

PROSPECTS FOR THE DEVELOPMENT OF INTERNATIONAL STRATEGIC ALLIANCES (IAS) BETWEEN THE EU AND CHINA

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Abstract

This report examines international strategic alliances (ISA) between the European Union (EU) and China, highlighting the economic, political, and regulatory challenges inherent in these relationships. While partnerships in sectors such as technology, green energy, and the automotive industry provide substantial economic benefits, tensions between the EU and China continue to grow due to differing policies and approaches to free trade and security. The report explores the limitations of these alliances and the potential risks posed by the political and economic imbalance resulting from China's state subsidies and market control. The future of ISAs is expected to hinge on the EU's ability to balance its economic interests with the political demands of its Western allies and the push for greater autonomy.

Keywords: international strategic alliances, European Union, China, economic cooperation, free trade

Introduction

This report aims to analyze the International Strategic Alliances (ISAs) between the European Union and China in the context of growing geopolitical tensions and economic challenges. According to the author, the problem is rooted in the need to find a balance between the EU's economic interests and political considerations related to relations with China. Existing solutions include the development of strategic partnerships in sectors such as the automotive industry, green energy and telecommunications, despite the constraints imposed by political instability, trade barriers and regulatory differences. The expected results of the author's research include a better awareness of the potential benefits and risks of deepening the FTA with China and the identification of strategies to balance the EU's economic interests and political priorities.

Current state of EU-China relations

At present, the relationship between the European Union and China is complex, characterized by a combination of cooperation and competition. The EU seeks to maintain a balance between its strategic autonomy and its close relationship with the US, while not wanting to choose unambiguously between the two. Relations with China are

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important to the EU's economic interests as China represents a significant market, although there are political and trade challenges related to limited access to the Chinese market and differences in systems. The EU's strategic autonomy is expressed in attempts to maintain trade and investment cooperation with China, as reflected in the frozen EU-China investment agreement. Although the EU criticizes China for violating human rights and other issues, it refrains from more confrontational approaches like those of the US, preferring diplomacy and seeking a balance between interests (Casarini, 2022).

The current state of relations between the European Union (EU) and China is characterized by increased caution between the two countries. Although in the past the dialogue between the two countries was encouraging, especially after the liberalization of the Chinese economy and its opening to the world market, today these relations are more complicated (Bērziņa-Čerenkova, 2023).

García-Herrero (2023) highlights that EU-China relations are marked by the EU's growing concern about excessive economic dependence on China, especially in key sectors such as green technologies and critical raw materials. Initially, the EU saw China's membership in the World Trade Organization as an opportunity to expand global trade, but over time it has emerged that China continues to use a policy of maintaining closed sectors that restrict foreign access. This leads to a growing trade deficit with China and a realization of the need for a „de-risking“ strategy for the EU. De-risking differs from the idea of decoupling, with the EU aiming to reduce its dependencies on critical Chinese goods without completely separating itself from the Chinese market (García-Herrero, 2023).

This strategy is perceived in China as potential protectionism, although the EU claims that it is not directed against China. At the same time, the concept of strategic autonomy of the EU also evokes different interpretations. While China sees this as an opportunity for the EU to distance itself from US influence, the EU sees strategic autonomy as a way to strengthen its economic and political independence. China holds the view that interdependence is a natural outcome of a globalized world and criticizes the EU's approach, which begins to view cooperation from a zero-sum perspective (Center for China and Globalization, 2023).

China perceives „de-risking“ as mostly negative, seeing it as a repackaging of the concept of „decoupling“, which aims to exclude the country from the global trade and economic system. Chinese representatives express concerns that this policy is contrary to the principles of fair competition and violates the rules of the World Trade Organization (WTO). The Chinese side emphasizes that the concept of de-risking introduced by the EU actually leads to a deterioration of relations and an increase in uncertainty for business, having a negative impact on strategic sectors such as renewable energy and digital infrastructure (Center for China and Globalization, 2023).

On the other hand, according to Jin and Xu (2023), EU-China relations in 2023 are in the process of adaptation, with both sides continuing to maintain engagement and dialogue in order to strengthen cooperation and overcome differences. Despite the

impact of the pandemic and the crisis in Ukraine, both sides prefer to refrain from conflicts and seek common interests to steer bilateral relations in a positive direction.

