



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

Ladies and Gentlemen,

It is a real pleasure to be here at this very special event co-hosted by two of Europe's most knowledgeable and independent-minded think tanks. In a time when global affairs are becoming harder to decrypt – and in an era where facts are routinely challenged – the work that you do at these think tanks has never been more important for Europe. Because it is only by having a deeper understanding of the world as it really is – not as we may wish it to be – that we can develop better informed policies. This is why I believe think tanks are an essential part of our democracy. In just ten years, MERICS has developed a unique expertise in analysing the political, economic and social trends in China and how these impact Europe and the world. And we must preserve and uphold your right – and that of all think tanks – to be analytical and to be critical. So I want to express my solidarity with you and all the other individuals and institutions who have been unfairly sanctioned by the Chinese government. I would also like to congratulate the European Policy Centre on its recent 25th anniversary. From the outset, you have been a truly European voice in the world of policy and academia. This spirit is very much in the image of one of your founders, and one of Europe's most unheralded fathers – Max Kohnstamm. Max Kohnstamm lived through personal trauma and tragedy during World War II. This experience inspired him to dedicate his life to building a united Europe. One question always guided his work: 'Do we believe that states are forever condemned to remain [...] never to trust another state? Or do we believe in the possibility of change, of gradually changing men's minds and their behaviour?'. This commitment to creating a better understanding between people lives on through Europe's think-tank community.

And it is this need to deepen our knowledge of a rapidly changing world that brings us here to discuss Europe's policy towards China. Our relationship with China is one of the most intricate and important anywhere in the world. And how we manage it will be a determining factor for our future economic prosperity and national security. China is a nation with a unique history dating back from early civilisation through the rise and fall of dynasties. Its philosophers have shaped culture and society in much of today's world – from Lao Tzu's teachings about living in harmony with nature to the ethical values of Confucius. The Four Great Inventions of Ancient China – the compass, gunpowder, papermaking and printing revolutionised world civilisation. But this latest era is in many ways one of the most remarkable chapters in that long, winding and often turbulent history. In less than 50 years China has moved from widespread poverty and economic isolation to be the world's second largest economy, and a leader in many cutting-edge technologies. Since 1978, growth has averaged over 9% per year and more than 800 million people were lifted out of poverty. This is one of the greatest accomplishments of the past half century. China's reach stretches across all continents and global institutions – and its ambitions are far greater still. Through the Belt and Road Initiative, it is the largest lender to developing countries. And its economic, industrial and military power puts into question any notion of China itself still being a developing country. We heard that last October when President Xi told the Communist Party Congress that by 2049 he wanted China to become a world leader in 'composite national strength and international influence'. Or to put it in simpler terms: He essentially wants China to become the world's most powerful nation. Given its size and global influence, it is positive that China's economy has eventually reopened after COVID-19. And it is good that our citizens, businesses and diplomats are able to exchange once again. Because understanding each other starts with speaking with one another.

But at the same time, we are concerned by what is behind this return to the global stage. Defining a European strategy towards China – defining what success looks like – must start with a sober assessment of our current relations and of China's strategic intentions. Our relationship with China is far too important to be put at risk by failing to clearly set the terms of a healthy engagement. It is clear that our relations have become more distant and more difficult in the last few years. We have seen a very deliberate hardening of China's overall strategic posture for some time. And it has now been matched by a ratcheting up of increasingly assertive actions. There was a stark reminder of that last week in Moscow during President Xi's state visit. Far from being put off by the atrocious and

