

Rapprochement intentions or readiness for disengagement?

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In the mid-2010s, global geopolitics was dominated by seemingly unquestionable ideologemes about the world order and its immediate prospects. It was believed that:

- Euro-Atlantic solidarity was protected by the American "security umbrella" that would further strengthen political and economic ties across the Atlantic;
- free trade, extending to services, investments, and new technologies, would involve more countries, thus increasing the income of both transnational corporations and even countries that have long been on the periphery of world processes for centuries but could adequately respond to the challenges of global competition;
- the growing interest of investment-rich China in Europe and America's highly absorbing markets would contribute to gradual penetration of liberal freedoms and democratic values in China;
- autocratic Russia would continue drifting towards the western way of life and absorbing material values, while increasingly losing economically to dynamic China. The possibility of a strategic rapprochement between technological China and resource-rich Russia was not seen as a threat to the established world order;
- the United States' leadership role for developed countries and the emerging economies' aligning with China and India would create a sufficiently balanced bipolar model rendering any global-level military confrontation virtually impossible.

Sadly and disappointedly, the current state of affairs has virtually nothing in common with the promising outlook that was once anticipated. It is difficult to pinpoint where it all started and when negative feedback began to dominate rational action. For example:

- the US-China trade wars, alongside tensions within the transatlantic region, have further divided politics, disrupted global production and logistics, and cast doubt on benefits and gains of free trade;
- the COVID-19 pandemic has exposed the international community's inability to consolidate efforts and effectively combat this worldwide threat to humanity;
- unfair access to technological innovations and intellectual property has led to the introduction of increasingly stringent institutional barriers to shield national economies, resulting in the narrowing of production networks to a select few partner countries;
- a growing disregard for the principles of democracy, liberty and independence, combined with the openly aggressive intentions of autocratic countries pushed humanity to the brink of a global military confrontation.

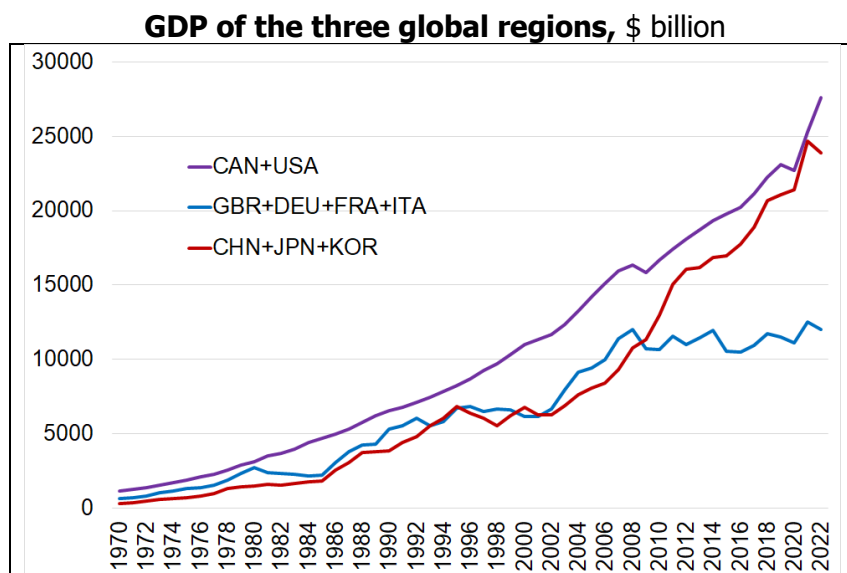
The global economy (and politics) could have further developed quickly and peacefully if China's high economic dynamics continued after the pandemic shock, and the European Union spearheaded efforts in coordinating and balancing the world's potentially conflict spheres.¹ Instead, the world is witnessing global transformations that give rise to very unexpected and quite undesirable changes and challenges that require adequate response, for which the necessary experience is still lacking.

Economic redistribution. The 2008-2009 Global Financial Crisis (GFC) created multiple waves and processes, significantly deforming the existing world order. The political and ideological weakening of the US and the EU has had a particularly impactful effect on emerging countries and regions that

¹ To a large extent, this has not happened because the governance and decision-making systems in Europe are built on consensus, in which one country, while pursuing its own narrow interests, can neglect the fundamental principles of modern Europe.

are navigating political challenges, sustain pressure from inadequate and often aggressive neighbours, or feel the effects of growing competition between global centres of gravity, including for regional influence.²

Surprisingly, the European Union, once seen as a symbol of progress and development, was not well-prepared for the crisis, and the weakness of institutions in individual countries, coupled with problematic search for a common vision led to the EU's economic slowdown after the GFC. In contrast, global shocks, although most of them formed in the Asia-Pacific, were less destructive and less inhibiting for the region's leading countries and did not put negative pressure on its economic dynamics (Figure "GDP of the three global regions").³



The ensuing economic gap between three centres of economic gravity⁴ produced centrifugal forces, forming new fragmented political and economic entities. Unfortunately, the European economy could not demonstrate adequate resilience, and if the gap persists, the EU may lose its traditional role as a recognised international authority.

