

FEBRUARY 2, 2023

# The ICES Bulletin

- Bringing you the latest insights on China-Europe relations -

Dear ICES friends...

We are delighted to present you the latest issue of our bi-monthly Newsletter. We warmly invite you to take a look at our takeaway, the events we participated on, and this month's recommendations.

## - Editor's Note -

Few relations are as crucial and valuable as the ones, past present and future, connecting Europe with China. At the ICES, we believe regular knowledge-sharing can be the bedrock that empowers mutually beneficial partnerships and the foundation for fruitful collaborations. In this biweekly newsletter, we identify and highlight the latest ideas and developments in a variety of fields, in view of improving cross-continental communication and understanding.

## The ICES' Takeaway from this edition:

Decoupling from China is no longer presented as a viable option by Europe's mainstream policymakers, their focus is now on reducing dependency or "de-risking" from China. Meanwhile, cross-continental open dialogue and communications are gaining momentum, driven by both European and Chinese initiatives. As the year 2023 begins, the economic outlook for Sino- European business ventures is better than it has been in years, although uncertainties and controversies still linger

## NEWS ROUND:

### BUSINESS & TRADE



#### **China's reopening bolsters Europe's stock markets**

European stock markets reached their highest point since May 2022 at the beginning of this month, driven by tech, travel and leisure stock buoyed by China dropping its anti-Covid measures, as well as tailwinds on the inflation and energy fronts.

#### **Electric vehicle use: Europe to overtake China by 2030**

China is currently undergoing a uniquely rapid surge in EV use, however it is set to reach a plateau by 2025 according to the new Citi State of Global Electric Vehicle Adoption report. Europe's adoption of EV has been slightly slower, nonetheless the report projects that the penetration rate of EV use in Europe will grow from 22% in 2023 to 67% by 2030.

### **TikTok faces privacy controversy in Europe**

TikTok's executives have met with EU politicians to respond to concerns of compliance with privacy laws, child protection safeguards and the containment of Russian disinformation. The Chinese social media app also faces controversy in the US where it's suspected of « aggressive data harvesting » and has been removed from government-owned devices.

### **European car manufacturers risk being 'crushed' by Chinese competition**

Carlos Taveres, the CEO of Stellantis, the umbrella brand for Peugeot, Citroën and Fiat, warned European automotive manufacturers that they were at risk of losing ground to their Chinese competitors. He pointed to the rising quality of Chinese cars despite sustainably low prices, and to the rapid advances of Chinese companies in the electric vehicle segment.

### **Europe and China's new competition over LNG**

With the cut off of Russian gas to Europe, the continent has turned to liquified natural gas to supply its inhabitants and industries. Experts suggest that in years to come Europe will have to attract around 30% of the global LNG supply to meet its needs. Accounting for China's reopening and rebound, the two blocs may be setting the stage for increased competition.

### **Surveys: European firms shifting their manufacturing from China to Vietnam and India**

Recent surveys carried out by the European Chamber of Commerce in Vietnam and the German logistics company, Container xChange, reveal the growing number of European companies considering a relocation of their Chinese operations to other countries in the region, with Vietnam and India considered the most attractive destinations.

### **European & Chinese business leaders meet in Brussels**

The European Union Chamber of Commerce in China and the Chinese Chamber of Commerce to the EU held their first ever joint meeting in Brussels this January. They discussed the heavy headwinds facing EU-China relations but emphasised the competitive performances and forecasts of their respective businesses both in China and Europe.

### **Interview - Valérie Baudson : Amundi upbeat on the Asian economy outlook**

Amundi's CEO, Valérie Baudson, welcomes China's reopening as « great news » for the global economy. Analysts table on 4.5% growth in the country in 2023 making it once again « one of the nicest places on Earth » , she said. Looking to the West, she predicts that the outlook will brighten in the second semester.

### **Will « Made in China » electric vehicle dominate Europe's markets?**

With the exponential growth of EV sales in China and Europe which account for 85% of the market according to the International Energy Association, the competition to produce and export EVs has begun in earnest in recent years. Yet if China's government has launched an aggressive strategy to attract manufacturers, meet European standards and lower costs, Europe is still trying to shake its automotive giants. Notwithstanding, exports from China are heavily dominated by Tesla and European brands, Chinese brands have yet to make a dent.