illegal invasion of Ukraine, President Xi is maintaining his 'no-limits friendship' with Putin. But there has been a change of dynamic in the relationship between China and Russia. It is clear from this visit that China sees Putin's weakness as a way to increase its leverage over Russia. And it is clear that the power balance in that relationship – which for most of the last century favoured Russia – has now reversed. Most telling were President Xi's parting words to Putin on the steps outside the Kremlin when he said: 'Right now, there are changes, the likes of which we have not seen for 100 years. And we are the ones driving these changes together.' As a permanent member of the Security Council, China has a responsibility to safeguard the principles and values that lie at the heart of the UN Charter. And China has a responsibility to play a constructive role in advancing a just peace. But that peace can only be just if it is based on upholding the sovereignty and territorial integrity of Ukraine. Ukraine will define the terms of a just peace that requires the withdrawal of invading troops. Any peace plan which would in effect consolidate Russian annexations is simply not a viable plan. We have to be frank on this point. How China continues to interact with Putin's war will be a determining factor for EU-China relations going forward. And of course, China itself has also taken a more assertive stance in its own neighbourhood. The show of military force in the South China Sea and East China Sea, and at the border with India, directly affect our partners and their legitimate interests. We also underscore the importance of peace and stability in the Taiwan Strait. Any weakening of regional stability in Asia, the fastest-growing region in the world, affects global security, the free flow of trade and our own interests in the region. The grave human rights violations occurring in Xinjiang are also a cause for great concern, as laid out in the recent report of the UN High Commissioner for Human Rights. How China meets international obligation regarding human rights will be another test for how – and how much – we can cooperate with China. Just as China has been ramping up its military posture, it has also ramped up its policies of disinformation and economic and trade coercion. This is a deliberate policy targeting other countries to ensure they comply and conform. We saw it when China responded to the opening of a Taiwan office in Vilnius by taking retaliatory measures against Lithuania and other European companies. We have seen it with popular boycotts against clothing brands for speaking out on human rights or with sanctions against Members of the European Parliament, officials and academic institutions for their take on China's actions. We have seen that Member States increasingly have to deal with Chinese activities in their societies which are not tolerable. And we have seen it in the region – for example when China severely restricted Australian exports of barley and wine because of its government's questions on the origin of COVID-19. This is all part of a deliberate use of dependencies and economic leverage to ensure that China gets what it wants from smaller countries.

Ladies and Gentlemen,

These escalatory actions point to a China that is becoming more repressive at home and more assertive abroad. There are three broad conclusions we can draw on how China is changing – which in turn must shape how our policies will need to change too. The first is that China has now turned the page on the era of 'reform and opening' and is moving into a new era of security and control. We saw this earlier this month when President Xi repeated his pledge to make the Chinese military a 'great wall of steel that effectively safeguards national sovereignty, security, and development interests'. We saw it with Beijing's Global Security Initiative, which it seeks to embed in UN documents and international discourse more widely. We can expect to see a greater focus on security – whether military, tech or economic. All companies in China, for example, are already obliged by law to assist state intelligence-gathering operations and to keep it secret. We can also expect even stricter economic control measures as part of a strengthening of the Chinese Communist Party's steering of the economy through its institutions and leaders. And we can expect to see a clear path and push to make China less dependent on the world and the world more dependent on China. Or as President Xi put it bluntly a few years ago: 'China must tighten international production chains' dependence on China to form a powerful countermeasure and deterrent capability'. This is especially true when it comes to critical raw materials like lithium or cobalt. For sectors like high-speed rail and renewable energy technology. Or for emerging tech that is central to future economic and national security – like quantum computing, robotics or artificial intelligence. The second conclusion we can draw flows from this – and that is that the imperative for security and control now trumps the logic of free markets and open trade. In his report to the recent Party Congress, President Xi told the Chinese people to prepare for struggle. It is no coincidence that he used in his opening speech the words 'douzheng' and 'fendou' repeatedly – which both can be translated as struggle. This is indicative of a world view shaped by a sense of mission for the Chinese nation. Which brings me to the third conclusion. And that is that the Chinese Communist Party's clear goal is a systemic change of the international order with China at its centre. We have seen it with China's positions in multilateral bodies which show its determination to promote an alternative vision of the world order. One, where individual rights are subordinated to national security. Where security and economy take prominence over political and civil rights. We have seen it with the Belt and Road Initiative, new international banks or other China-led institutions set up to rival the current international system. We have seen it with China's set of global initiatives and by how it positions itself as a power and

peace broker, for instance through the recent Saudi Arabia and Iran agreement. And we have seen the show of friendship in Moscow which says a thousand words about this new vision for an international order.