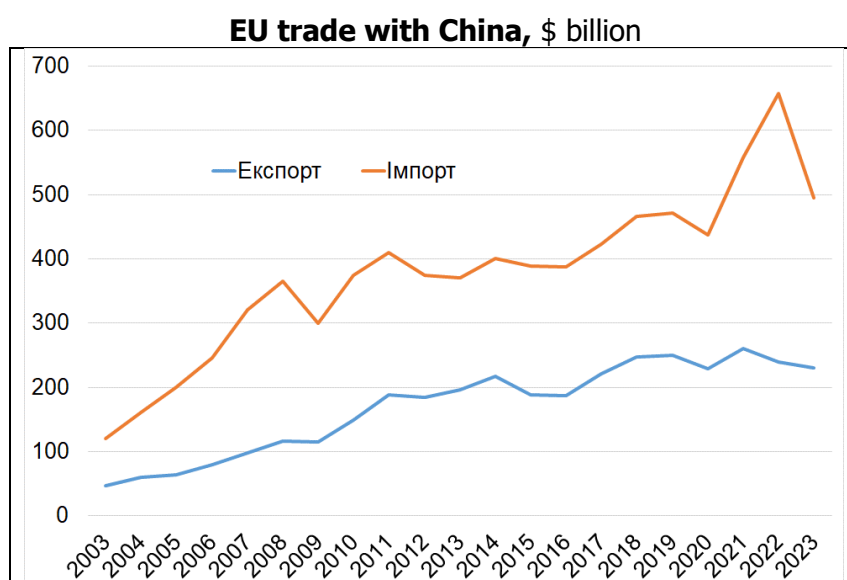
Meanwhile, given its historical traditions and despite numerous internal and external contradictions, the EU has the potential to become a consolidating centre for globally acceptable solutions. The mutual economic interests of the EU and China could form the basis for strengthening the "world centre of gravity", although their current attitudes towards war and peace, economic freedom and democratic values may make this partnership seem strange. However, the alignment of systemic positions between China and the EU on issues such as war and peace, climate, artificial intelligence and related global security could be a truly consolidating factor for further global development. A number of historical and interrelated processes in economic relations between the EU and China are worth noting in this regard.

² Political, economic, and structural consequences of Russian aggression for Ukraine and the international community. Challenges of Ukraine's economic recovery in the post-war period in view of European integration priorities (extended summary) / Kyiv, Razumkov Centre, 2023. – <https://razumkov.org.ua/images/2023/04/21/2023-ECONOM-VIDNOVL-ENGL.pdf>

³ Hereinafter, unless indicated otherwise, the authors use data from *World Bank Indicators* for international comparisons: <https://data.worldbank.org/indicator/>. Recognised three-letter international abbreviations are used to refer to economies: USA – United States, CHN – China, GBR – United Kingdom, etc.

⁴ A slowdown in Europe's largest economies does not necessarily mean that the entire EU will weaken. However, it is the EU's leading nations that have the greatest influence on shaping the overall trends and prospects of the European economy.

First of all, 2023 marked the 20th anniversary of China and the EU's comprehensive strategic partnership.⁵ Its macroeconomic results are quite satisfactory. In particular, the annual trade turnover, although slightly down from its 2020 peak, currently exceeds \$800 billion (Figure "EU trade with China"). The trade dynamics between the two have been quite "heterogeneous": before the GFC, China had a significant trade expansion in Europe, including due to its WTO accession and market opening. However, the next 6-7 years saw crisis symptoms (primarily debt) in many EU countries that significantly slowed down trade dynamics. Another important period was 2017-2019, when Chinese exports to the EU increased notably, largely due to the "switch" of export flows from the United States to Europe, driven by the escalating trade war. This trend is expected to continue in the coming years regardless of the new US president, as the confrontation between the two countries persists.⁶



Not only trade volumes were dynamic in the EU and China's economic relations: the total inflow of foreign direct investment (FDI) from China to the leading EU economies and the UK over 20 years was⁷ €81.4 billion in the UK, €32.0 billion in Germany, and €17.0 billion in France. However, China's investment in Europe generally remains insignificant compared to other global investors such as the United States and Japan. It should be borne in mind that a significant share of Chinese business investment flows to leading economies through Hong Kong. This is why China's real investment influence in Europe may be much higher.

While the main macro indicators of the EU and China's economic relations may be positive, contradictions at the institutional and microeconomic levels are being removed very slowly. For instance, many EU companies experience an asymmetrical business relationship and unlevel playing field in China. In particular, businesses are affected by a disparity in market access between Chinese and foreign firms, financing advantages for Chinese firms in strategic sectors and preferential support for selected Chinese industries.⁸ Although this practice is not uncommon, the situation in the EU-China case becomes truly strategic, as interrelated economic interests serve as a significant

⁵ A look to the past and the future of China-EU relations. – <https://euobserver.com/stakeholders/157788>.

⁶ Former president Trump has vowed to vastly increase tariffs on Chinese imports if he is elected again in 2024. President Biden, meanwhile, has signed a law to spur domestic computer chip production and cut China off from related subsidies; he is also eyeing new restrictions on Chinese electric vehicles and other imports in a second term. Narea N. China's new economic growth plan isn't really a plan at all. – <https://www.vox.com/world-politics/24091759/china-economic-growth-plan-xi-jinping-crisis>

⁷ Cumulative value of completed foreign direct investment (FDI) transactions from China in EU-27 and UK between 2000 and 2022, by country. – <https://www.statista.com/statistics/1244460/china-cumulative-foreign-direct-investment-to-eu-by-country/>

⁸ EU-China: how to manage an increasingly challenging economic relationship. – <https://www.amchameu.eu/blog/eu-china-how-manage-increasingly-challenging-economic-relationship>

motivation to maintain a high level of not only economic relations, but also political ones, despite political tensions, which, however, are not as severe as those between China and the United States.⁹

Beijing is taking advantage of the European Union's weakening political unity in its attitude to China by demonstratively preferring contacts with individual countries instead of dealing directly with the EU institutions. This strategy is driven by China's aim to exploit political and economic differences between individual countries and the EU leadership, individual countries among themselves, donors and recipients of resources from EU funds, etc.

The joint visit of European Commission President Ursula von der Leyen and French President Emmanuel Macron to China in April 2023 is a striking example of China's demonstrative political approach. While Macron received the "full red-carpet" treatment, von der Leyen's visit was clearly given a cold shoulder.¹⁰ This was definitely due to von der Leyen's and the EU's support for the US assistance policy for Ukraine, as China openly takes a different stance on the Ukraine war and its ending.