Despite communication and re-establishment of contacts following the pandemic restrictions, trust between the EU and China remains at a low level. The war in Ukraine has been a constant point of contention, with China maintaining a neutral stance but simultaneously presenting different narratives to different global audiences (Pepermans, 2023). In this context, EU-China relations in 2024 continue to develop against a background of low trust and the prevailing management of disagreements rather than partnership.

In 2024, relations between the European Union and China are changing significantly, marked by new dynamics and important diplomatic events, among which is the visit of Chinese President Xi Jinping to Europe in May. This is his first visit since the pandemic, and it includes important stops in France, Serbia and Hungary. The visit symbolizes China's attempt to strengthen its diplomatic position in Europe amid rising geopolitical tensions and the realignment of global economic and political ties (Lim, 2024).

The main objectives of Xi Jinping's visit are related to strengthening China's diplomatic presence and influence in Europe, especially at a time when the European Union is reassessing its economic ties and strategic orientation in the face of growing concerns about China's global ambitions and its regional commitments, including ties with Russia. Xi sought to use European discussions of strategic autonomy to promote a more balanced relationship between Europe and China while reducing Europe's dependence on the United States (Lim, 2024).

During the visit to France, Xi and French President Emmanuel Macron discussed both economic and geopolitical issues. Economic discussions focused on France's drive to reduce its trade deficit with China, as well as issues such as subsidizing China's electric vehicle industry, which is the subject of European investigations. The visit included the signing of agreements in sectors such as aerospace, energy and agriculture to boost bilateral trade (McCarthy, 2024).

The visits to Serbia and Hungary highlight China's growing role in Eastern Europe, where China is using its infrastructure investments, including the Belgrade-Budapest railway project, to boost its economic and political influence in the region. These countries, which are part of the Belt and Road Initiative (BRI), play a key role in China's strategy of deepening relations with Central and Eastern Europe, leading to some divisions within the EU on policies towards China (McCarthy, 2024).

The strategic implications of Xi's visit to Europe are significant, with China using the moment to position itself as an alternative global leader that can offer different economic and political benefits to those of the United States. Xi sought to emphasize the importance of open trade and warn against protectionist measures that could disrupt global supply chains, especially in the context of tensions over Chinese electric vehicles.

The new dynamics in EU-China relations in 2024 reflect not only economic interests, but also growing geopolitical tensions, especially related to the conflicts in Ukraine and

the influence of Russia. Europe expresses concern about these global issues, while China tries to balance its economic and political priorities.

The influence of the G-7 on trade relations between the EU and China

The G7 is an important global economic and political forum that has a significant impact on trade policies and strategic alliances. As a platform that brings together the largest developed economies, the G7 shapes global economic trends and directions through its declarations and decisions. The G7 position is often a catalyst for changes in trade and economic relationships between countries, especially when discussing topics such as economic coercion, market practices and technology standards. G7 members, including the United States and the European Union, play a leading role in setting global trade rules, and any change in their positions has a significant impact on international trade relations, including those with China (Council on Foreign Relations, 2023).

The G7's political declarations on China play a significant role in shaping the international trade environment, with particular attention paid to criticism of China's unfree market practices and intellectual property violations. One of the main themes that regularly features in G7 statements is how China's economy often benefits from government subsidies and market mechanisms that are considered contrary to the principles of free trade. This causes serious concerns in Europe and among other Western countries, especially when it comes to companies such as Huawei and ZTE, which dominate the telecommunications and high-tech sector (Lynch and Caulcutt, 2024).

An example of these criticisms is the way China supports its state-owned companies with direct subsidies and privileges, while creating barriers for Western companies trying to enter the Chinese market. European companies face a number of regulatory restrictions in China, including technology sharing obligations and restrictions on entering specific sectors. At the same time, Chinese companies can freely enter the European market, often with an advantage thanks to support from the Chinese state. This creates an imbalance that is further exacerbated by allegations of intellectual property violations (Lynch and Caulcutt, 2024).

Another example is the attitude of the G7 towards the technological advances of Chinese companies such as Huawei. Huawei is a leading player in the 5G technology sector, but G7 member states have raised concerns about the potential for abuses and national security threats linked to Chinese state interference. Some EU countries, such as Germany and the UK, are deciding to restrict or ban the use of Huawei products on their 5G networks due to security concerns raised by Chinese law, which requires Chinese companies to cooperate with government authorities upon request. In these cases, pressure from the G7 and the US was a key factor in making these decisions, demonstrating how G7 political declarations can affect the EU's trade and technology relationship with China (Global Times, 2024).

