in order to support its own carmakers by balancing out Beijing's own heavy auto subsidies. China would like those tariffs to be revoked.

The rapid growth in China's market share in Europe has sparked concern that Chinese cars will eventually threaten the EU's ability to produce its own green technology to combat climate change. Business groups and unions also fear that the jobs of 2.5 million auto industry workers could be put in jeopardy, as well as those of 10.3 million more people whose employment depends indirectly on EV production.

China has also launched investigations into European pork and dairy products, and placed tariffs on French cognac and armagnac. They have criticised new EU regulations of medical equipment sales, and fear upcoming legislation that could further target Chinese industries, said Alicia García-Herrero, a China analyst at the Bruegel think tank [3].

In June 2025, the EU announced that Chinese medical equipment companies were to be excluded from any government purchases of more than €5 million (nearly $6 million). The measure seeks to incentivise China to cease its discrimination against EU firms, the bloc said, accusing China of erecting "significant and recurring legal and administrative barriers to its procurement market."European companies are largely seeing declining profitability in China. But the EU has leverage because China still needs to sell goods to the bloc, García-Herrero said [3].

The latest sanctions package on Russia also listed Chinese firms, including two large banks that the EU accused of being linked to Russia's war industry. China's commerce ministry said that it was "strongly dissatisfied with and firmly opposed to" the listing and vowed to respond with "necessary measures to resolutely safeguard the legitimate rights and interests of Chinese enterprises and financial institutions." Xi and Putin have had a close relationship, which is also reflected in the countries' ties. China has become a major customer for Russian oil and gas, and a source of key technologies following sweeping Western sanctions on Moscow. In May 2025, Xi attended a Victory Day celebration alongside Putin in Moscow, but didn't attend a similar EU event in Brussels celebrating the end of World War II. Von der Leyen and Costa will press Xi and Li to slash their support of Russia, but with likely little effect.

Buffeted between a combative Washington and a hard-line Beijing, the EU has more publicly sought new alliances elsewhere, inking a trade pact with Indonesia, heaping praise on Japan and drafting trade deals with South America and Mexico. "We also know that 87% of global trade is with other countries — many of them looking for stability and opportunity. That is why I am here for this visit to Japan to deepen our ties," Von der Leyen said in Tokyo during an EU-Japan summit on her way to Beijing. "Both Europe and Japan see a world around us where protectionist instincts grow, weaknesses get weaponised, and every dependency exploited. So it is normal that two like-minded partners come together to make each other stronger." Promoting ties with Europe is one-third of Japan's new 2025 military doctrine, after sustaining defence links with the US and investing in capabilities at home like missiles, satellites, warships, and drones.

3. 7 Global Geopolitical Challenges

Whether China's strategy will re-ignite its economy or mitigate its structural deceleration, will depend on the extent to which the responses tackle China's biggest challenges. For years, China has been the envy of many other economies because of its fiscal space, which allowed it to conduct a massive stimulus during the global financial crisis in 2008 when demand for its exports plummeted. But that huge stimulus provoked a ballooning public debt, which now equals 100 percent of GDP. This is a lower level than the US, but still massive compared to countries with incomes *per capita* similar to China. China's growing public debt stems from huge fiscal deficits, especially when the total local government borrowing is taken into account, including that generated through special vehicles widely used to finance real estate and infrastructure projects.

China long had monetary policy headroom, especially after developed economies in particular introduced ultra-lax monetary policies in response to the COVID-19 pandemic in 2020, bringing their interest rates close to or even below zero. China instead maintained interest rates above 3 percent for most of that period but has had to cut them more recently as a response to a stagnant economy. There is still space for the People's Bank of China (PBoC) to cut rates, or even introduce quantitative easing, but the reality is that monetary policy remains restrictive both in terms of the high level of real interest rates, because of deflation, and slowing monetary aggregates. Two major constraints explain this 'reluctant' tightening. First, the rather weak renminbi leaves less room for the PBoC to ease monetary policy. Second, Chinese banks, already suffering from very poor profitability, would find it difficult to bear an even lower net interest margin stemming from further rate cuts.

