

De-risking Rather Than Decoupling: Resilience of China–Europe Economic Ties

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Abstract: In recent months, “de-risking” has become the catchword for economic relations between China and the West. The article begins by exploring the evolution of the discourse, then describing China’s interaction with Europe regarding it. Subsequently, it reviews China–Europe relations through the lens of de-risking. The article argues that “decoupling” connotes the image of severing all economic ties, whereas de-risking implies a partial and gradual movement. De-risking to a large extent is a stabilizing factor for China–Europe relations. A sudden breakdown or extremely turbulent China–Europe relations are currently ruled out.

Keywords: de-risking, China–Europe relations, geoeconomics, Chinese diplomacy

I. From Decoupling to De-risking

After Donald Trump’s 2017 inauguration, many Americans have proposed a decoupling strategy from China. Europe, trapped between the US and China, has no desire to decouple from China. The European Union finally coined the term “de-risking” to describe its economic relations with China in early 2023. The word quickly gained popularity in the West.

Decoupling before the Trump era: a description

Prior to decoupling, there was coupling. In 2007, economists Niall Ferguson and Moritz Schularick coined the term “Chimerica” to describe the symbiotic economic relationship between China and the United States. They argued that the spectacular boom in asset prices was a product of the coupling

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of the US and Chinese economies.¹ After the US subprime crisis erupted in late 2008, the two economists concluded that Chimerica could not continue in its current form for much longer.²

In an article titled “The Decoupling Debate” published in March 2008, the *Economist* predicted that the GDP-growth rates in emerging countries would slow considerably less than in previous American recessions. The article acclaimed that “as America’s economy struggles to stay aloft, the developing world is learning to spread its wings.”³

A study by the International Monetary Fund (IMF) at the end of 2007 found that growth had become more synchronized among developed economies and also among emerging economies. Surprisingly, however, the economic activity of emerging economies had diverged (or decoupled) from that of developed economies over the past two decades. The impact of rich economies on the growth of emerging economies had diminished significantly.⁴

Decoupling since the Trump era: a strategy

Former US President Trump sought to “decouple” from China. His advisors, Steve Bannon and Peter Navarro, first proposed the concept. Since then, the term “decoupling” has become a fixture in discussions of Sino–American relations.

In the early years of the Trump administration, decoupling has aroused considerable suspicion. Several eminent China watchers in the United States penned an open letter to President Trump and members of Congress claiming that “US efforts to treat China as an enemy and decouple it from the global economy will damage the United States’ international role and reputation and undermine the economic interests of all nations.”⁵ Former Australian Prime Minister Kevin Rudd has warned later that year that decoupling could become

¹ Niall Ferguson and Moritz Schularick, “Chimerica and the Global Asset Market Boom,” *International Finance*, Vol. 10, No. 3, Winter 2007, 215-239.

² Niall Ferguson and Moritz Schularick, “The End of Chimerica,” *International Finance*, Vol. 14, No. 1, Spring 2011, pp. 1-26.

³ “The Decoupling Debate,” *The Economist*, March 8, 2008.

⁴ “Changing Nature of North-South Linkages: Stylized Facts and Explanations,” IMF Working Paper WP/07/280, December 2007, <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Changing-Nature-of-North-South-Linkages-Stylized-Facts-and-Explanations-21423>.

⁵ M. Taylor Fravel, J. Stapleton Roy, Michael D. Swaine, Susan A. Thornton and Ezra Vogel, “China Is Not An Enemy,” *Washington Post*, July 3, 2019.

a self-fulfilling prophecy.¹

By the end of 2019, a *Financial Times* columnist observed that initially, the elites were overlooking the possibility of deglobalization, the idea of the US and China economically decoupling was primarily discussed in eccentric circles. Now, this is supported by politicians as seemingly ideologically opposed as Democratic presidential hopeful Elizabeth Warren and Republican Senator Marco Rubio.²

Many hoped that when Joe Biden succeeded Trump in 2021, his administration would take a less confrontational stance toward China. However, this is not the case. Decoupling remains the story of the day. Adam Posen, the president of the Peterson Institute for International Economics, criticized in early 2023 that, “Beginning with the Trump administration, and accelerating under the Biden administration, US trade and industrial policy has prioritized relocating manufacturing production back to the United States.”³

De-risking: Europe’s middle way

The Europeans have been hesitant to implement decoupling. In 2019, several European countries, including Germany and France, resisted US pressure to ban Huawei in their 5G networks. Nonetheless, the pandemic and the Ukraine Crisis have compelled Europeans to reconsider their economic ties with China.

