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How can Beijing and Brussels move forward with their trade relationship amid geopolitical uncertainties?

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The case of critical raw materials

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25 May 2024

Introduction

China and the EU, as two of the world's major economies, together comprise one-third of the global economic output. China is now the EU's second-largest trading partner, as well as the largest source of its imports and the third-largest destination of its exports. In recent years, the EU has accelerated the 'de-risking' process amid geopolitical crises, and prioritised security in the cooperation with China, a shift from the past orientation towards economic interests and technical cooperation. A raft of new acts and policies adopted by the EU, in particular the Critical Raw Materials Act, has challenged China-EU relations. Nevertheless, the two economies

are still highly complementary in terms of industrial structure, technological strength, and market demand. As reiterated by Wang Yi, Member of the Political Bureau of the CPC Central Committee and Foreign Minister of China, China and the EU are comprehensive strategic partners with common interests far outweighing differences, and cooperation is the keynote of China-EU relations.¹ In the future, China and Europe should strengthen dialogue, enhance strategic mutual trust, bolster consensus on cooperation and development, and collaborate to facilitate trade cooperation under the new and turbulent circumstances.

Key issues

CONTEXT OF THE CRM ACT

In December 2019, the European Commission launched the European Green Deal, an important document for combating climate change and promoting sustainable development, proposing to make Europe the first carbon-neutral continent in the world by 2050. Critical raw materials for clean energy development are crucial to achieving this vision. The EU demand for rare earths is estimated by the European Commission to increase six-fold by 2030 and seven-fold by 2050, while the

EU demand for lithium is expected to increase 12-fold by 2030 and 21-fold by 2050. On September 14, 2022, European Commission President von der Leyen announced the CRM Act during her State of the Union address. On March 16, 2023, the European Commission presented a proposal for the CRM Act. On March 18, 2024, the Council of the European Union formally endorsed the CRM Act to ensure the EU's access to a secure, diversified, affordable and sustainable supply of critical raw materials for a wide set of strategic sectors including renewable energy, digital, aerospace, and defense.²

CORE ELEMENTS OF THE CRM ACT

The CRM Act identifies 34 critical raw materials and 17 strategic raw materials, including rare earths, lithium, nickel, cobalt, and silicon. It sets benchmarks for EU capacities along the supply chains of critical raw materials:

- ▶ At least 10% of the EU's annual consumption for extraction;
- ▶ At least 40% of the EU's annual consumption for processing;

- ▶ At least 25% of the EU's annual consumption for recycling;
- ▶ Not more than 65% of the EU's annual consumption is from a single third country.

The Act requires simplifying permitting procedures for critical raw materials projects, with the permit granting process not exceeding 27 months for extraction and 15 months for processing and recycling. It also provides for monitoring and stress testing of critical raw materials supply chains, and sets obligations on large companies to audit their supply chains.

Main challenges and opportunities

1. THE EU'S "DE-RISKING" POLICY IMPACTS CHINA-EU ECONOMIC AND TRADE RELATIONS

China is a major supplier of the critical raw materials used in the EU. It provides 85% of the EU's supply of light rare earth elements, such as cerium, lanthanum, neodymium, praseodymium, and samarium, as well as 71% of the gallium supply and 67% of the scandium supply, according to the China Institute of Contemporary International Relations.³ The CRM Act, though not explicitly targeting China, will directly undermine the trade in related minerals between China and Europe, and have an impact on Chinese companies along the supply chains such as smelting and processing companies. As evidenced by the CRM Act, the EU pan-politicisation and pan-securitisation of normal economic and trade relations will magnify the fragmentation of global economy and industrial pattern and consequently threaten the stability of the global green supply chains.