### **Are Chinese consumers more ecologically engaged than their European counterparts?**

Several surveys conducted by the Wunderman Thompson agency, the US bank Stifel, and the Morning Consult agency reveal that Chinese consumers are more willing to spend on fighting climate change and more ready to boycott brands who don't than their Western counterparts, especially compared to American consumers.

### **Bangladesh on track to overtake China as the EU's largest clothing supplier**

Although China still accounts for around 30% of EU clothing imports, Bangladesh, already a close second with 24% is projected to take over as Europe's first supplier of apparel as manufacturers shift their production from China to India, Vietnam or Bangladesh, and as Chinese workers seek better paid manufacturing jobs.

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## **EU-CHINA RELATIONS**

### **Rishi Sunak resumes funding to the Great Britain-China Centre**

The UK's Prime Minister Rishi Sunak has reversed Liz Truss' decision to withdraw funding from the Great Britain-China Centre. The decision aims to foster dialogue between UK and Chinese officials and to bolster the expertise of the UK civil service on China.



### **EU-NATO declaration: « China's growing assertiveness and policies present challenges »**

The EU and NATO celebrate « unprecedented progress across all areas of cooperation » in a joint declaration emphasising a geopolitical context of heightened strategic competition. China's policies and geopolitical stance are described as common challenges to address. On the same day, NATO's deputy Secretary General Mircea Geogană NATO's deputy Secretary General meets China's ambassador to the EU, Fu Cong in Brussels to share the priorities for NATO-China relations. Both emphasised the need to maintain open dialogue.

### **China's Covid surge not currently a concern for Europe, according to WHO**

The WHO Head for Europe, Dr Hans Kluge, welcomed genomic data sharing by Chinese authorities, as well as the genomic testing of visitors inbound from China carried out by several European countries including France, Germany and the UK. He underlined how Omicron variants circulating in China do not represent a critical risk for European populations, while saying that travel restrictions by European countries on visitors from China are "not unreasonable".

### **Sweden calls for progress on the Comprehensive Agreement on Investment with China**

As Sweden takes the rotating presidency of the EU Council and set its priorities, officials called for progress on the tentative Comprehensive Agreement on Investment, which the EU Commission defined as « the most ambitious agreement that China has ever concluded with a third country » and one which « will ensure EU investors achieve better access to [China's] market ».

### **The UK and Japan sign defence agreement, reportedly over China concerns**

The reciprocal access agreement enables the deployment of military forces in each other's territories and is the latest step in the UK's Indo-Pacific tilt and Japan's rearmament strategy, which both identify China as a regional challenge. A Chinese government spokesperson lamented the reintroduction of « the old thinking of bloc confrontation » in the region.

### **Sweden discovers rare earth deposits, supposedly reducing the EU's dependence on China**

Sweden's state-owned mining company LKAB has discovered Europe's largest deposit of rare earths in the north of the country. Key materials in the manufacturing of electric vehicles and renewable energy, « electrification, self-sufficiency and independence from Russia and China will begin in the mine », said the Swedish minister for Energy, Business and Industry.

### **Survey: Chinese public opinion more favourable to Europe than US**

According to a survey carried out by the National University of Singapore, Canada's University of British Columbia and Rice University in the United States, Chinese people mostly hold favourable opinions of European countries, with the exception of the UK. And an overwhelming majority held a negative view of the US.

### **Von der Leyen calls for Europe to de-risk rather than de-couple from China**

Speaking at the Davos conference in Switzerland, Ursula von der Leyen outlined the EU's plan to compete with the US and China in the field of the energy transition. The Commission president recognised Europe's heavy dependence on China notably with regards to solar panel manufacturing or rare earths production where European supplies are currently 98% dependent on China, she said. She called for a levelling of the playing field with regards to state subsidies, regulatory frameworks and market openness.

### **ECB President Lagarde warns: China's reopening may lead to « more inflationary pressure »**

Speaking at the Davos conference, ECB President Christine Lagarde warned that China's economic reopening will lead to more competition on energy markets and thus higher prices. Nonetheless China's lifting of Covid measures « will be a positive for the rest of the world », she said

### **Dutch industrials urge the EU to clarify its position on chip export restrictions to China**

How will the EU respond to US requests to align itself with Washington's export restrictions on high tech chips in a bid to slow down China's technological and military progress? European tech industry leaders are calling on the EU Commission to make its position clear.