After the outbreak of the COVID-19 pandemic in 2020, Europe was displeased by the shortage of medical equipment. Fearing an excessive reliance on China, European politicians emphasized the importance of returning manufacturing to the EU. The EU’s Internal Market Commissioner Thierry Breton admitted that Europe may have gone “too far in globalization” and become too dependent on “one country, one continent.” Then, German Chancellor Angela Merkel argued that the pandemic revealed the need for “certain sovereignty” obtained through a “pillar of domestic production.”⁴

¹ Kevin Rudd, “To Decouple or Not to Decouple?,” Ellsworth Memorial Lecture on November 4, 2019, at the University of California-San Diego, <https://asiasociety.org/policy-institute/decouple-or-not-decouple>.

² Rana Foroohar, “Consciously Decoupling the US Economy,” *Financial Times*, December 1, 2019.

³ Adam Posen, “America’s Zero-Sum Economics Doesn’t Add Up,” *Foreign Policy*, March 24, 2023, <https://foreignpolicy.com/2023/03/24/economy-trade-united-states-china-industry-manufacturing-supply-chains-biden/>.

⁴ Jakob Hanke Vela, “Coronavirus Won’t Kill Globalization, But Will Clip Its Wings,” *Politico*, April 7 2020, <https://www.politico.eu/article/coronavirus-wont-kill-globalization-but-will-clip-its-wings/>.

After the Ukraine crisis in February 2022, Europeans halted their oil and gas trade with Russia and accelerated their green transition, but it was not long before they realized they were overly dependent on China for rare earth. The EU believed that “98% of EU’s rare earths come from China.”¹

Ursula von der Leyen, president of the European Commission, addressed the World Economic Forum in May 2022, three months after Russia’s military operation in Ukraine:

The economies of the future will no longer rely on coal and oil. But on lithium for batteries. On silicon metal for chips. On rare earth permanent magnets, for electric vehicles and wind turbines. And it’s for sure—the green and digital transitions will massively increase our need for these materials. However, access to these materials is not a given. For many of them, we rely on a handful of producers in the world. So, we must avoid falling into the same trap as with oil and gas. We should not replace old dependencies with new ones.²

Nevertheless, Europe has never reached a decoupling conclusion.

By the spring of 2023, despite the decoupling rhetoric, China’s economic power had required the West to find a way to balance their fears about Beijing’s growing power with the reality that there is no complete separation.

A recent poll by European Council of Foreign Relations (ECFR), a think tank, showed that Europeans view China as a “necessary partner” for Europe. On average, 70% of respondents recognize China and Russia as close partners. However, this does not convince them that Europe should decouple from China as it has from Russia. Only 22% of Europeans believe that the region’s economic relationship with China poses more risks than benefits, on average, across the countries surveyed. In no country did most respondents consider Europe’s trade with China to involve more risks than benefits.³ According to a report published in April by the French Institute of International Relations

¹ Finbarr Bermingham, “Eager to Cut China Dependence, EU Eyes Processing 40 per cent of Its Strategic Raw Materials by 2030,” March 10, 2023, <https://www.scmp.com/news/china/article/3213009/eager-cut-china-dependence-eu-eyes-processing-40-cent-its-strategic-raw-materials-2030>.

² “Ursula von der Leyen’s Speech to Davos 2022 in Full,” World Economic Forum, May 24, 2022, <https://www.weforum.org/agenda/2022/05/ursula-von-der-leyens-speech-to-davos-2022-in-full/>.