China continues to produce well beyond what it can sell domestically. While manufacturing has always been China's growth engine, this trend has intensified massively since 2021, in the context of the collapse of the real-estate sector. Fixed-asset investment in manufacturing is increasing much faster than GDP, while real-estate investment has plummeted. In some industries, notably green tech, capital investment by Chinese companies is so massive that it amounts to nearly 90 percent of the global total – as seen with solar panels. The good news for China is that the world has accommodated even more Chinese exports since the COVID-19 pandemic. Chinese imports have been stagnant, so this has meant a very large trade surplus, which has been crucial for growth. However, the surge in manufactured goods exports, pushing China's share to 18 percent of global manufacturing exports, might be hard to sustain in the context of greater protectionism everywhere.

The US has already reduced its imports from China, while the EU and the emerging world have seen increases (notwithstanding EU tariffs on Chinese electric vehicles). It seems hard to believe that China's massive industrial capacity can continue to rely on foreign markets as much as in the past. Despite the rest of the world importing from it, China's industrial capacity is simply too much to absorb. China's capacity utilization rate has dropped from a peak in 2021 and is close to the levels seen during the pandemic (though still higher than during China's worst episode of overcapacity in 2015. Still, capacity utilization might not be the best measure of China's overcapacity, since it is comparable to that of the US. Nevertheless, plummeting producer prices are a signal of the problem, putting downward pressure on companies' margins. Proliferating protectionism can only worsen deflationary pressures in China unless China can foster domestic consumption.

There is general agreement that increasing private consumption would help resolve China's imbalances, but it is easier said than done. The ratio of Chinese private consumption to GDP remains stubbornly low, especially compared to fixed-asset investment. While investment is too high, domestic savings are even higher. China continues to have the world's highest savings ratio, as a response to the lack of a welfare state, but also very few private saving opportunities. Changing this would require major reform, such as strengthening the pension system and offering unemployment benefits and public healthcare. None of these reforms seem to be on the government agenda. President Xi Jinping has expressed his reservations about a welfare-state-based model, which he dubs *"welfarism"*

China's real-estate sector, long the main source of growth (one third of the total and also one third of fixed-asset investment), burst in 2021 when China's largest developer, Evergrande, defaulted. Since then, the contribution of real estate to growth has been negative (it was already very low). House prices and real-estate transactions have been falling for years. China's high savings have fed the huge investment boom. This boom certainly helped China grow very rapidly but it has remained the main source of growth for too long, ultimately becoming excessive, as shown clearly in increasingly low returns. Returns on assets are lower for state-owned enterprises (SOEs), as one would expect, but also for privately-owned enterprises.

China is an outlier in terms of the speed at which the population has aged. The introduction of the One Child Policy in 1980 explains China's difficult demographics8, but the fertility rate has also fallen rapidly since 2019, possibly because of the much more uncertain environment, leading to a negative sentiment about future economic prospects. Even if China's population has already peaked and the labor force is declining, the actual contribution of the labor force to GDP growth should remain positive as long as China continues to urbanize. The urbanization process is estimated to be completed by 2035 [3], which is when the decline in the labor force will also start to be felt in the cities, negatively impacting productivity and shaving off about 1.3 percentage points of growth each year.

China competes with the US on innovation. The US outstrips China on spending on research and development as a percentage of GDP, which means that it will not be easy for China to bypass the US's global technological dominance. Furthermore, the US has sought to contain China's technological advance through different means, including export controls on advanced technology. The questions remain of whether the US will succeed in containing China, and whether China's push for innovation will help increase its total factor productivity or, in other words, help mitigate structural deceleration.

The EU is taking a pragmatic and cautionary approach to avoid being pulled into the great-power rivalry between Washington and Beijing, aiming at protecting its economic interests while acknowledging the systemic challenges posed by China's global ambitions. EU officials are increasingly alarmed about the negative impact of potential US tariffs on European exports in the absence of a trade deal. There are growing fears that EU industries could be caught in the crossfire of the United States' broader economic confrontation with China. EU officials are also worried that aggressive US tariff policies could undermine transatlantic economic cooperation and disrupt supply chains critical to Europe's economic resilience. Additionally, policymakers in Brussels are increasingly concerned that the spillover effects of US–China trade tensions and the impact of Chinese industrial overcapacity on the global market could further threaten key European industries.

China would be the primary beneficiary of a transatlantic rift and the weakening of the liberal international order at a time of growing geopolitical and economic uncertainty. A successful US–EU trade agreement would be beneficial for the transatlantic economy and help address a wide range of other challenges by presenting a united front against adversaries' economic and geopolitical pressures. The United States and the EU enjoy strong security links through NATO. And the transatlantic economic partnership, worth $9.5 trillion in annual trade and investment, is the largest in the world, meaning the United States and the EU remain each other's most important trading markets and geoeconomic bases [6].