In turn, the demonstrative inattention to the President of the European Commission allowed her to take a more decisive stance. Thus, in one of her speeches during the visit, von der Leyen warned China against providing military assistance to Russia,¹¹ as this would not go unnoticed and have an extremely negative impact on EU-China relations. She also suggested that China, with its decisive influence on Russia, could contribute to a just peace that respects Ukraine's freedom and territorial integrity.

However, in the short term, there is a possibility of risks that were not previously visible. A "two-dimensional" situation may emerge where China loses interest in further strategic accession to the European Union, potentially leading to a very undesirable scenario for the geo-economy and geopolitics.

The first dimension concerns the fact that the differences in worldviews between the European Union and China will lead to deeper misunderstandings and increased confrontation both between them and their closest allies. It is generally acknowledged that the EU is generally comprised of developed countries with strong socio-political institutions, which they promote as a model for emerging nations. Although China has repeatedly proved that it has chosen a different path of development, European leaders have not given up trying to make China be more like Western democracies.

Meanwhile, given the current weak economic dynamics of the EU and its growing gap with China, complicated decision-making, growing misunderstandings between the EU member states, and the lack of visible factors that could reduce the gaps in value added creation in the EU and China, there are reasonable doubts – at least from China's standpoint – about which development model is more effective for human development and who will determine the common goals and the level of their mutual achievement.

It is true that Europe remains a highly absorbing socio-economic and humanitarian environment and a global source of human capital, including thanks to its higher education that many Chinese would like to receive. However, given the ongoing differences in perceptions of various global processes and related expectations, including economic ones, it is quite possible that the EU's economic

⁹ Gaenssmantel F. China-EU economic relations—new perspectives on decision-making, mutual understanding and effects—introduction to the special issue. – <https://link.springer.com/article/10.1007/s10308-023-00674-w#Sec1>

¹⁰ Joshi M. Europe and China: The impact of the Ukraine crisis. – <https://www.orfonline.org/expert-speak/europe-and-china-the-impact-of-the-ukraine-crisis>.

¹¹ Ursula von der Leyen warns China against supplying weapons to Russia – <https://www.polskieradio.pl/398/7856/artykul/3147291,урсула-фон-дер-ляен-застерегла-китай-від-постачання-росії-зброї>

attractiveness to China may weaken, which will generate increasing tensions in bilateral economic (and thus political) relations in the near future.¹²

Furthermore, “threats” are accumulating not only on the demand side. Given China’s ability to produce most commodity groups, including those belonging to strategic industries, cheaper than in developed countries, trade tensions between the EU and China, caused by the growing supply of processing industries, are likely to increase. This could result in political risks,¹³ not only due to the displacement of national production, but also due to the expansion of import flows, exposing European companies to “double” losses.

This redistribution in commodity flows will inevitably result in increased unemployment, negatively impacting the economic and social gains of European workers. It is clear that the EU authorities will perceive such transformations as a threat to national security and apply a wide range of protective measures. To avoid confrontation, China may consider the mechanisms of so-called voluntary export restrictions, similar to what Japan did in the 1980s and 1990s to avoid sanctions from the United States.

Changing the model of China’s economic development. Thus, *the second dimension* concerns China’s willingness and ability to restructure the current model of economic development in a relatively short time.

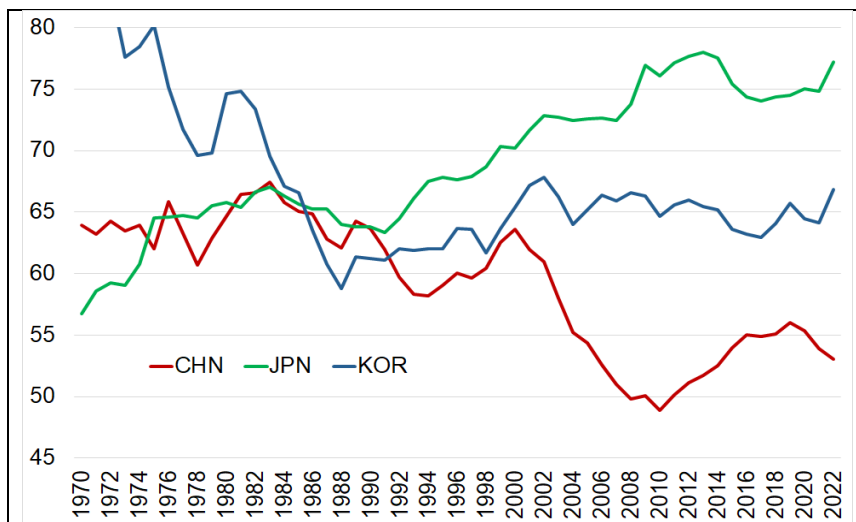
China’s investment and export-oriented model of economic development has driven the country’s sustainable economic growth for three decades. However, this model has revealed weaknesses in recent years, such as insufficient domestic consumption (including at the household level). While investment continued to expand, this limited consumption has become a hindrance for further growth in the 2010s. Moreover, the rapid increase in investment required significant resources, leading to debt accumulation. Given the size of the Chinese economy, this rapidly growing debt pressure could have serious consequences not only for the national but also for the global economy. The accumulation of negative feedback effects, such as low consumption, high unproductive investment, rising debts and arrears, cause a decline in both business expectations and household sentiment, so instead of expanding spending (which would stimulate production), they are accumulating savings.

Today, China has an extremely low level of consumer spending for a country that is forming a strong middle class and also claims to play a leading role in the distribution of global product (Figure “*Final consumption expenditure, % of GDP*”).