³ Jana Puglierin and Pawel Zerka, “Keeping America Close, Russia Down, and China Far Away: How Europeans Navigate a Competitive World,” ECFR, June 7, 2023, <https://ecfr.eu/publication/keeping-america-close-russia-down-and-china-far-away-how-europeans-navigate-a-competitive-world/>.

(IFRI), “Globalization has produced strong economic and technological interdependencies that make any prospect of decoupling very costly, if not impossible.”¹

In January 2023, Europeans officially proposed an alternative for the first time. At the World Economic Forum, President von der Leyen stated briefly the need to focus on de-risking over decoupling.²

De-risking was further developed in an important speech on China on March 30, 2023. President von der Leyen stated, “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 decouple.”³

The EU summit on June 29–30, 2023 was widely considered as a meeting designed for the EU member states to reach a consensus on economic security and China. The conclusion of the summit asserted that the EU and China “continue to be important trade and economic partners,” and the EU “will seek to ensure a level playing field” and “continue to reduce critical dependencies and vulnerabilities, including in its supply chains, and will de-risk and diversify where necessary and appropriate.” The EU “does not intend to decouple or to turn inwards,” the statement continued.⁴

In summary, de-risking is a term coined by the EU (von der Leyen contributed to its creation) and has been used as a counter-term to decoupling. De-risking is Europe’s strategy for engaging with China while remaining responsive to US policy shifts. According to Noah Barkin, a senior adviser with the consulting firm Rhodium Group, “In using the de-risking framing and rejecting the idea of decoupling, von der Leyen is defining EU strategy toward China as distinct from that of the US, while embracing important elements of

¹ Thomas Gomart and Marc Hecker eds., “China/United States: Europe off Balance,” Ifri, April 2023, <https://www.ifri.org/en/publications/etudes-de-lifri/chinaunited-states-europe-balance>.

² *Special Address by President von der Leyen at the World Economic Forum*, January 17, 2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_232.

³ *Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre*, March 30, 2023, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_23_2063.

⁴ “European Council Meeting (29 and 30 June 2023)—Conclusions”, EUCO 7/23, CO EUR 5, CONCL 3, June 30 2023, <https://www.consilium.europa.eu/media/65398/2930-06-23-euco-conclusions-en.pdf>.

the US approach.”¹

A new Western consensus

On April 20, 2023, three weeks after von de Leyen’s de-risking speech, US Treasury Secretary Janet L. Yellen delivered an important speech on the US–China economic relationship. She softened the United States’ stance on decoupling by stating, “The United States will assert ourselves when our vital interests are at stake. But we do not seek to ‘decouple’ our economy from China’s. A full separation of our economies would be disastrous for both countries.” As a sign of considering Europe’s concern, Yellen added: “It would be destabilizing for the rest of the world.”²

On April 27, a week after Yellen’s “do-not-seek-decoupling” speech, US National Security Advisor Jake Sullivan delivered another important speech entitled “Renewing American Economic Leadership.” Sullivan aligned himself with von de Leyen’s de-risking approach toward China in the speech that later became known as the New Washington Consensus Speech. He said, “As President von der Leyen put it recently, we are for de-risking and diversifying, not decoupling. We’ll keep investing in our own capacities, and in secure, resilient supply chains. We’ll keep pushing for a level playing field for our workers and companies and defending against abuses.”³

Finally, in late May, Western leaders had the opportunity to coordinate their views on de-risking, which they did. The G7 Hiroshima Leaders’ Communiqué, which was released on May 20, stated that their policy approaches are not intended to harm China, nor seek to impede China’s economic progress and development. A growing China that adheres to international norms would be of global interest. They added, “We are not decoupling or turning inwards. At the same time, we recognize that economic resilience requires de-risking and diversifying. We will take steps, individually and collectively, to invest in our own economic vibrancy. We will reduce excessive dependencies in our critical

¹ James Kyngé, “Von der Leyen’s ‘De-risking’ Is a Tougher Stance on China,” *Financial Times*, March 31, 2023.

² *Remarks by Secretary of the Treasury Janet L. Yellen on the U.S. — China Economic Relationship at Johns Hopkins School of Advanced International Studies*, April 20, 2023, <https://home.treasury.gov/news/press-releases/jy1425>.