The summit is an opportunity for Europe to affirm its own geopolitical position vis à vis China, at a moment when US policy seems increasingly unpredictable, with its search for short-term, transactional deals. These US-EU divisions likely played a role in Chinese officials' approach to preparatory pre-summit talks, during which Chinese Foreign Minister Wang Yi publicly affirmed for the first time Beijing's long -standing policy that it can't accept Russia losing its war against Ukraine. This statement is an evolution from Beijing's previous facade of neutrality in the war, which may mean that China sees itself in a sufficiently strong position to clarify its stance, even stating in public at a high level that it wants to directly challenge the US strategy of prioritization at the expense of European security.

The EU remains concerned about its chronic trade deficits, limited market access due to nontariff barriers and opaque rules, industrial overcapacity, rare-earth restrictions, forced tech transfer, and currency manipulation. On the security side, the EU is concerned about the "no limits" partnership between China and Russia, as well as Beijing's support for Russia's aggression against Ukraine. At the summit, the EU will aim to secure concrete concessions from China on ensuring reliable access to rare earths and critical minerals through unrestricted export licenses. Brussels will also try to promote a more level playing field in trade by demanding greater market access reciprocity for EU companies and fairer treatment under China's regulatory framework [6].

Europe's trade deficit with China rivals that of the United States for multiple reasons, but the road mostly leads to the auto sector. On the export side, the European supply chain supports thousands of smaller companies across the EU whose components end up inside vehicles exported predominantly from Germany. On the import side, the EU's quick shift to renewable energy has left the continent at least as dependent on Chinese wind and solar components as it was on Russian fossil fuels. The dramatic increase in reliance on US liquefied natural gas is positioned as a temporary transition until such time as Europe can become fully reliant on green energy.

All indications point toward the EU and China facing down US President Donald Trump's tariff war separately rather than joining together. European frustration with Chinese overcapacity, Chinese support for Russia in Moscow's war on Ukraine, and Beijing's growing ties with EU members Hungary and Greece helped fuel a tariff war this year that gets far less press than the US tariff war. From electric bicycles, medical equipment, and electric vehicles (EVs), Brussels has been turning to the Trump playbook to try to get Beijing's attention. So far, it has not worked.

Beyond economics, the two sides' geopolitical bargaining strategies also operate against a productive summit July 24, 2025. China is not likely to welcome an interlocutor or partner; it seeks to send a message of independent strength to the world despite its precarious economic condition and its shrinking access to affluent advanced economies. Ironically, the EU seeks the same objective. Both China and the EU want to position themselves as homes to the next-best reserve currency and as the rational alternative to the United States. Banding together would make each side look weak. The most that can be hoped for at this stage are placid photo opportunities that manage to smooth over the rough edges and ensure that these strategic rivals continue to engage seriously (if not productively) at the senior level.

The more important EU summit July 24, 2025 may be with China's regional rival Japan. The bilateral relationship accounts for nearly 25 percent of global gross domestic product and 20 percent of global trade, according to the European Council.

These two Group of Seven (G7) partners share mutually reinforcing commitments to establishing leadership positions in the energy transition, sustainable development, advanced manufacturing, technology, and the exercise of authority through multilateral institutions. Counterbalancing Chinese influence in both Asia and Europe while standing firm in support of Ukraine is never far from the agenda among these two strategic partners. Real, economically significant deals and decisions are far more likely to flow from the Tokyo summit 2025 than from Beijing.

When the EU and China meet in Beijing July 24, 2025, another silent party was at the table: the United States. The EU has been trying to chart its own separate strategic bilateral relationship with China for at least two decades. The result has been less than productive from a geopolitical perspective. The crucial weeks before the summit have laid bare the challenges. Europe's trade deficit with China rivals that of the United States for multiple reasons, but the road mostly leads to the auto sector. On the export side, the European supply chain supports thousands of smaller companies across the EU whose components end up inside vehicles exported predominantly from Germany. On the import side, the EU's quick shift to renewable energy has left the continent at least as dependent on Chinese wind and solar components as it was on Russian fossil fuels. The dramatic increase in reliance on US liquefied natural gas is positioned as a temporary transition until such time as Europe can become fully reliant on green energy.

