

## Europe's De-risking from China: Dead on Arrival?

by Nicola Casarini

De-risking ties from China has become a buzzword in European policy circles, amid growing tensions between the West and the Asian giant. While US policymakers and experts continue to focus on the need to decouple ties from Beijing, the concept of de-risking has been largely fashioned in Brussels to avoid the decoupling debate and find a common transatlantic ground. While EU member states have reduced critical dependencies on China to varying degrees, their efforts are resisted by some large companies, local authorities and civil society actors eager to boost ties with Beijing. Recently, several EU governments have been promoting industrial cooperation with China, opening doors to Chinese investments in their territories to boost production of electric vehicles and green technologies. While this form of cooperation brings benefits to Europe's industrial capacity and competitiveness, it however risks increasing the level of dependency on Beijing, undermining the de-risking strategy being put in place by

the European Commission, as well as deepening the rift with the US on how to deal with the Asian giant. Going forward, there is a need for a thorough and frank debate about the EU's de-risking strategy and its future prospect, also considering a possible return of Trump to the White House.

### *The de-risking debate in the US and EU*

In the US, calls in favour of decoupling from China have increased in recent times, particularly from members of the Republican Party close to Donald Trump. For instance, Robert C. O'Brien, national security adviser in the Trump administration from 2019 to the end of the former president's term in early 2021, has called for a US complete decoupling from China in a recent article in *Foreign Affairs*.<sup>1</sup> Likewise, Matt Pottinger – former US Deputy

<sup>1</sup> Robert C. O'Brien, "The Return of Peace Through Strength", in *Foreign Affairs*, Vol. 103, No. 4 (July/August 2024), p. 24-38, <https://www.foreignaffairs.com/node/1131815>.

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National Security Adviser from 2019 to 2021 and Senior Director for Asia on the National Security Council from 2017 to 2019 – and Mike Gallagher – former US Representative from Wisconsin from 2017 to 2024 and chair of the House Select Committee on the Chinese Communist Party – advocate, in an essay published in *Foreign Affairs* in April, for a US China strategy much tougher than the one of the Biden administration.<sup>2</sup> Should Trump return to the White House and the Republicans retain the majority in Congress, Washington may accelerate the process of decoupling from China.

Europe has sought to avoid discussion about decoupling from China by framing the debate around the notion of de-risking, which has become an organising principle for the EU since it was first put forward by President of the European Commission Ursula von der Leyen in March 2023.<sup>3</sup> Last month, the European Think Tank Network on China (ETNC)<sup>4</sup> – a network of experts from leading think tanks across Europe – published its annual report which examines in detail how the de-risking from China has been implemented at the national level.<sup>5</sup> It finds that there is

<sup>2</sup> Matt Pottinger and Mike Gallagher, "No Substitute for Victory", in *Foreign Affairs*, Vol. 103, No. 3 (May/June 2024), p. 25-39, <https://www.foreignaffairs.com/node/1131590>.

<sup>3</sup> European Commission, *Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre*, Brussels, 30 March 2023, [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_23\\_2063](https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063).

<sup>4</sup> For more details about the European Think-tank Network on China (ETNC) see: <https://etnc.info>.

<sup>5</sup> Patrik Andersson and Frida Lindberg (eds), *National Perspectives on Europe's De-risking*

not a single and unanimously shared approach towards de-risking. Moreover, while almost all EU governments have reduced, in one form or another, their level of dependency from China, there continue to be difficulties, and resistance, to the process.

The case of Italy is illuminating: the Meloni government has succeeded in de-risking ties with Beijing in critical areas – a process that begun with the cabinet led by Mario Draghi (February 2021-September 2022) and accelerated with the accession to power of Giorgia Meloni's coalition.<sup>6</sup> However, important companies, various local authorities and universities have decided to continue, or even boost, relations with China in sensitive areas, thus undermining efforts by the central government to de-risk ties from Beijing.<sup>7</sup>

In an ironic twist, the de-risking strategy is now being undermined by the Meloni cabinet itself as it seeks to boost industrial cooperation with China in some of the key technologies where the Asian giant has reached a leadership role, a move – undertaken also by other EU governments – which puts in jeopardy Brussels' de-risking strategy.

*from China. A Report by the European Think-tank Network on China (ETNC)*, Stockholm, Swedish National China Centre, June 2024, <https://kinacentrum.se/en/publications/national-perspectives-on-europes-de-risking-from-china>.

<sup>6</sup> Nicola Casarini, "How to De-Risk from China: Lessons from Italy", in *The Diplomat*, 14 February 2024, <https://thediplomat.com/?p=261121>.

<sup>7</sup> Nicola Casarini, "Italy: Top-down De-risking vs Bottom-up Deepening of Ties", in Patrik Andersson and Frida Lindberg (eds), *National Perspectives on Europe's De-risking from China*, cit., p. 81-84.