³ *National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution*, April 27 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>.

supply chains.”¹

Meanwhile, according to a US think-tanker, decoupling has been a commonly used and divisive word in China policy circles, whereas “‘de-risking’ sounds considerably more moderate, makes intuitive sense, and has now produced a highly publicized consensus on China policy among a large variety of different countries.”²

II. China Zooms In

The first impression

One week after de Leyen’s important “de-risking rather than decoupling” speech about China, she visited China from April 5 to 7. President Emmanuel Macron of France visited China at the same time, but for a different agenda. The visits provided Europeans with their first opportunity to express their perspective on de-risking to the Chinese leadership.

After meeting with the Chinese Premier and President on the afternoon of April 6, Von de Leyen held a press conference by herself. In the press conference, she provided an extended explanation of the context and content of the EU’s de-risking strategy. It is plausible that she would have expressed similar sentiments to the Chinese leaders. According to von de Leyen at the press conference, the European Union is becoming more wary of its dependencies, and this has led to calls to decouple from China. She countered, “I doubt that this is a viable or desirable strategy. I believe that we have to engage in de-risking.” She continued by stating that the vast majority of economic activities between Europe and China carries no risks. Moreover, she proposed that dialogue and diplomacy should be used to address risks whenever they are found: “We address the risk of dependencies through the diversification of our trade and investment relations. The risk of leakage of sensitive technologies that could be used for military purposes needs to be addressed through export controls or investment screening. But whatever the instrument we choose is, we

¹ G7 Hiroshima Leaders’ Communiqué, May 20, 2023, <https://www.consilium.europa.eu/media/64497/g7-2023-hiroshima-leaders-communic%C3%A9.pdf>.

² Paul Gewirtz, “Words and Policies: ‘De-risking’ and China Policy,” Brookings Institution, May 30, 2023, <https://www.brookings.edu/blog/order-from-chaos/2023/05/30/words-and-policies-de-risking-and-china-policy>.

wish to resolve the current issues through dialogue. So it is basically de-risking through diplomacy.”¹

Meanwhile, upon French President Macron’s arrival in Beijing, he addressed de-risking and decoupling during his first press conference. According to him, there is a perception that decoupling from the Chinese economy has already begun, with the only remaining questions pertaining to pace and intensity. Macron stated, “I do not believe, in any case I do not want to believe, in this scenario.”² He added that strategic autonomy does not mean autarky and that this is the difference between de-risking and decoupling. According to Reuters, among the 50-strong delegation of business leaders accompanying Macron to Beijing, “the mood was cautiously sanguine on the thawing post-pandemic trade prospects with China, with some rejecting American-led calls for decoupling.”³

At the meetings during the visits, both the Chinese and Europeans frequently brought up decoupling. According to the readout from the Chinese Foreign Ministry, Chinese President Xi Jinping urged at the trilateral meeting that “China and the EU need to jointly uphold global stability and prosperity, and stand against hegemonism, unilateralism and attempts to decouple economies or sever supply chains.” Von de Leyen responded, “Decoupling from China is neither in the EU’s interests nor the EU’s strategic choice.” She also added that the EU determines its China policy independently. Meanwhile, Macron responded, “the two sides should work with each other to stay away from the trap of economic decoupling and severing supply chains.”⁴

We can see from the preceding that during von de Leyen and Macron’s trip to China, the Chinese leadership has shown appreciation for the Europeans’ refusal to engage in decoupling. Both sides viewed the refusal to decouple from China as evidence of European autonomy and independence from the US.

¹ *Remarks by President von der Leyen at the Press Conference at the End of Her Visit to China*, April 6, 2023, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_23_2147.

² Michel Rose and Laurie Chen, “Ahead of Xi Meeting, Macron Warns against Shunning China,” Reuters, April 5, 2023, <https://www.reuters.com/world/europe/between-reset-de-risk-eu-leaders-pay-rare-visit-china-2023-04-04/>.

³ Reuters, “In Beijing, French Business Community Welcomes Macron’s Overtures,” April 6, 2023, <https://www.reuters.com/business/beijing-french-business-community-welcomes-macrons-overtures-2023-04-06/>.