### **Germany warns against decoupling from China**

Christian Lindner, Germany's Finance Minister, said « Decoupling our economy from the Chinese market would not be in the interest of jobs in Germany ». The new German strategy will work on gradually decreasing the dependence on China by diversifying its partners. In France and Italy as well, politicians are calling to de-risk their relationship with China. French ministers in particular have been encouraging their companies to relocate to other ASEAN countries.

### **The EU Commission launches a Fellowship Program on China**

The new Fellowship on China aims to foster strategic cooperation with think tanks and universities on China-related issues. As part of the program, 15 experts will work to expand the knowledge basis on China within the Commission.

### **Bloomberg: rail shipments from China to Europe through Russia are on the rise**

Russia is at the centre of the rail cargo route between China and Europe. Transports of rare earth materials, notably used in the manufacturing of modern weaponry, have seen an exponential rise over the past two years. « It is astonishing that despite all the sanctions, this supply chain still works », said Michael Wurmser, the founder of Norge Mining Ltd.

### **Guardian: Can the EU end its reliance on China for EV batteries by 2030?**

A new report by the renewable energy campaign group Transport & Environment says Europe may be able to cut its reliance on China for battery production by 2030. Although Europe's battery industry is still nascent and manufacturers may be tempted to relocate in the US as a result of the Inflation Reduction Act incentives, the report predicts that if the EU can match US and Chinese investments, it may well succeed in achieving autonomy.

### **Dutch Prime Minister and EU Commissioner agree to US requests to ban chip exports to China**

In Washington, Netherlands Prime Minister Mark Rutte stated that the Dutch semiconductor giant ASML will block exports of advanced technology to China. Furthermore, on the same day in Washington, the EU Commissioner for the Internal Market also agreed « with the objective of depriving China of the most advanced chips as we cannot allow China to access the most advanced technologies », a major win in Washington's containment strategy

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## **HAINAN**



### **Denmark's drug regulator gives go ahead to generic treatment made in Hainan**

Hainan Poly Pharm has secured the approval of the Danish Medicines Agency for the distribution of its generic variant of Ganciclovir, an antiviral treatment for immunocompromised patients, including AIDS patients, and those suffering from cytomegalovirus retinitis.

### **Video: Global brands celebrate the new year of the rabbit in style in Hainan**

As we enter the Chinese year of the rabbit, customers look to personalise their purchases in Hainan's duty-free shopping malls. And brands are happy to provide. This video showcases Chinese consumers' varied tastes for design products and companies' creativity and willingness to adapt.

### **Hainan Free Trade Port: Trade volumes continue to shoot up**

After passing the 100 billion yuan (\$14.7 billion) milestone in import/export trade value in 2021, Hainan surpassed the 200 billion yuan (c. \$30 billion) mark in trade value in 2022. Imports totaled 128.7 billion yuan (c. \$19 billion) an increase of 12.8% year on year, whilst exports rose to 72.3 billion yuan (c. \$11 billion) a growth of 120.7% over the period.

### **Chinese cruisers get access to Hainan's duty-free malls**

For the first time, a domestic cruiser line has been allowed to provide its passengers access to Hainan Free Trade Port's duty-free shopping advantages. Whether China's booming cruise industry as a whole will be granted the privilege is as of yet unclear.

### **Luxury spirits companies innovate in Hainan**

Scottish spirits company, the Edrington Group is pioneering new travel retail strategies in Haikou's International Duty Free Shopping Complex with the launch of a 100-metre high-end experience boutique. Edrington's regional director, Jeremy Speirs, commented « Hainan has become a global beacon for travel retail and a 'must-visit' for Chinese luxury shoppers, making this a key location for consumer engagement and recruitment. »

### **Swiss cosmetics brand Cellcosmet opens a second shop in Hainan**

The Swiss skincare, beauty and wellness specialist Cellcosmet doubles down on its Hainan presence with the launch of a second boutique in partnership with Global Premium Duty Free Plaza located at the Mova Mall in Haikou, Hainan's capital city. The arrival of Cellcosmet coincided with the launch of the Free Trade Port initiative and its duty-free advantages.

### **Yangpu International Port launches green project**

The fastest growing container port in China at Yangpu, Hainan, announced the construction of a solar power plant integrated across the container terminals themselves. Port buildings will be covered with solar panels for a total capacity of 2.35MW. The project is the result of a partnership between COSCO Shipping, Hainan Harbor & Shipping, and Yangpu International Container Terminal.