### 'Made in China and Europe'

Giorgia Meloni visited China at the end of July to relaunch bilateral ties after Italy's official exit from the Belt and Road Initiative last December. During the visit, the two sides agreed on a three-year Action Plan to boost economic relations and signed a memorandum of understanding (MoU) on industrial cooperation, with a focus on electric vehicles and green technologies.<sup>8</sup> The aim is to make Italy a production platform for joint China-Italy cars and buses. In preparation for Meloni's visit, Italy's Minister of Enterprises and Made in Italy, Adolfo Urso, was in China at the beginning of July where he met with several Chinese companies, including automakers Chery, JAC Motors, and Dongfeng. The latter is currently discussing with the Meloni cabinet the plan to set up a factory in Italy capable of producing more than 100,000 hybrid and electric vehicles annually, leveraging Italy's automotive legacy and geographic position to serve the European market. According to statements by Dongfeng and Italy's Ministry of Industry, the investment aims to address Italy's unused industrial capacity and could involve resurrecting old Italian brands currently owned by the government.<sup>9</sup>

<sup>8</sup> Giselda Vagnoni and Laurie Chen, "Meloni Vows to 'Relaunch' Italy's Cooperation with China", in *Reuters*, 29 July 2024, <https://www.reuters.com/world/europe/italys-meloni-vows-relaunch-cooperation-with-china-ansa-2024-07-28>.

<sup>9</sup> "Italy in Talks with China's Dongfeng and Others over Auto Plant, Minister Says", in *Reuters*, 17 April 2024, <https://www.reuters.com/business/autos-transportation/italy-talks-with-chinas-dongfeng-others-over-auto-plant-minister-says-2024-04-17>.

Italy is by no means the only country seeking to boost industrial ties with China on key technologies. Other important European car manufacturers, such as Germany<sup>10</sup> and the Czech Republic,<sup>11</sup> have signed MoUs on industrial cooperation with Beijing. In July 2024, Slovak media reported that Chinese car manufacturer SAIC is eyeing Slovakia and Czechia as potential location for its EU based plant.<sup>12</sup> Recently, Hungary and Spain have successfully attracted investments to their territories. In December 2023, Chinese automaker BYD announced plans to establish an electric-vehicle manufacturing plant – the biggest in Europe with a production capacity of 200,000 vehicles per year – in the Hungarian city of Szeged. In Catalonia, local authorities collaborated with the central government in Madrid to attract a significant investment by Chinese automaker Chery which last April signed a joint venture with Ebro-

<sup>10</sup> German Federal Ministry for Economic Affairs and Climate Action, *Germany and China Sign Memorandum of Understanding on Dialogue and Cooperation in the Field of Automated and Connected Driving*, 16 April 2024, <https://www.bmwk.de/Redaktion/EN/Pressemitteilungen/2024/04/20240416-germany-and-china-sign-memorandum-of-understanding-on-dialogue-and-cooperation-in-the-field-of-automated-and-connected-driving.html>.

<sup>11</sup> Czech Embassy in China, *Signing of a Memorandum of Understanding between the Confederation of Industry of the Czech Republic and CCPIT during the Visit of a Delegation from the Czech Republic to China*, 22 April 2024, [https://mzv.gov.cz/beijing/en/trade\\_and\\_economy/news/signing\\_of\\_a\\_memorandum\\_of\\_understanding.html](https://mzv.gov.cz/beijing/en/trade_and_economy/news/signing_of_a_memorandum_of_understanding.html).

<sup>12</sup> Ivan Haluza, "Slovensko siahá po šiestej automobilke. Čo sa dá očakávať od čínskeho štátneho koncernu SAIC?", in *Denník E*, 23 July 2024, <https://dennikn.sk/4109200>.

EV Motors<sup>13</sup> to produce 150,000 cars by 2029 – an investment of 500 million euros. To attract Chery, the Spanish government offered tax breaks and provided 1.7 billion-euro incentives from EU funds. The French Minister of the Economy, Bruno Le Maire, openly lobbied the Chinese government for a similar electric car investment – a call made by other economy ministers across Europe.

A growing number of EU governments seems thus keen on attracting Chinese investment and technology to produce inside their territories. The goal is to manufacture electric cars and buses – but also solar panels and offshore wind farms – that could be defined as 'Made in China and Europe' – that is, made with Chinese technology and know-how together with European components and skilled labour – and thus compliant with European rules. In the automotive sector, the model is that of Stellantis, the Italian/French car producer that is partnering with Chinese battery manufacturer CATL and other Chinese players to produce electric vehicles and batteries in Europe. From this perspective, Chinese investments are expected to receive tax incentives and a favourable regulatory environment from Brussels, including monetary incentives to support research and development in green technologies – a way to effectively neutralise the recently announced EU tariffs on Chinese electric vehicles and boost the EU's Green Deal.