⁴ “President Xi Jinping Holds China-France-EU Trilateral Meeting with French President Emmanuel Macron and European Commission President Ursula von der Leyen,” Chinese Foreign Ministry, April 6, 2023, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202304/t20230406_11055596.html.

However, the word de-risking is absent from all accounts of von de Leyen and Macron's trip provided by the Chinese Foreign Ministry. This may indicate that Beijing has not yet figured out how to handle de-risking.

Decouple for the sake of de-risking

The first criticism of de-risking came from a high-level Chinese diplomat during his visit to Berlin in early May 2023, one month after Macron and von de Leyen's China trip.

There are potentially three causes for the criticism of de-risking. First, the term de-risking has been adopted by the US.

When von de Leyen and Macron visited Beijing in early April, de-risking was still a European concept. According to *New Statesman* reporter Bruno Maçães, when von de Leyen discussed de-risking and decoupling with Xi Jinping, Xi was unhappy with the distinction because he does not believe it to be a real distinction.¹ Nevertheless, no Chinese readouts about von de Leyen and Macron's trip have mentioned de-risking, indicating a wait-and-see attitude on this issue.

However, in early May, the term de-risking had been adopted by Janet Yellen, Jake Sullivan, and numerous other US officials in their China-related speeches. In the eyes of the Chinese, de-risking has become a disguise rather than an alternative to decoupling. The new Chinese ambassador to the US Xie Feng emphasized this point in his speech at the US–China Business Council's welcome event on June 7, 2023. Xie emphasized in his speech that if “‘de-risking’ is used as a cover for ‘decoupling,’ it will hammer in more nails for China–US relationship.” According to him, the Chinese are concerned that de-risking is merely another name for decoupling.²

Second, Europeans were engaged in a heated debate regarding their China policy. Chinese diplomats were aware that their comments in Berlin would have a significant impact on the discussion. In the following two months, the EU would hold a series of China-focused meetings and publish an economic security strategy, whereas Germany would release its first national security

¹ Bruno Maçães, “Ambassador Fu Cong: ‘Europe Will not Become a Vassal to China’,” May 28, 2023, <https://www.newstatesman.com/world/asia/china/2023/05/ambassador-fu-cong-interview-europe-china>.

² “Ambassador Xie Feng: ‘De-risking’ Should Not Be Used as a Cover for ‘De-coupling’,” Embassy of the PRC in the USA, June 7, 2023, http://us.china-embassy.gov.cn/eng/dshd/202306/t20230608_11091437.htm.

strategy.

Third, Beijing has long resisted recognizing Europe's new stance on China. The European Commission revised its China policy in a document titled "EU–China–A Strategic Outlook" on March 12, 2019. The document argued that the balance between China's challenges and opportunities has shifted. It stipulated that China is simultaneously a cooperation partner, negotiating partner, economic competitor, and systemic rival.¹ China's initial response was evident during President Xi Jinping's visit to Europe later that month, where he told the French, German, and Commission leaders, "I thought we were good friends. But now, we are systemic rivals?"² As usual, when von de Leyen and Macron visited China in April 2023, Xi said, "China hopes the EU will develop a more independent and objective perception of China and adopt a pragmatic and positive China policy."³

Trying to find the common ground

Germany's first National Security Strategy was published on June 14, 2023. Without mentioning de-risking, the strategy asserted that "international economic and financial relations also have a security dimension." Specifically, some states are increasingly jeopardizing the principles of free economic cooperation, "economic dependencies in critical areas can quickly evolve into significant security risks," and "the intensified international competition with regard to technology can give rise to security risks."⁴

The European Economic Security Strategy, another important document, was published by the European Commission on June 20. Without mentioning China a single time, the strategy has identified four categories of risk: supply chain resilience; physical and cyber security of critical infrastructure; technology security and technology leakage; and weaponization of economic dependencies or economic coercion. The strategy identifies promoting,

¹ European Commission contribution to the European Council, *EU-China–A Strategic Outlook*, March 12, 2019, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

² Stuart Lau, "Russia Crisis Gives EU a Grim Sense of What's to Come with China," Politico, March 31, 2022, <https://www.politico.eu/article/china-xi-jinping-has-europe-eu-summit-russia/>.