Final consumption expenditure, % of GDP

¹² China-EU economic relations—new perspectives on decision-making, mutual understanding and effects—introduction to the special issue. – <https://link.springer.com/article/10.1007/s10308-023-00674-w#Sec1>

¹³ Cheng E. EU-China trade relations are in a ‘slow-motion train accident,’ business group says. – <https://www.cnbc.com/2024/03/19/eu-china-trade-relations-in-slow-motion-train-accident-business-group.html>.



Such low levels of consumption in an export-oriented economy contribute to the country's income growth if the leading importing countries for Chinese exporters have fairly stable and positive economic dynamics. However, if these importing countries with a large share of absorption in GDP fall into a "crisis trap" that forces them to cut consumption, and consequently reduces demand for imports, the situation for an export-oriented economy such as China can quickly deteriorate. Additionally, the rise of protectionism in the global economy adds restrictions on Chinese exports, making domestic development reliant on external demand (as it was before 2008) or on the willingness of national economic agents to expand consumption, reduce investment in production (so as not to increase supply), and increase import capacity.

It is worth noting that China's focus on high savings and exports and low consumption was long effective when developed countries had stable economies, specifically before the GFC. However, as the global economy became increasingly troubled in the 2010s, China's emphasis on investment (especially public and plentiful regional investment) led to the expansion of "ghost cities" and increased debt.

Therefore, while seeking to balance the structure of GDP formation, China has to simultaneously focus on two areas. First, it must counter the trend of insufficient domestic consumption, which then results in weak demand, limiting long-term economic growth.¹⁴ Second, it must decide on its debt policy, as the total debt of the non-financial sector is projected to reach 288% of the country's GDP by the end of 2023, which significantly limits the resources available for economic activity in the long term.

And while the internal components of macroeconomic balancing related to economic acceleration and increased consumption appear to be gaining momentum, the issue of foreign economic orientation is becoming more complicated.

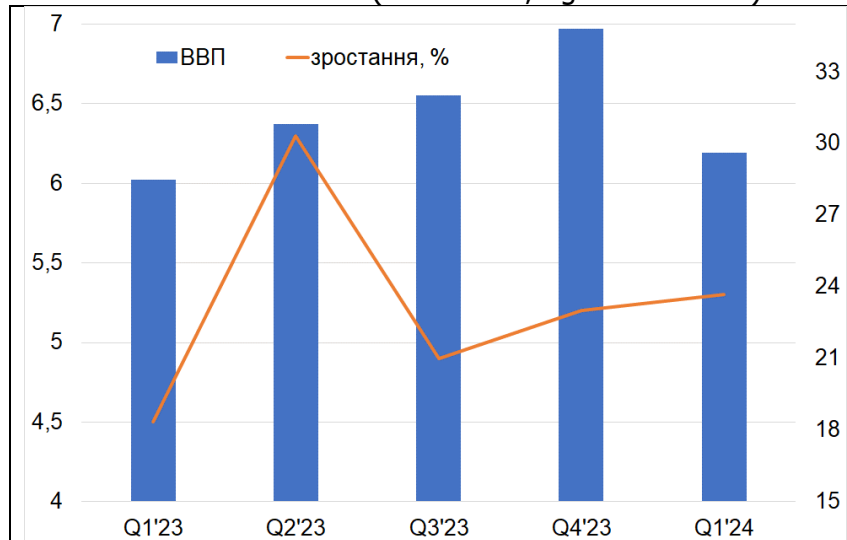
Early in the year, there were reasonable doubts about China achieving its 5% economic growth target in 2024.¹⁵ However, the GDP growth in Q1 2024 (Figure "China's GDP growth and nominal GDP") beat forecasts thanks to high output and activity in key manufacturing and service sectors, setting the country on track to achieving its annual economic growth targets.¹⁶

¹⁴ Xu Gao. Chinese economy at a forking path, leading to three possible futures. – https://www.eastisread.com/p/part-ii-of-xu-gao-chinese-economy?utm_source=post-email-title&publication_id=1151841&post_id=143380122&utm_campaign=email-post-title&isFreemail=true&r=1v5gzx&triedRedirect=true&utm_medium=email

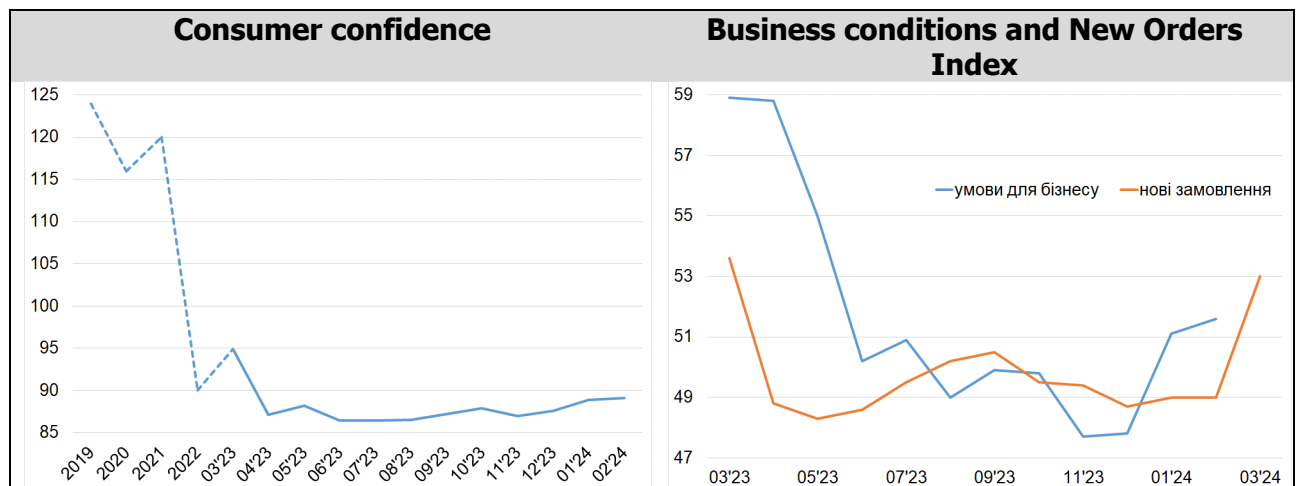
¹⁵ The IMF predicted that China would not reach the 5% target in 2024, but rather only 4.6%. – Narea N. China's new economic growth plan isn't really a plan at all, <https://www.vox.com/world-politics/24091759/china-economic-growth-plan-xi-jinping-crisis>