Beijing desperately needs Europe to keep its markets open to China's EVs and other goods that it produces at overcapacity. With the United States and other major markets closing their doors, Europe is the main dumping ground for higher-value-added goods, particularly EVs. Chinese leaders will be seeking assurances that Europe will not side with the United States against China or adopt what Beijing views as overly stringent protection policies (such as EV tariffs that accurately reflect Beijing's market-distorting subsidies). China will also seek to tamp down rising European panic over its rare-earth export controls. Beijing is trying to thread the needle between assurance and coercion on rare earths. Chinese officials are claiming that recent European shortages are the result of normal bureaucratic adjustments as China rolled out its new export-control regime and that there is thus nothing to worry about going forward. Meanwhile, Chinese leaders are also hinting that these export controls could become much more severe in the future if Europe adopts policies that Beijing objects to.

By now, Beijing likely realizes that it will not achieve the win-win lovefest that Chinese leaders originally hoped for. (They tried to restart the EU-China Comprehensive Agreement on Investment, but the Europeans made it very clear they wanted to talk about the worsening trade balance instead.) As a result, Beijing has likely downgraded its expectations for the summit and may be instead doubling down on bilateral engagements aimed at dividing the bloc to prevent Brussels from moving forward on more serious trade measures such as EV tariffs.

Beijing has previously endorsed the concept of EU strategic autonomy, in part to drive a wedge between the EU and the United States and weaken transatlantic economic and security relations. It seeks to position the EU as a partner while casting the United States as unreliable. Beijing is working to rebrand itself in Europe as aresponsible global actor committed to multilateralism and climate cooperation, while downplaying and diluting criticism over its alignment with Russia, aggressive posture toward Taiwan, and ongoing human rights abuses.

On the economic front, Beijing's goal is to persuade European leaders to revive the previously abandoned Comprehensive Agreement on Investments, to rescind EU sanctions and tariffs targeting Chinese EVs and solar products, and to delay other measures against industrial overcapacity and state subsidies. In a symbolic gesture to improve relations, the Chinese government has lifted sanctions on some members of the European Parliament. Beijing is seeking to buy time and leverage dialogue as a means to soften the EU's trade defenses and prevent further deterioration in its economic relations with the bloc [6].

The COVID-19 pandemic and Russia's war in Ukraine have sharpened European awareness of the strategic challenge posed by China, but the EU's approach to China remains uneven. Disagreements stem from ongoing internal debates, within and between EU member states and institutions, on the right strategic posture, economic policies, and diplomatic messaging toward Beijing.

National policies differ based on the depth of bilateral ties with China, levels of economic and technological dependence, leadership views, public opinion, and tensions between the public and private sectors. While countries such as Lithuania and the Czech Republic have adopted a more critical stance on China, others such as Hungary, Spain, and Greece favor a more conciliatory approach, aiming to maintain solid economic relations. In recent years, the European Commission has pursued a values-driven foreign policy, pushing for sanctions in response to human rights violations in Xinjiang and Hong Kong, while some member states have resisted or diluted these efforts, often influenced by bilateral pressure from Beijing. These divergent priorities reflect Europe's complex political and economic landscape and continue to shape its China policy as well as its positioning in the broader US-China rivalry [6].

4 Conclusions

What appears to be needed now is a re-appraisal of the EU's engagement rationale for dealing with states such as China, where interests drive strategy, and where the EU has been found wanting for coherent approaches that stand a reasonable chance of achieving successful outcome. Moving forward in building successful foreign relations with the Chinese will likely require a two-stage process. First the EU will need to identify the Union's own core interests that can be projected credibly at different levels of bilateral discussion, and second, it will need to coordinate transmission and projection of these interests in such a way as to take full advantage of the powers to negotiate change that the EU does indeed now possess. This implies a policy review at the EU level to reconsider what exactly are the key foreign policy objectives for the EU–China relationship going forward in the context of the policy domains of overlap already introduced. However, in order to realize success the EU will need to prioritize the achievement of meaningful goals at the expense of unrealistic ideals, as, on the one hand this will help persuade Member States that their own objectives can be better safeguarded at the EU level, and on the other hand convince the Chinese that there are substantive benefits on offer without their having to surrender core national interests.