<sup>13</sup> "China's Chery to Open Its First European Manufacturing Site in Spain", in *Reuters*, 16 April 2024, <https://www.reuters.com/business/autos-transportation/chinas-chery-will-open-spain-its-first-european-manufacturing-site-2024-04-16>.

On 4 July 2024, Brussels imposed tariffs of up to 37.6 per cent on Chinese electric vehicle imports.<sup>14</sup> EU tariffs are much lower than those of the US, and the avowed plan behind it is to push Chinese car manufacturers to invest and produce in Europe – a move that risks creating a divide between the transatlantic allies on how to deal with Beijing.

### *The need for a frank Euro-Atlantic debate*

US President Joe Biden has declared that he considers China's industrial policy and technological advances as a national security threat.<sup>15</sup> For its part, the Third Plenum of the Central Committee of the Chinese Communist Party held in July emphasised the need to achieve high-tech socialist modernisation by 2035, sacrificing short-term prosperity to achieve technological sovereignty and industrial upgrading.<sup>16</sup>

<sup>14</sup> European Commission, *Commission Imposes Provisional Countervailing Duties on Imports of Battery Electric Vehicles from China while Discussions with China Continue*, 4 July 2024, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_3630](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_3630). During a closed-door meeting, and through a non-binding show of hands, EU member states voted for electric vehicles tariffs as follows: In favour: France, Italy, Netherlands, Spain, Belgium, Bulgaria, Denmark, Latvia, Lithuania, Poland. Against: Hungary, Slovakia, Cyprus, Malta. Abstain: Germany, Sweden, Austria, Croatia, Estonia, Finland, Ireland, Luxembourg, Portugal, Romania, Slovenia. No vote (no show): Czechia, Greece.

<sup>15</sup> White House, *Statement from President Biden on Addressing National Security Risks to the U.S. Auto Industry*, 29 February 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/02/29/statement-from-president-biden-on-addressing-national-security-risks-to-the-u-s-auto-industry>.

<sup>16</sup> Yu Jie, "China's Third Plenum Marks a Sea Change in Growth Model", in *Chatham House Expert Comments*, 11 July 2024, <https://www>.



In May, the US quadrupled tariffs on electric vehicles from China: from 25 per cent to 100 per cent. According to the Biden administration, these high tariffs are necessary to avoid that Beijing establishes overwhelming control over crucial technologies such as electric vehicles, lithium-ion batteries, and other products.<sup>17</sup> Washington believes that high tariffs could help slow China's development of certain dual-use technologies that have military potential such as lithium-ion batteries that can be used for military applications in diesel-electric submarines and aerial drones. The US is adamant in wanting to reduce the probability that China will be the first to make technical breakthroughs in battery technologies that could be military game-changers – a stance likely to be maintained, if not reinforced, by a Trump 2.0 administration which is also expected to adopt a more aggressive decoupling from China.

The de-risking approach was fashioned in Brussels last year to avoid the decoupling debate and find common ground with the US. However, the recent interest showed by various EU member states in partnering with China on key technologies which have military potential and in advancing cooperation in global industrial and supply chains might undermine the much-touted de-risking strategy of the European Commission, as well as deepen the

[chathamhouse.org/node/34840](https://www.chathamhouse.org/node/34840). See also: "The Third Plenum Gathers to Decide China's Economic Path - What to Expect", in *MERICs China Essentials*, 11 July 2024, <https://www.merics.org/en/node/2281>.

<sup>17</sup> Matthew P. Goodman, "Weighing Biden's China Tariffs", in *CFR Articles*, 24 May 2024, <https://www.cfr.org/node/252500>.

divide with the US on this issue. Going forward, with the re-election of Ursula von der Leyen to a second term as European Commission president, the moment is ripe for a thorough and frank discussion – within the EU and between the transatlantic allies – on the future of Europe's de-risking strategy, also considering a possible return to power of Donald Trump.

In practice, the European Commission could take several initiatives to address this situation. To start with, it should collect exact information on Chinese investments (those already announced as well as those in the pipeline) in electric vehicles and green technologies in the territories of EU member states to piece together a clear picture of this novel form of Sino-European industrial partnerships in key technologies. Based on this data, it should then assess the potential security and military implications of such industrial partnerships for the Euro-Atlantic alliance, working with NATO on this issue, if necessary. Moreover, the EU could promote consultations with the US on this matter, involving officials from the current Biden administration as well as staff from Republican candidate Donald Trump's team. Ultimately, Brussels should remain open to re-consider some of the main tenets of its de-risking strategy and, if needed, come up with a new terminology that takes stock of the trend wherein a significant number of EU member states prefer fostering – instead of severing – industrial ties with China on key technologies. Better to eventually scale down the EU's de-risking strategy, rather than having it gradually die out.

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