¹⁶ Huld A. China's Economy Expands 5.3% in Q1 2024

China's GDP growth (YoY change quarterly, left-hand scale) and nominal GDP (CNY trillion, right-hand scale)



Moreover, improvements in the economy are observed in different spheres. While households are still cautious in assessing the changes in the country's current economic environment (Figure "Consumer confidence"), businesses are much more optimistic about the economic recovery (Figure "Business conditions...").



Therefore, the worst post-COVID period for the Chinese economy seems to be over, but this does not mean that the crisis risks have been removed altogether. As noted above, the external sphere is much more controversial, which poses high risks of political, diplomatic, economic, and humanitarian contradictions, and thus complex impacts on global economic ties and relations.

Foreign economic "scissors". The growing political and economic rapprochement between China and Russia in 2022-2023 is one of the most important consequences of the Ukraine war, especially given the fact that China considers its economic, financial and technological ties with the United States and the European Union much more important for the economy than similar ties with Russia. For example, China's exports to the US in 2021 reached \$580 billion, to Japan – almost \$170 billion, to South Korea – \$150 billion, and to Russia – only \$68 billion (or by almost an order of magnitude less than to the US).

<https://www.china-briefing.com/news/china-q1-2024-gdp-grows-5-3-percent/>

This is despite the fact that Russia has already been reorienting its trade and economic relations from the West to the East in response to anti-Russian sanctions mechanisms launched after the first wave of its invasion of Ukraine in 2014. This reorientation involved the investment in the expansion of pipelines, railways, ports and cross-border bridges, which allowed for a significant increase in the supply of Russian natural resources to the Chinese market.¹⁷

These relations have intensified since 2022, as the West has significantly restricted its economic ties with Russia (Figure "*China's trade with the United States and Japan*"). As a result, China has become a "saviour" for Russia, helping it expand trade and receive funds, some of which were used for the war effort (Figure "*China's trade with Russia*").

While declaring the need to separate business from politics, China could not help but take advantage of the opportunity for easy and cheap access to strategic resources. Moreover, such relations present an excellent opportunity to expand the international status of the yuan, as 70% of trade between China and Russia is settled in the Chinese currency. However, this expansion of trade is not welcomed by the collective West, as it provides Russia with resources to continue its war in Ukraine.

From a macroeconomic perspective, China still maintains a significant trade surplus, which will tend to increase with the growth of national production. However, the EU, just like the US, is looking to reduce its dependence on the Chinese manufacturing, which will only increase trade tensions between China and the collective West.

In such settings, China's trade with Russia could partially "balance" its exports by reorienting some of it from developed markets to Russia. However, this could work if Russia could absorb a larger share of Chinese exports, which is impossible because of the general poverty of the Russian population, or at least if the situation developed in a peaceful environment.

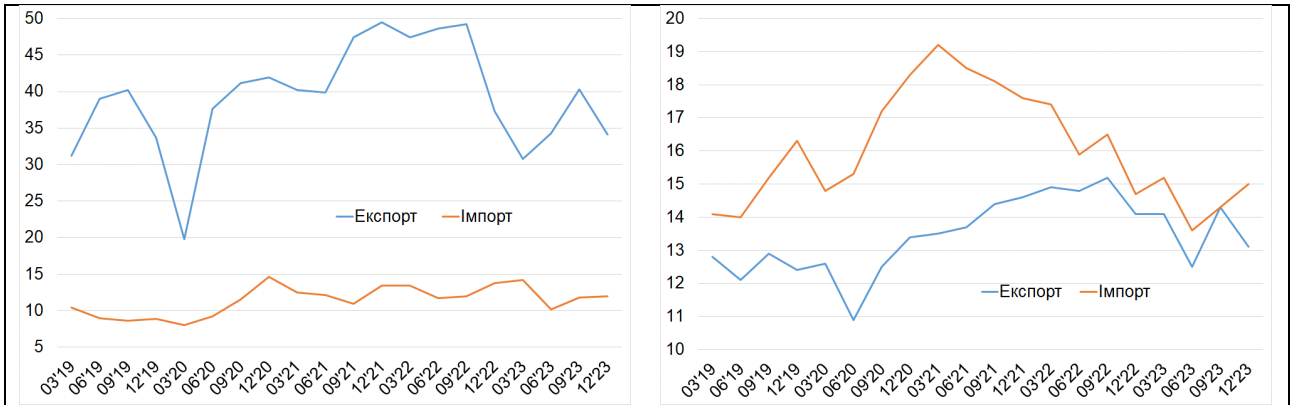
It should be noted that nowadays there are not many opportunities for "painless" redistribution of trade flows, as the global economic dynamics, and thus trade and investment flows after the GFC have been significantly limited by various crisis shocks, such as the COVID-19 pandemic, the war in Ukraine, and the escalating risk of war in the Middle East.

At the same time, the "external" shocks that put negative pressure on the global economic dynamics have somewhat eased the imbalances. For example, the volume of global imports absorbed by the EU has practically stabilised during this period. Therefore, even if Chinese exports were to increase significantly, it is unlikely to bring about significant changes in European imports (Figure "*China's exports and EU imports*") as it would only result in a rise in deficit and unemployment.