It must be underline that the relationship between the European Union (EU) as an international actor and The People's Republic of China is currently in something of a crisis. However, this is not just a transient crisis linked to current market turbulence over EU monetary policy, financial bailout conditions and economic recession, but one that threatens the very platform of trust-building and the evolution of shared confidence that both sides have endeavored to develop over the past 35 years in order to construct effective strategic relations. We argues that current predicaments stem from a fundamental misunderstanding of a number of key factors in the relationship. First, there has been a misjudgment by the EU of China's position in the world as a re-emerged power, which has undermined the whole basis of constructive engagement based on equality, which China values highly at an emotional and semiotic level. Second, there has been a failure by the EU to recognize and appreciate China's own policy priorities and interests that drive both her external engagement and her view of the EU as an international actor, which has caused ongoing irritants in relations to have become obstacles to making progress. Third, there has been inadequate recognition by the EU of where compromise and deal-making with China in specific areas might be possible and what the necessarily preconditions might be to facilitate those outcomes. These problems underlie the strategic relations between the EU and China above and beyond current economic turbulence and show no signs of being addressed in current policy initiatives. Each of these failures is also interlinked, and we argues that their root cause has been too great an emphasis by the EU on trying to achieve comprehensive behind-the-border political and social transformation in China that fails to take account not only of her re-emergent power to resist such efforts, but also has ignored policy implications of China's core national interests that help explain China's strategic positioning. The evidence offered here shows that such an emphasis has undermined trust and sapped political will on both sides to make headway in other areas. This shows the fallacy of the EU‟s primarily values-based engagement model towards China as such a projection collides with deep-rooted hostility, different domestic social norms and a remarkably high level of Chinese citizen satisfaction.

Overall, these factors highlight a European attitude seemingly unable to yet come to terms with the changing power dynamics of today's international system. Nevertheless, in spite of current problems, there remains tangible opportunity to reset relations, as there are clearly overlapping interests between the two sides in a number of areas, with much to be gained by ensuring that EU–China relations move forward on a positive note to reach agreement on practical aspects of mutual interest. We provides an examination of the causes of these problems and outlines possible ways for the EU to construct solutions. It focuses specifically on the EU‟s role as a distinct actor in projecting policy through the institutions of the EU, including the Commission, the Parliament and the newly created European External Action Service (EEAS). While taking account of Member State input into the policy mix, this analysis aims to uncover the Union's central contribution to both the problems and the solutions. In so doing, it joins the debate over the EU's continued normative engagement with developing powers such as China, both directly challenging the theories put forward by scholars who argue that the EU's foreign policy effectiveness would be best served by actively increasing the strength of its normative rhetoric as part of a broader values-based diplomatic offensive while also moving beyond the perspective of those who see solutions only through the prism of „defensive normativity" by the EU – that is putting its own normative house in order first. Instead, we posits that no solution can be truly successful unless it seeks to overlap European interests with Chinese interests within the predominantly realist world view that is at the heart of China's own foreign policy strategy.

It must be emphasized that China's foreign policy apparatus should pursue various reforms to strengthen its coordination of domestic and foreign policies. As China's entry into the World Trade Organization（WTO） served as an outside incentive for domestic reform. For instance, China could balance the internal and external functions of the National Security Commission and strengthen its control over foreign affairs.

China's strategists and scholars are actively debating China's visions of the international order in a new era. Should China support the existing order that has benefited its rise but might also constrain its potential? Or should China try to create an entirely new order, which might bring higher benefit with higher risk? China has different choices over the roles it could play. China could play the role of a spoiler, delegitimizing the existing America-led order and replacing it with something entirely new. It could also continue its integration into the existing order and play the role of a supporter. Finally, China could also act as a shirker, attaining the privileges of power but failing to pay for them by contributing to global governance. Since China remains a deeply conflicted rising power with competing visions, we find mixed indicators for each of the three visions.

China has to manage its seemingly conflicted roles and interests, which are those of both a developing country and a developed one and a weak country and a strong one. With multiple identities, China finds it increasingly difficult to define its interests in a coherent way. Officials and scholars in China's foreign policy circle actively debate the opportunities and responsibilities of being a great power. The US is increasingly suspicious of China's long-term intentions. While the US wants China to play a larger role as a "responsible stakeholder," China appears to have become not only a more influential stakeholder but also a potential "rule-maker" . While many neighboring countries welcome China's economic opportunities, they also increasingly worry about the strategic implications of China's economic power. China must demonstrate self-restraint, reassuring its neighbors that it will continue pursuing a peaceful rise strategy.

It must be emphasized that national power depends above all on the performance of the domestic economy and the ability to mobilize and allocate its resources. Ultimately, China's domestic reforms will determine whether its economy will be transformed into a more sustainable model. In this sense, Chinese foreign policies are an extension of China domestic politics.