³ "President Xi Jinping Holds China-France-EU Trilateral Meeting with French President Emmanuel Macron and European Commission President Ursula von der Leyen," Chinese Foreign Ministry, April 6, 2023, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202304/t20230406_11055596.html.

⁴ *Robust. Resilient. Sustainable. Integrated Security for Germany: National Security Strategy*, June 2023, <https://www.nationalesicherheitsstrategie.de/National-Security-Strategy-EN.pdf>.

protecting, and partnering as three priorities, as well as proportionality and precision as two principles for addressing risks.¹

How does China respond to these two important documents?

Chinese Premier Li Qiang's visit to Europe in mid-June is a noteworthy event. Premier Li promoted Chinese business opportunities in Berlin and Paris in his first foreign trip since assuming office in March.

Premier Li responded comprehensively without mentioning de-risking during his meeting with German companies on June 19 in Berlin. Moreover, Li stated to representatives of German companies such as Siemens, Volkswagen, Mercedes-Benz, BMW, Schaeffler, BASF, Covestro, Wacker Chemie, Merck, SAP and Allianz, that risk prevention and cooperation are not mutually exclusive. In terms of risk prevention, enterprises should be in control. Noting that all parties understandably have their own security concerns, Li emphasized the importance of defining and preventing risks in an important manner. He added that enterprises have the most direct and acute perception of risk and understand how to avoid it and respond to it. He noted that failure to cooperate is the greatest risk and failure to develop is the greatest insecurity.²

Compared with Chinese diplomat's remarks in Berlin over one month earlier, Premier Li Qiang's tone is softer and less direct. Instead of criticizing de-risking, Li encouraged the depoliticization of risks.

III. Changing China–Europe Relations in the Context of New Geoeconomic Environment

Putting de-risking in context

First, de-risking is a crucial step the EU takes to adapt to a changing world.

Twenty European think tanks jointly published a report titled “Dependence in Europe's Relations with China” at the beginning of 2022, when the buzzword was “dependency” rather than de-risking. The report states, “The concept of dependence is in many ways closely associated with Europe's broader debate

¹ *European Economic Security Strategy*, JOIN(2023)20 final, June 20, 2023, https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3045.

² “Chinese Premier Says Risk Prevention, Cooperation not Opposites,” Xinhua, June 19, 2023, <https://english.news.cn/20230620/8d1b96a9f8f8497787559337803c4c97/c.html>.

on building greater resilience, reinforcing sovereignty and striving for a degree of (open) strategic autonomy. These debates are not associated exclusively, or even primarily with China. In many ways they are representative of a broader internal reflection of how Europe relates to the process of globalization, and how it sees its place in the world.”¹

In fact, in several European capitals, discussions about strategic autonomy, economic dependency, and technology sovereignty, among others, have been ongoing for some time, and there is growing consensus that these issues should be addressed at the EU level. A think-tanker lauded von de Leyen’s de-risking speech as a courageous attempt to fill the leadership void on one of Europe’s most pressing foreign policy challenges.²

Before the start of the most recent EU summit, at which economic security and China were to be discussed, EU foreign affairs chief Josep Borrell stated that “de-risking is not about China; it is something that we have to do.”³

Second, de-risking is connected to Europe’s efforts to preserve its development model.

Europe is currently attempting to strike a balance between openness and security. A survey conducted in late 2022 showed that over three-quarters of EU citizens from Ireland to Greece support free trade. Nonetheless, other opinion polls have shown that far more Europeans support protectionism than oppose it.⁴ It is no secret that France is a proponent of industrial sovereignty, food sovereignty, and technology sovereignty in Europe, whereas other European nations suspect that it is a strategy to turn French companies into European champions. Countries dependent on open free trade, such as the Netherlands, Ireland, Denmark, Finland, and Sweden, are reluctant to fall into the trap of French-style dirigisme. The ordoliberal development model of Germany falls between the two extremes. The term de-risking was coined

¹ John Seaman, Francesca Ghiretti, Lucas Erlbacher, Xiaoxue Martin and Miguel Otero-Iglesias eds., “Dependence in Europe’s Relations with China: Weighing Perceptions and Reality,” ETNC, April 2022, https://merics.org/sites/default/files/2022-04/etnc_2022_report.pdf.