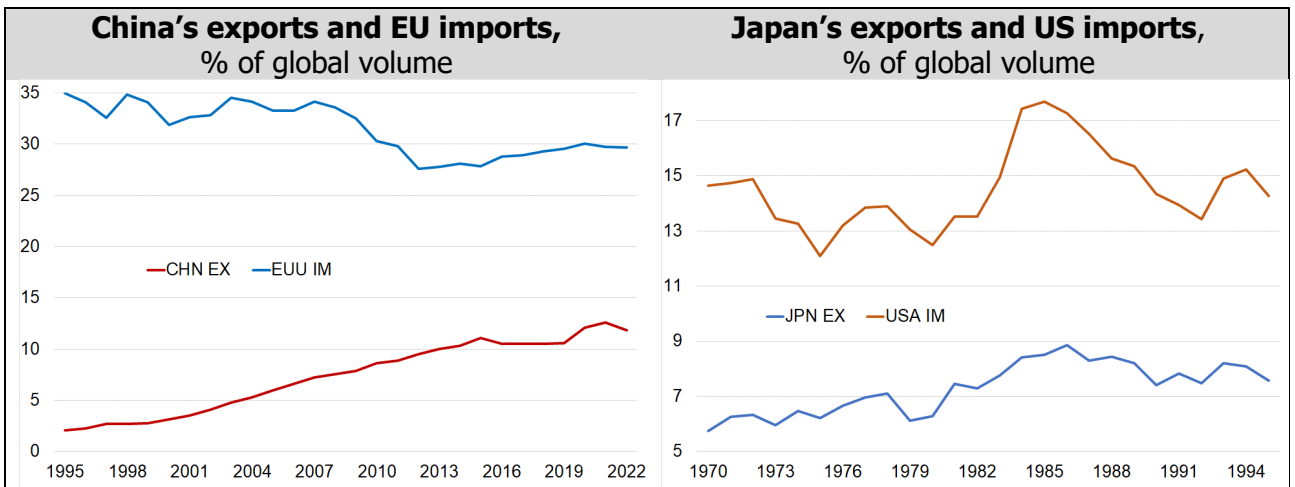
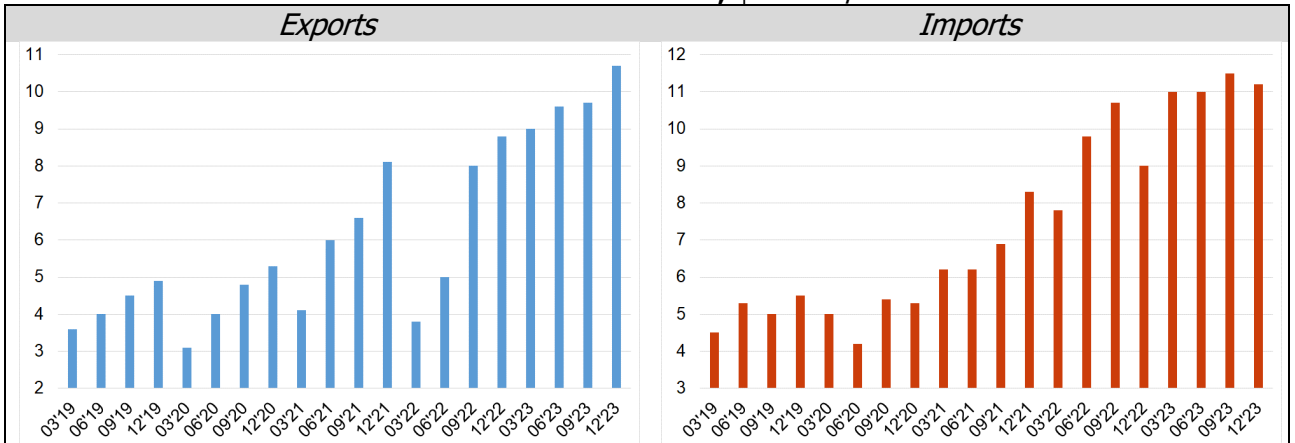
China's trade with the United States and Japan, \$ billion / month

<i>United States</i>	<i>Japan</i>
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¹⁷ Gabuev A. Putin and Xi's Unholy Alliance. – https://www.foreignaffairs.com/china/putin-and-xis-unholy-alliance?utm_source=ctw&utm_medium=email&utm_campaign=buttonlink&mkt_tok=ODEzLVhZVS00MjIAAA GSbkFcO_IN014nyBVqa-HedwyOoec6Fx_RxU-qh-F9rH2dvn5PxLFcsB9mP5Kwz3x7F7ExG-ieMUgkDXzoKiIo4dzggMbS81XgicelOuQ



China's trade with Russia, \$ billion / month



Various approaches can be considered in the search for solutions to trade deficits and surpluses in the EU and China. One of them is the above-mentioned “voluntary export restrictions”, which has been successfully implemented in the trade between the two major economies – the United States and Japan. In 1980s and 1990s, when trade imbalances threatened political relations between the two nations, Japan restricted its exports of automobiles, electronics, heavy and light industry products to the US. This reduction in the total exports and imports of both countries (Figure “Japan’s exports and US imports”) helped alleviate economic imbalances and restored partnerships.