### **Hainan benefits from Chinese luxury shoppers' pent-up demand**

Following the launch of the Hainan Free Trade Port in 2021 and the lifting of Covid restrictions last year, consumers of luxury goods have been able to benefit from Hainan's new duty free shopping advantages. Over the five-day Spring festival, shoppers spent \$250 million in Hainan's duty-free malls, up 325% compared to the same period in 2019.

## **EXPERT EXCHANGES: NAVIGATING EUROPE-CHINA RELATIONS THROUGH RESEARCH**



### **Foreign Policy - Michele Barbero: The Global Gateway initiative, the EU's response to China's Belt & Road, faces criticism**

Seeking to mobilize up to €300 billion in infrastructure investments in underdeveloped countries, the EU's Global Gateway initiative is not immune to criticism. From a « rebranding exercise » to a « drop in the ocean », some researchers wonder if the initiative is simply pouring « old wine in new bottles ».

### **ECFR - Tobias Gehrke & Julian Ringhof: EU's export of strategic techs**

As the USA expands its restrictions on strategic exports to China, not only in semiconductors, but potentially on AI, biotechnology, quantum computing and even clean technologies, the success of its strategy depends on allies following suit. However, a clear common European position is not forthcoming, nor is reaching a common position likely to be simple or fast.

### **Atlantic Council - Andrew Michta: no « pivot » needed, US can secure both Europe and Asia**

The U.S. « pivot to Asia » strategy initiated under President Obama is founded on two misplaced assumptions, Michta claims. Firstly, that the US' economy and social cohesion at home will continue their decline and, secondly, that China has the means of sustaining its growth and innovation despite the reshoring of US and European industries and technologies. He suggests that the argument for a «pivot to Asia» at the expense of the European pillar of American grand strategy reflects a fundamental misreading of the nation's history and its interests.

### **Xinhuanet Europe report: Sino-European cooperation in the green economy**

This latest report discusses potential opportunities in green energy, infrastructure, transport and finance to sustainably transform both the European and Chinese economies. It points to synergies and where they can be found to accelerate the low-carbon transition globally.

### **Stephane Bourg: Europe's dependence on China**

The director of the French Observatory of Mineral Resources for Industrial Sectors, Stéphane Bourg, details how Europe's dependence on China in key industries such as battery manufacturing is not limited to raw materials such as rare earths, but also to semi-finished products.

### **LSE - Milan Babic and Adam Dixon: Balancing Germany's complex relationship with China**

Despite the recent sale of a stake in the port of Hamburg to China's COSCO, and the intense media and political attention the transaction has received, researchers show how Germany has ramped up its protectionism over the past decade. Indeed, Chinese state-led investments in European countries have decreased in past years with the increasing number of legal restrictions on foreign investments in strategic industries, a phenomenon coined « the China effect ».

### **Dezan Shira & Associates: the 2023 outlook for European investments in China**

Despite severe headwinds from Covid restrictions and bilateral tensions, and after several years of decline, European investments in China skyrocketed 92% year-on-year in 2022. As China emphasises the need for foreign capital and rolls out its opening up strategy, expanding European investors' market access, the outlook remains positive for 2023.

### **The Diplomat - Francesca Ghiretti and Hanns W. Maull: Diversification is not enough to cure Europe's dependence on China**

Diversification is the pillar of the EU's strategy to reduce over reliance on China in strategic sectors. Relocating manufacturing to Europe or other geographies however is not a panacea, researchers say, and will be expensive. They emphasise that vulnerability, rather than dependence, is key. How likely is disruption? How severe will they be? Do alternatives exist?

### **MERICS: What the Swedish presidency of the Union means for the EU-China relationship**

In addition to the arrival of China's new ambassador to the EU, Mr Fu Cong, Sweden has set out its priorities for Sino-European relations in months to come. In the context of heightened yet stabilising tensions, Swedish officials called for the development of a common EU policy on China described as a « strategic competitor » and for a reduction of Europe's dependence

### **CKGSB - Liu Jing: What can China Learn from the European Union Emissions Trading System?**

Professor Jing assesses the strength of the EU's Emission Trading System and how it can help improve China's own Emissions Trading Scheme launched in July 2021. He also discusses the EU's Carbon Border Adjustment Mechanism and its consequences, notably on Chinese trade.

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