² Noah Barkin, “Watching China in Europe - April 2023,” GMFUS, April 4, 2023, <https://www.gmfus.org/news/watching-china-europe-april-2023>.

³ “European Council: Press Remarks by High Representative/Vice-President Josep Borrell upon Arrival,” June 29, 2023, https://www.eeas.europa.eu/eeas/european-council-press-remarks-high-representativevice-president-josep-borrell-upon-arrival_en.

⁴ “Fetechez the barricades!,” *Economist*, October 22, 2022.

by European Commission President von der Leyen, a former German defense minister with extensive ties to the German strategic community. As a result of being ambiguous and slippery, the term has struck a balance between Europe's instincts for free trade and its penchant for protectionism, and has thus been accepted by the entire continent.

Third, de-risking is Europe's attempt to navigate between major powers, particularly the United States, China, and Russia, whose interactions with each other and Europe have intensified since the Ukraine crisis.

Thanks to the defraying US–China ties, Europe begins to be concerned at the devastating effect of the “worst scenario” on supply chains. After Russia's attack on Ukraine, the narrative of democracy versus authoritarianism heightens Europe's fear of dependence on an authoritarian state. For the EU, de-risking is a term that simultaneously conveys its alliance with the US, its caution against Russia and China, and its strategic independence.

Impact on China–Europe relations

Even though de-risking is not solely directed at China, it undoubtedly has an impact on China–Europe relations.

Since China and the EU established diplomatic ties in 1975, economic exchanges have driven the relationship in the majority of years. Reform and opening up in China, European integration, and economic globalization are three epochal phenomena that are tightly interconnected. From China's perspective, Europe is a major source of capital and technology, as well as a key external factor in the tremendous success of China's reform and opening up. In the eyes of Europeans, China provides unprecedented market opportunities and is a positive external force for Europe's economic growth. Despite occasional divergences and disputes over values, China and Europe have maintained a generally pragmatic and cooperative attitude toward one another over the past half century.

The conclusion of the Comprehensive Agreement on Investment (CAI) between China and the EU at the end of 2020 is the most recent indication that this pragmatism is deeply rooted. One might recall that by the end of 2020, in Europe, the debate over dependence on China and criticism of the Chinese political system had reached a new peak, not to mention that the then US president-elect Joe Biden had already expressed displeasure with the agreement.

However, shortly after the conclusion of the CAI, the momentum of pragmatic economic cooperation gave way to value divergence and geopolitical maneuvering. In the first half of 2021, the EU and China sanctioned each other over their dispute over Xinjiang, and as a result, the European parliament suspended the CAI approval process. China–Europe relations deteriorated further in the second half of 2021 as Lithuania strengthened its ties with Taiwan. At the outbreak of Ukraine crisis in the spring of 2022, China–Europe relations suffered another unexpected blow. Analysts exclaimed that Ukraine could be the final nail in the coffin of an amicable relationship.¹

Since 2022, China and Europe’s economic relations have fallen into the geopolitical trap inexorably. While leading Western sanctions against Russia, the United States has rallied Europe to take economic security measures against China. Thus, contrary to the logic of globalization, the economy is now tied to security. Due to the war in its backyard, Europe has an unprecedented sense of urgency regarding economic resilience and strategic autonomy. China and Europe can no longer separate economics and ideology. Geopoliticization of economy is the main theme of China–Europe relations.

The question is to what extent?

De-risking is the EU’s response to this question.

“Risk” is a well-established, neutral term in economics and sociology. According to the German philosopher Peter Sloterdijk, risk is “a mathematically describable probability of failure” and “calculating solidary communities can be formed to combat this probability.” He continues: “Here the risk society comes about as the alliance of well-insured profit seekers.... In business undertakings, unlike in everlasting philosophy, someone who bets everything on one outcome is a fool. The wise man thinks far ahead and relies, like every bourgeois who can count, on diversification.”²

By utilizing the term “risk,” the EU sends a message that they are just talking about business; they want to conduct themselves professionally and impartially.