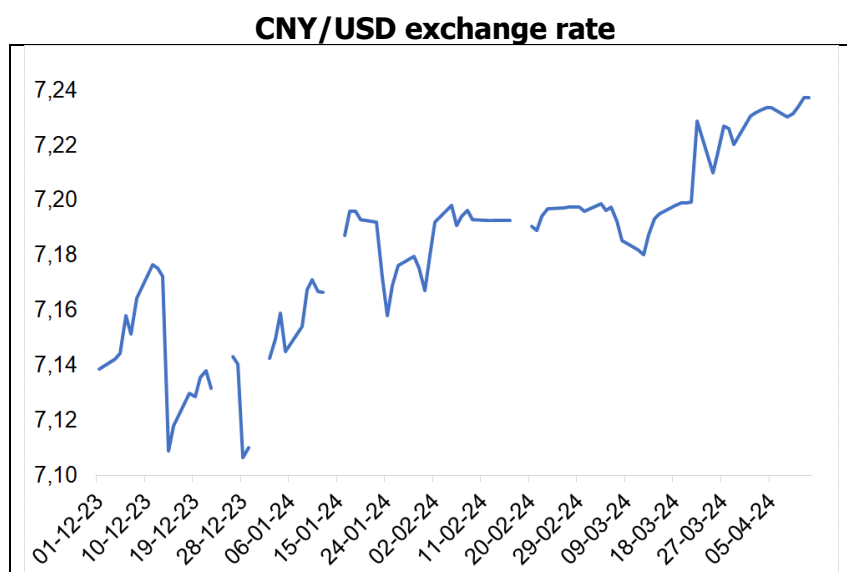
However, it remains unclear whether a similar mechanism would be effective in the current climate of escalating economic and political confrontation. Meanwhile, the initiative and practical steps aimed at reducing economic imbalances should not be seen as a sign of the initiator’s weakness, but rather as a rational and balanced policy approach.

Another way to address trade imbalances, which are associated with the resumption of China's economic acceleration, may be in increasing domestic consumption. This is all the more important because the level of consumption in China is significantly lower than in ASEAN partner countries (Table "Final consumption expenditure"), which are also importers from China. Also, supporting domestic consumption helps reduce the incentives for human capital flight, especially in the context of the rapid formation of a large middle class in China.

Final consumption expenditure, % of GDP

	2000	2010	2022
Indonesia	68.2	65.2	60.7
Malaysia	53.9	60.7	69.3
Philippines	82.8	79.9	90.9
Thailand	67.7	68.0	72.3
Vietnam	72.9	68.8	63.9
China	63.6	48.9	53.0

Finally, a particular reorientation of trade flows could be facilitated by the re- / de- valuating the national currency. While the common belief is that the national currency re-valuation (strengthening) leads to increased imports and hinders export expansion and may also ease inflationary pressures, the Chinese government has often been criticised for artificially maintaining a weak yuan to promote its export-led model. Even today, in the face of the slowdown in most developed economies, China continues to de-value the yuan (Figure "CNY/USD exchange rate"). Therefore, it is possible that China's return to high positive dynamics (5% growth) allows seeing the yuan re-valuation as a step towards reducing foreign economic imbalances, including in relations with the EU.



Contradictory perspectives. Today's peculiarity is that the issues of economic development and international trade can only be considered inseparably from the tasks of ensuring the security of a country or region, which can equally promote mutual understanding and provoke separation. The Russian war on Ukraine has increased the salience of the long-running debate on China's international outlook, given Beijing's reluctance to take its distances from Moscow.¹⁸ The issues of political and economic disengagement are particularly painful for the EU, which does not follow the US's tougher policy towards China. Differences in response to Russian aggression, the growing technological race, and increasing pressure from the US to increase military spending are creating

¹⁸ Gaenssmantel F. China-EU economic relations—new perspectives on decision-making, mutual understanding and effects—introduction to the special issue. – <https://link.springer.com/article/10.1007/s10308-023-00674-w#Sec1>

mutually contradictory perspectives for US-EU-China relations. Moreover, in addition to global influences, the EU-China axis is crucial for Ukraine.¹⁹

It is worth recalling that tensions between Europe and China were first institutionally recognised in the European Commission's 2019 Strategic Outlook, which defined China as a cooperation partner, market competitor and systemic rival for the first time.²⁰ Of course, China did not accept the label of a rival and possibly perceived it as a political challenge, which, in turn, could have motivated its further decisions to support Russia directly or indirectly.

In May 2021, almost a year before the Russian invasion of Ukraine, the European Commission published a Staff Working Paper on Strategic Dependencies and Capabilities,²¹ which analysed the areas of security, health, green and digital transformation, rare materials and semiconductors for dependence on the outside world. Instead of conclusions, the document presented the transformation risks and challenges that the European Union must consider for maintaining global competitiveness. Although China was not explicitly mentioned, most risks and countermeasures discussed were related to China's positions and actions.

The effectiveness of provisions and declarations of the European Union as one of the leaders of peaceful democratic development was demonstrated in February 2022, when Russian aggression divided the international community into those who supported Ukraine and condemned Russia, and those who justified and supported Russia or took a demonstrably indifferent stance.²² It should be emphasised that the EU countries, along with the United States, the United Kingdom, Canada, Japan, Australia and others, have consistently helped and supported Ukraine since the first days of the war. China's position for "peaceful resolution of the *conflict*" could not be accepted by the democratic community.

The most important thing for Ukrainians was that the European Union quickly consolidated and acted as one team, which looked somewhat unusual, because the attitudes of various member states to the events and processes around the world had often been different – this was later confirmed by the situation around Taiwan or the Hamas attack on Israel.

The unity in countering the aggressor, demonstrated by the West in 2022, even forced China (albeit temporarily) to abandon the paradigm of the East's growth as opposed to the West's weakening, and Chinese leaders adopted a non-confrontational framework for bilateral relations. As a result, the conflict over Taiwan was extinguished, and a series of bilateral discussions were initiated to address current and strategic differences. China's decision to dissociate itself from military assistance to the aggressor in light of the risks that emerged at the end of 2022 ("red lines") is a testament to the framework they adopted.²³

The Ukraine war has highlighted the need for the European Union to prioritise economic security. Although this issue has always been in the limelight of all countries, the upsurge in aggressiveness

¹⁹ EU-China: how to manage an increasingly challenging economic relationship. –

<https://www.amchameu.eu/blog/eu-china-how-manage-increasingly-challenging-economic-relationship>

²⁰ The United States was the first to declare China a strategic challenger in its National Security Strategy in 2017.