Ladies and Gentlemen,

With all this in mind, our response must start by working to strengthen the international system itself. We want to work with our partners on global issues like trade, finance, climate, sustainable development or health. For that, we need to reinforce the institutions and systems in which countries can compete and cooperate and from which they benefit. This is why it is vitally important that we ensure diplomatic stability and open communication with China. I believe it is neither viable – nor in Europe's interest – to decouple from China. Our relations are not black or white – and our response cannot be either. This is why we need to focus on de-risk – not de-couple. And this is part of the reason why I will soon be visiting Beijing together with President Macron. Managing this relationship and having an open and frank exchange with our Chinese counterparts is a key part of what I would call the de-risking through diplomacy of our relations with China. We will never be shy in raising the deeply concerning issues I have already set out. But I believe we must leave space for a discussion on a more ambitious partnership and on how we can make competition fairer and more disciplined. And more broadly, we need to think about how we can work together productively in the global system in the future, and on which challenges. There are some islands of opportunity that we can build on. Take climate change and nature protection. I very much welcome the leading role China played in securing the historic Kunming-Montreal Global Biodiversity agreement. And a few weeks ago, China was also an active player in the global deal to protect biodiversity in international waters. At a time of global conflict and tension, these are notable diplomatic achievements – which China and the European Union worked on together. And we look forward to working together in the same spirit ahead of COP28 later this year. This shows what can be done when interests align. And it shows that diplomacy can still work – whether on pandemic preparedness, nuclear non-proliferation or global financial stability.

The point here is that we do not want to cut economic, societal, political or scientific ties. China is a vital trading partner – accounting for 9% of our goods exports and more than 20% of our goods imports. While imbalances are growing, most of our trade in goods and services remains mutually beneficial and 'un-risky'. But our relationship is unbalanced and increasingly affected by distortions created by China's state capitalist system. So we need to rebalance this relationship on the basis of transparency, predictability and reciprocity. We have to ensure that our trade and investment relations promote prosperity in China and in the European Union. The Comprehensive Agreement on Investment, the so-called CAI – for which negotiations concluded in 2020 – aimed at such rebalancing. But we have to recognise that the world and China have changed significantly in the last three years – and we need to reassess the CAI in light of our wider China strategy. And we know there are some areas where trade and investment poses risks to our economic and national security, particularly in the context of China's explicit fusion of its military and commercial sectors. This is true for certain sensitive technologies, dual-use goods or even investment which comes with forced technology or knowledge transfers. This is why – after de-risking through diplomacy – the second strand of our future China strategy must be economic de-risking. The starting point for this is having a clear-eyed picture on what the risks are. That means recognising how China's economic and security ambitions have shifted. But it also means taking a critical look at our own resilience and dependencies, in particular within our industrial and defence base. This can only be based on stress-testing our relationship to see where the greatest threats lie concerning our resilience, long-term prosperity and security. This will allow us to develop our economic de-risking strategy across four pillars. The first one is: making our own economy and industry more competitive and resilient. This is particularly the case when it comes to health, digital and the clean-tech sector. If you look at the global market for net-zero technologies, it is set to triple by 2030. Our ability to remain front-runners in this sector will shape our economy for the decades to come. This is why, you all know it, just last week we put forward the Net-Zero Industry Act as a key part of our Green Deal Industrial Plan. The aim is to be able to produce at least 40% of the clean tech that we need for the green transition – such as solar, onshore and offshore wind, renewable energy in the broadest sense, batteries and storage, heat pumps and grid technologies. But to achieve this goal we will also need more independence and diversity when it comes to the key inputs needed for our competitiveness. We know this is an area where we rely on one single supplier – China – for 98% of our rare earth supply, 93% of our magnesium and 97% of our lithium – just to name a few. We are deeply mindful of what happened with Japan's imports of rare earths from China a decade ago when foreign policy tensions between the two in the East China Sea became acute. And our demand for these materials will skyrocket as the digital and green transitions speed up. Batteries that are powering our electric vehicles are forecasted to drive up demand for lithium by 17 times by 2050. This is why we have put forward the Critical Raw Materials Act to help diversify and secure our supply. And we need to think about this right across our Single Market to strengthen our resilience on cyber and maritime, space