It is unclear what the “de” in de-risking refers to. The US de-risking

¹ Elettra Ardissino and Eyck Freymann, “The European Union Is Turning on China,” *Foreign Policy*, June 23, 2022, <https://foreignpolicy.com/2022/06/23/european-union-china-relations/>.

² Peter Sloterdijk, trans. Wieland Hoban, *In the World Interior of Capital*, Cambridge: Polity Press, 2013, 85.

strategy aims to achieve three broad objectives: limiting China's capabilities in strategic sectors with national security implications, such as cutting-edge semiconductors and other advanced technologies; reducing Beijing's leverage over the West by eroding Chinese dominance of the market for certain essential inputs, such as critical minerals; and diversifying corporate economic exposure more broadly to reduce the potential costs of a sudden disruption in China–West trade.¹ The EU does not share all of these objectives, especially the first. However, the EU is sometimes compelled to follow US steps when under pressure.

However, decoupling evokes the image of severing all economic ties permanently, whereas de-risking suggests a partial and gradual process.

This is primarily for very pragmatic reasons.

The EU and China have a robust trade relationship that has grown substantially over the past few years. The EU published an infographic on its website three days before its latest summit in late June, which aimed to reach a consensus on China and de-risking. The infographic reads:

EU–China: two of the biggest trading partners in the world. The EU and China account for over a 3rd of the world GDP. The EU and China exports account for over a 3rd of the world trade. The EU and China trade goods over €800 billion annually with each other. China is EU's largest partner for imports and 3rd largest for exports and goods. Cars are the EU's #1 export to China. Telecom equipment is China's #1 export to the EU.²

Meanwhile, it is difficult to find new partners. Nearly half (47%) of German companies surveyed by the German Chamber of Industry and Commerce (DIHK) have difficulty finding new suppliers or business partners in their process of diversification. According to Volker Treier, head of the DIHK, “Many processes cannot be changed overnight.” Of those surveyed, 86% stated that the process as a whole presented them with challenges. Meanwhile, 29% cited

¹ Jami Miscik, Peter Orszag, and Theodore Bunzel, “The U.S.-Chinese Economic Relationship Is Changing—But Not Vanishing,” *Foreign Affairs*, May 24, 2023, <https://www.foreignaffairs.com/united-states/us-chinese-economic-relationship-changing-not-vanishing>.

² “Infographic - EU-China: Two of the Biggest Trading Partners in the World,” June 26, 2023, <https://www.consilium.europa.eu/en/infographics/eu-china-trade/>.

difficulties in identifying suitable sales or procurement markets, and 14% in finding locations with suitable infrastructure for new branches or production sites. Costs also played a role in diversification. For 27%, this is a notable factor, as is increased planning effort (20%).¹

Transition of global order will not be short or easy. Although security and economy are becoming intertwined, the world's security order is still dominated by the US; whereas the world's economic order is “multipolar,” where both China and Europe play a major role. When China and Europe's economic ties are scrutinized due to security concerns, they want to maintain “business as usual” for as long as possible to build resilience and emerge victorious against the background of order transition.

Although the China–Europe relations are not as good as they were during the “globalization” era, an abrupt breakdown or extremely turbulent relationship can be ruled out for now.

If China does not send weapons to Russia, which is a red line for Europe, and if China–US relations stop deteriorating, which seems likely at least before the Taiwan showdown, China–Europe relations have a chance to return to the state they were in 2020, that is, the state after COVID-19 and before the Ukraine crisis.

¹ “Deutsche Unternehmen wollen sich gegen weltweite Risiken wappnen – doch das fällt schwer,” *Handel Sblatt*, July 2, 2023, <https://www.handelsblatt.com/politik/international/dihk-studie-deutsche-unternehmen-wollen-sich-gegen-weltweite-risiken-wappnen-doch-das-faellt-schwer/29235148.html>.