²¹ Staff Working Document on Strategic Dependencies and Capacities. – <https://www.wec-italia.org/wp-content/uploads/2022/02/STRATEGIC-DEPENDENCIES-2022.pdf>.

²² China-Europe Relations, Two Years After Russia Invaded Ukraine. – <https://carnegieendowment.org/2024/03/11/china-europe-relations-two-years-after-Russia-invaded-ukraine-pub-91940>

²³ Political, economic, and structural consequences of Russian aggression for Ukraine and the international community. Challenges of Ukraine's economic recovery in the post-war period in view of European integration priorities (extended summary) / Kyiv, Razumkov Centre, 2023. –

<https://razumkov.org.ua/images/2023/04/21/2023-ECONOM-VIDNOVL-ENGL.pdf>.

in the era of rapid technological change has required new strategic approaches, including taking into account the fragmentation of the political and economic world.

The EU Strategy, presented on 20 June 2023, was of the decisive steps towards economic security. It aims to assess current challenges and risks and outlines plans to regulate investment and trade rules for European companies in other countries in greater detail. In particular, it includes the prohibition for European businesses to produce key modern technologies, such as supercomputers, artificial intelligence and advanced chips, in China and other countries "...with which there are differences in values, models and interests".²⁴

Of course, the strategic directions of action cannot be pursued through restrictions and bans only. Therefore, the EU's approach to economic security also includes promoting competitiveness, protecting against risks and partnering with the broadest possible range of countries to advance shared economic security interests.²⁵

The Economic Security Strategy has essentially launched a complex and comprehensive process of regulatory support for the European (and thus global, as it is understood in developed countries) economic security system. Already in January 2024, in line with the Strategy, the European Commission further strengthened the EU's economic security by adopting five initiatives in the context of Russia's war against Ukraine, growing geopolitical tensions and profound technological changes.²⁶

While upholding the openness of trade, investment and research to the economy, the Strategy considers necessary steps in five areas: strengthening the screening of foreign investment into the EU; identifying security risks associated with EU's outbound investments; enhancing export controls on dual-use goods; enhancing the security of research in the EU; and strengthening support for the development of technologies with dual-use potential.

While these are well-intentioned initiatives, they could strain EU-China relations if interpreted as being targeted against China. This could complicate the search for solutions where the parties are willing to negotiate – climate, healthcare (fighting epidemics), AI, and the like. At the same time, the EU's actions also demonstrate its preparedness to tackle real-world threats.

What is particularly important for Ukraine? Civilised Europe strongly rejects Russian aggression and clearly doubts about the effectiveness of the Chinese model of a "peacekeeping" mission to end the war in Ukraine. Instead, Ukrainians perceive certain processes mainly in the context of struggle for freedom and independence. Since the European Union has taken a clear position of support for Ukraine from day one of the Russian aggression, Ukrainians will perceive any EU decisions or actions as fair and right.

Meanwhile, it is still unclear how China will resolve the dilemma of choosing between the desire to gain super-profits through expanding strategic cooperation with Russia or to strengthen its role as a peacekeeper and a good economic partner in the eyes of Europeans.

Ukrainians should not expect the Chinese "peaceful settlement" model to significantly transform and become more pro-Ukrainian under political pressure. Rather, such changes may go along the need to transform the Chinese economy itself, with more active and constructive cooperation with Europe and less with Russia. However, the question of reducing the EU's dependence on China or "de-

²⁴ The EU wants to ban European companies from producing key technologies in China - <https://www.eurointegration.com.ua/news/2023/06/20/7164027/> (in Ukrainian)

²⁵ K. Polska. How Brussels wants to strengthen the EU's economic security – <https://www.dw.com/uk/es-zmicnue-ekonomicnu-bezpeku-so-proponue-evrokomisia/a-68076679> (in Ukrainian)

²⁶ Commission proposes new initiatives to strengthen economic security. – https://ec.europa.eu/commission/presscorner/detail/en/IP_24_363

risking” economic relations is inseparable from the “level” of security independence – how much the reduction of risks of economic dependence (and greater protective measures to counter these risks) correlates with the benefits / losses of broad economic ties.²⁷

Ukraine has the highest vested interest in political and economic relations between the EU and China that develop in a peaceful and fair manner. This would contribute to the EU’s stable economic growth, thus multiplying resources available for Ukraine’s post-war reconstruction.

Meanwhile, the losses it has suffered, Ukraine has much to offer Europe. Many experts believe that Ukraine can play a key role in Europe’s green (hydrogen) energy sector.²⁸ Although much of Ukraine’s traditional industrial potential has been destroyed by the war, the remaining part is driving the country’s transition to a new technological base. Developing rare earth metal reserves in Ukraine could accelerate the EU’s adoption of eco-friendly technologies and decrease its reliance on China. Involving Ukrainian producers, who are increasingly utilising digital defence technologies, in joint ventures with NATO standards²⁹ for producing military digitalised products would enhance the digital security and military partnership between Ukraine as Europe’s eastern outpost and the EU.

²⁷ China-EU economic relations—new perspectives on decision-making, mutual understanding and effects—introduction to the special issue. – <https://link.springer.com/article/10.1007/s10308-023-00674-w#Sec1>

²⁸ N.Churikova N. Davos discusses how to defeat Russia and reduce the West’s dependence on China with the help of technology and Ukrainian resources – <https://www.holosameryky.com/a/davos-tntrhetyka-ridkozemelni-metaly/7442739.html> (in Ukrainian)

²⁹ War, integration and the Black Sea factor: Undervalued opportunities / Kyiv, Razumkov Centre, 2024. – <https://razumkov.org.ua/images/2024/04/23/2024-PAKT-6-1.pdf>