As a result of these political declarations and criticisms, tension is created in the relations between the EU and China. On the one hand, the EU seeks to maintain stable

economic ties with China, especially in terms of exports and investments. China is a key trading partner of Europe, and the interdependence between the two regions is increasing, especially in areas such as electric car manufacturing, green technology and telecommunications. On the other hand, the EU is under pressure from its Western allies, especially the US and other G7 members, to limit its relations with China and introduce measures to protect security and economic ethics. This conflict of interests puts the EU in a difficult position where it has to balance between its economic interests and its political commitments to its Western allies (Casarini, 2022).

On the one hand, the EU shares the main principles laid down in the policies of the G-7, such as those regarding free trade, the need to comply with international standards and rules, and, accordingly, the protection of intellectual property. On the other hand, the EU has strong economic ties with China, which are vital to many of Europe's industrial and commercial sectors (BusinessEurope, 2020).

China is not only a key player in the world market, but also an important partner for Europe in terms of technology and investment. Chinese companies are playing a leading role in innovations such as 5G technology and electric cars, which puts Europe in a difficult position. On the one hand, it must protect itself from potential risks associated with Chinese influence, but on the other hand, it cannot afford to insulate itself from the key advantages that come with Chinese investment and cooperation. One area where the EU needs China is green energy, where Chinese companies are among the leading producers of solar panels and energy storage batteries. These technologies are crucial to the EU's ambitious goals of climate neutrality and sustainable development (BusinessEurope, 2020).

Infrastructure projects are also an area where Chinese investment plays a key role. Many EU Member States, especially in Eastern Europe, are involved in initiatives related to China's Belt and Road Initiative, which provides significant investment in transport infrastructure and logistics. Such projects help to modernize regional infrastructure, but at the same time lead to political and economic dependencies, which require strategic attention from the EU (AmCham EU, 2023).

At the political level, the EU faces the challenge of balancing these economic interests with pressure from its G7 allies, who are pushing for tighter controls on China and its market practices. In many cases, these Western allies, especially the US, are pushing for action against Chinese state subsidies and monopolies, putting the EU in a difficult situation. Unlike the US, which is pursuing a more confrontational approach to China, the EU prefers a more diplomatic course, trying to keep the channels of trade and investment relations open (AmCham EU, 2023).

This balance between economic interests and political commitments is delicate, especially in the context of increasing global challenges, including technological competition and climate change. China remains an important investor in strategic sectors of the European economy, but at the same time the EU must protect its economic independence and security. Therefore, the EU continues to develop mechanisms to protect its

market and technological independence, but without completely closing the doors to cooperation with China, which remains essential for European economic development.

In practice, the EU's strategic positioning between the G7 and China is complex and requires a balance between commitment to Western allies and the need for continued economic ties with China. This dynamic will continue to be important for the future of Europe's trade and political relationships.

Prospects for the development of FTAs between the EU and China

The evolution of the International Strategic Alliances (ISAs) between the EU and China reflects a significant shift in global economic and trade relations over the past few decades. These alliances began to form in the 1980s, when China began to open its economy to foreign investment, and the European Union saw in this process huge opportunities for economic cooperation. Important industrial sectors such as automotive, aviation and energy are becoming central to the development of these partnerships (Smith and Xie, 2010).

One of the most significant examples of the evolution of these alliances is the partnership between Volkswagen and SAIC Motor, which began in 1984. This was one of the first cases in which a major European company entered the Chinese market with a long-term strategy of manufacturing cars in China. Initially, the alliance focused on traditional cars, but over time it shifted to new technologies and electric vehicles, which also reflects global trends in the automotive industry. This partnership is one of the symbols of sustainable industrial cooperation based on mutual investment and technological development (Xijia, 2024).

In the following years, cooperation between the EU and China deepened and expanded in various sectors, including the aviation industry. European aircraft manufacturer Airbus is building a production line in China, a partnership that not only contributes to the expansion of China's aviation capabilities, but also strengthens Airbus' position in Asia. As a result, the alliance between Airbus and Chinese aviation companies has become a key component for the global aviation industry (Xinhua, 2024).

In recent years, with the increasing focus on renewable energy and environmentally sustainable development, strategic alliances between the EU and China have been expanding in the area of clean energy. Siemens, for example, has a partnership with China's State Power Investment Corporation (SPIC) to develop renewable energy technologies, with an emphasis on solar and wind energy (Siemens AG, 2019). This alliance not only supports China's energy transition, but also gives the EU access to the vast Chinese market for new technologies.