In conclusion we also offers a brief prognosis on the future of EU–China relations. It must be underline that the EU has much to gain by securing a long-term and sustainable working relationship with China. We argued that unless and until the EU changes the fundamental framework of its engagement strategy with China, replacing values-based conditioning with one more actively centered on achieving interests-led policy overlap, the realization of benefits from the relationship for both sides will not be achieved. Through a consistent failure to appreciate China's strategic position towards key areas of national interest and through a prioritization of initiatives that have appeared to the Chinese to preach social and political change without recognizing achievable parameters, the EU has undermined the potential for agreement in other policy spaces where both sides have interests that intersect. Areas such as, trade reciprocity and inward investment illustrate how important successful bilateral links between the two economies are to future prosperity.

It is interesting to conclude that in each of these domains, examples have been shown of ways that could move the debate away from values and across to mutual interests. EU leaders themselves need to initiate a careful appraisal of what they believe is actually feasible and desirable, but they should do so from the basis of fully understanding China's position, her room for compromise and her priority for action. We argued that there is no evidence as yet of such a process having taken place at the EU level, and until such a time as it does, there will be limited progress, continued misunderstanding and ongoing disappointment on both sides of the EU– China relationship.

2025 year marks the 50th anniversary of the establishment of diplomatic relations between EU and China.. Over this period, economic and people-to-people ties have increased exponentially, bringing prosperity to both sides. Being key trading partners, means that economies and societies EU and China have become closely interlinked.

EU-China trade has grown increasingly one-sided, and this is not sustainable. It is EU and China mutual interest that trade relations are balanced and fair, to benefit current and future generations. EU hope to go through other sectors of bilateral cooperation and how the EU and China can tackle global challenges. To conclude, EU are committed to deepening bilateral partnership and pursuing constructive and stable relations, anchored in respect for the rules-based international order, balanced engagement and reciprocity. EU are ready to make progress in addressing concerns with goodwill and honesty and working together.

At the heart of trade frictions lies a structural economic challenge: China and Europe produce similar goods and are competing for global manufacturing dominance. China's current economic approach to the EU stems from its new economic model, which is driven by domestic innovation and upgrading its manufacturing exports. Products such as EVs and renewable energy equipment are part of the so-called 'new productive force' which China views as a key driver of its economy. This upgraded export-led model has become a key source of tension with Europe, in contrast to the stabilizing effect its old economic model had on the relationship.

Europe's ongoing grievances with Beijing also derive from Europe's push to de-risk from China. This strong belief among European leaders is driven both by economic security and Europe's geopolitical fallout with Beijing. But there is a key difference in how the two sides view the relationship. European leaders predominantly view their ties with China through the lens of the war in Ukraine. Beijing, however, sees its relations with Brussels and Europe in general primarily through the prism of the US containment strategy against China.

China's position on the war in Ukraine has been a catalyst for growing hostility towards Beijing in Europe. As Russia's assault on Ukraine continues, China's every interaction with Russia seems to deepen European anxiety and suspicion. This has led to a diplomatic impasse between Beijing and much of Europe. Neither side believes it has acted wrongly, something which continues to shape and complicate decision-making on both sides.

This dissonance has created a negative spiral. Chinese diplomats and scholars have attempted to explain the Chinese position further, but Europeans have only become increasingly frustrated, in turn triggering a sense of fatalism within the Chinese strategic community. Chinese leaders have made several trips to Europe since Russia's full-scale invasion of Ukraine to prevent further damage to ties with the continent but they have largely been left in the cold. The divide remains: Beijing insists the war in Ukraine is a

European matter that has nothing to do with China, while the Europeans believe that China is justifying its wrongdoing.

As a workaround, China has devised dual-track tactics to deal with the EU and its member states. On the one hand, Beijing continues to exchange war of words with the EU. On the other, it is engaging with European countries, such as Hungary, that are less concerned by Russia's military assault and China's economic competition. Moving forward, any rapprochement would require them to reconfigure their current approaches. China cannot simply rehash appeals for a 'win-win cooperation' that have little resonance in large parts of Europe. European Union must have a realistic assessment to what extent it can somehow magically change the Chinese government's outlook and political choices. Chinese and European leaders must find a new normal – a functional relationship that works for both sides.

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The author equally contributed in the present research, at all stages from the formulation of the problem to the final findings and solution.

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