and digital, defence and innovation. The second part of this de-risking strategy is better using our existing toolbox of trade instruments. Over the last years we have put in place measures to address security concerns, whether on 5G, the Foreign Direct Investment or export controls. We have given ourselves the tools to counter economic distortions, notably through the Foreign Subsidies Regulation, as well as a new instrument to deter economic coercion. We now need the unity at EU level for a bolder and faster use of those instruments when they are required and a more assertive approach to enforcement. My third point, China's changing policies may require us to develop new defensive tools for some critical sectors. The European Union needs to define its future relationship with China and other countries in sensitive high-tech areas such as microelectronics, quantum computing, robotics, artificial intelligence, biotech, – you name it. Where dual-use purposes cannot be excluded or human rights might be implicated, there will need to be a clear line on whether investments or exports are in our own security interests. We need to ensure that our companies' capital, expertise and knowledge are not used to enhance the military and intelligence capabilities of those who are also systemic rivals. So we have to look at where there are gaps in our toolbox which allow the leakage of emerging and sensitive technologies through investments in other countries. This is why we are currently reflecting on if and how – Europe should develop a targeted instrument on outbound investment. This would relate to a small number of sensitive technologies where investment can lead to the development of military capabilities that pose risks to national security. The Commission will present some initial ideas as part of our new Economic Security Strategy later this year. This will map out where we need to strengthen our economic security and how to better use our trade and tech security tools. The fourth part of our economic de-risking strategy is alignment with other partners. On issues that concern our economic security, we have much in common with our partners around the world. This is especially true of our G7 and G20 partners and those in the region and beyond who are often more integrated with China and more advanced in their thinking on de-risking. As part of this, we will focus on free trade agreements where we do not yet have them – such as with New Zealand, Australia, India, our ASEAN and Mercosur partners – on modernising agreements where we have them – such as those with Mexico and Chile – and on better using the others that already exist. We will enhance cooperation on sectors such as digital and clean tech, through the Trade and Technology Council with India or the EU-Japan Green Alliance. And we will invest in infrastructure in the region and beyond through the Global Gateway strategy. We are offering developing countries a genuine choice when it comes to infrastructure investment and finance. All of this will help strengthen our supply chain resilience and diversify our trade – which must be a central element of our economic de-risking strategy.

Ladies and Gentlemen,

We have in front of us a task to refocus on the most important issues. And it is a reflection of the need to adjust our strategy in line with the way the Chinese Communist Party seems to be changing. But if we are to manage this relationship to prepare for the future, we must do it together. At this defining moment in global affairs, we need the collective will to respond together. A strong European China policy relies on strong coordination between Member States and EU institutions and a willingness to avoid the divide and conquer tactics that we know we may face. But I also want to say that nothing is inevitable in geopolitics. China is a fascinating and complex mix of history, progress and challenges. And it will define this century. But our story about how we relate to China is not yet fully written – and it need not be a defensive one. We must collectively show that our democratic system, our values and our open economy can deliver prosperity and security for people. And at the same time, we must always be ready to talk and work with those who see the world differently. Which brings me back to where I started and Max Kohnstamm's line about working to gradually change minds and actions. This is what you do every single day in your work. And this is what Europe will always believe in.

Long live Europe, and many thanks for your attention.

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