Similar partnerships are also seen in the automotive industry, where alliances such as the one between Daimler and BYD contribute to the development of electric cars (Reuters, 2010). These joint ventures not only stimulate economic cooperation, but also support the global fight against climate change by promoting environmentally sustainable mobility.

One of the key moments in the evolution of the FTA between the EU and China is related to the development of technology and telecommunications. Chinese technology

giant Huawei, despite political tensions surrounding security, managed to form strategic alliances with European telecommunications companies such as Telefónica and Deutsche Telekom for the development of 5G networks (Lysne et al., 2019). It shows how, despite geopolitical barriers, pragmatic economic interests lead to the construction of important technological alliances.

In relation to global carbon reduction targets, energy companies such as TotalEnergies and CNOOC also play an important role in EU-China cooperation. They are jointly developing liquefied natural gas (LNG) projects and carbon capture technologies, which is important for both Europe and China in their decarbonization efforts (TotalEnergies.com, 2024).

FTAs between the EU and China focus on several key sectors – the automotive industry, aviation, energy, telecommunications and railway infrastructure.

In the automotive industry, the EU and China share an interest in the development of electric vehicles and sustainable transport technologies. As China seeks to reduce its carbon emissions and develop its electric vehicle industry, European automakers are actively participating in this transition, offering innovations and technologies that support both China's environmental ambitions and global climate goals.

The aviation sector is another important area of cooperation where the EU provides technological expertise and capacity to produce advanced aircraft and aviation technology. At the same time, China is expanding its aviation needs as the country's economy continues to grow, and it increasingly needs new transportation solutions for air travel.

The energy partnership, especially in the field of renewable sources, is essential to the joint efforts of the EU and China in the area of environmental sustainability. Europe is a leader in the development of green technologies and policies, and China is the largest market for renewable energy. Cooperation in this sector includes not only clean energy production technologies, but also projects related to energy grid efficiency and energy storage.

In the telecommunications sector, cooperation between the EU and China is focused on the development of modern digital infrastructure, including the deployment of 5G networks. These projects are important for the advancement of digitization and the industrial revolution in both regions. Despite political obstacles, technology partnerships remain important for modernizing European infrastructure and responding to growing connectivity needs.

The rail industry is another sector where the EU and China are cooperating in building new transport links, both domestically and internationally. China has ambitious plans to modernize its rail networks, while Europe offers expertise in the design and construction of high-speed rail systems. This partnership not only improves transport infrastructure, but also supports economic integration and regional connectivity.

These sectors outline the deep and strategic cooperation between the EU and China, focusing on innovation, sustainability and economic development in line with global challenges and opportunities.

The outlook for international strategic alliances (ISAs) between the European Union and China remains both challenging and promising. Despite geopolitical tensions and differences in political systems, economic interests continue to be the main driver for cooperation between the two countries. China is not only one of the EU's leading trading partners, but also a key player in areas such as green technology, renewable energy, telecommunications and the automotive industry, which are strategically important to the European economy.

There are significant opportunities for cooperation in these sectors, especially in the context of global pressure to achieve climate neutrality and technological innovation. Partnerships in the field of renewable energy sources, such as solar and wind projects, as well as the joint development of green technologies, will play an important role in future relations. Chinese investments in these sectors, combined with the EU's ambitions for leadership in the fight against climate change, create a basis for long-term cooperation.

On the other hand, there are also serious challenges related to growing concerns in Europe about Chinese market practices, intellectual property violations and subsidies to state-owned companies. These problems give rise to the need for new regulations and measures to protect European economic interests, which may lead to additional barriers to bilateral trade. At the same time, the EU's strategic autonomy requires the bloc to strike a balance between maintaining its important ties with China and cooperating with traditional Western allies within the G-7 framework.

Despite these difficulties, the outlook for the ICC remains positive, as there are many areas where the economic and strategic interests of the EU and China coincide. If the two countries manage to overcome existing challenges through diplomatic dialogue and regulatory reforms, the IAS will continue to be a significant factor in global economic dynamics.

Conclusion

The prospects for the development of international strategic alliances (SIAs) between the European Union and China are based on the balance between economic pragmatism and political differences. Despite growing geopolitical tensions, the EU and China continue to forge strategic partnerships in key sectors such as the automotive industry, renewable energy and telecommunications. At the same time, however, challenges related to Chinese market practices, intellectual property and political uncertainty necessitate the careful construction of new regulatory mechanisms. The European Union will have to continue to find the balance between maintaining economic ties with China and protecting its strategic autonomy.

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