2. RISING PROTECTIONISM IN THE EU INFLUENCES THE BUSINESS ENVIRONMENT

The CRM Act is an important manifestation of the rise of trade protectionism in the EU. In recent years, the EU has raised thresholds for Chinese exports, as well as enterprise investments, and mergers and acquisitions through a protectionist policy toolbox. Such interference in industrial chain and supply chain cooperation has produced negative effects on the investment and development of Chinese companies in the EU. The EU business environment has deteriorated in the eyes of 32.84% of the surveyed companies, a decrease of 0.2 percentage points compared with the previous year, according to the report "Business Environment of the European Union 2023/2024" published by the China Council for the Promotion of International Trade (CCPIT).⁴

3. NEW RISKS BROUGHT BY 'DE-RISKING'

The CRM Act is intended to 'de-risk' domestic clean energy industries. Although EU leaders emphasised having no intention to 'decouple' from China, since China is a dominant producer of rare earths and many other critical raw materials in the world, domestic substitution is difficult in the short term. Forcible 'de-risking' will result in de facto 'decoupling' of China and the EU, which will directly affect the cost and stability of domestic industries, and even hinder the realisation of its carbon-neutral vision.

4. GREAT CHALLENGES TO THE OBJECTIVES OF THE CRM ACT

The EU has swiftly adopted the CRM Act in an ambitious effort to secure an independent supply of critical raw materials. However, the goal of localising critical raw materials-related industries is still facing challenges in capital, cost, technology, and environmental dimensions.

5. HIGH-LEVEL DIALOGUES FUNDAMENTAL TO THE DEVELOPMENT OF CHINA-EU COOPERATION

High-level dialogues between China and Europe have been strengthened since 2023. In April 2023, French President Macron visited China, and in June, Chinese Premier Li Qiang visited Germany and France. In December 2023, Chinese President Xi Jinping met with European Council President Michel and European Commission President von der Leyen, who were in China for the 24th China-EU Summit. In April 2024, German Chancellor Scholz visited China. On May 5, 2024, Chinese President Xi Jinping paid a state visit to France, Serbia and Hungary. Through high-level dialogues, China and Europe have enhanced mutual understanding

and trust, reaffirmed the keynote of cooperation, and better managed their differences to maintain the strategic stability of China-EU relations.

High-level visits also boost business cooperation. For example, during President Xi Jinping's state visit to France, representatives from Chinese and French enterprises conducted exchanges on three topics: industrial innovation, mutual trust and win-win cooperation; green economy and low-carbon transition; and new quality productive forces and sustainable development. Enterprises from the two sides also signed cooperation agreements in areas including aviation, low-carbon mobility, intelligent manufacturing, environment, green development, and green finance. China-EU enhanced cooperation on industrial chains and supply chains lays a solid foundation for strengthening industrial integration and promoting sustainable development of economic and trade ties.

6. BROAD PROSPECTS FOR CHINA-EU ECONOMIC AND TRADE COOPERATION WITHIN THE FRAMEWORK OF THE BELT AND ROAD INITIATIVE (BRI)

The economic and trade ties between China and Europe have become closer since China's BRI initiative was launched, with bilateral trade hitting 5.5 trillion yuan in 2023. As of the end of March 2024, China-Europe freight trains have cumulatively operated over 87,000 trips, reaching 222 cities in 25 European countries, according to the statistics of China State Railway Group Co., Ltd. In addition, special trains for timber, edible oil, and new energy vehicles have been made available. Such tailored services of China-Europe freight trains have

accurately dovetailed industrial and market demands and further facilitated economic and trade exchanges between the two sides. Prospects are very broad for deepening economic and trade cooperation within the BRI framework as long as China and Europe maintain a stable strategic partnership.

7. HUGE SPACE FOR COOPERATION IN CLEAN ENERGY INDUSTRIES BETWEEN CHINA AND EU

China and Europe are highly complementary and have a huge potential for cooperation in clean energy technologies, industries, and markets. The EU's energy transition and carbon neutrality can not be separated from China's clean energy equipment. The cooperation between China and Europe in clean energy industries is not limited to imports and exports, but involves a wide range of converging interests in the process of global response to climate change and energy transition. Industrial cooperation between the two sides can not only serve the EU's needs, but also deliver mutual benefits and win-win results by jointly expanding the Middle East and North Africa markets.

As noted by a signed article of Chinese President Xi Jinping in *Le Figaro*, France is advancing re-industrialisation based on green innovation, whereas China is accelerating the development of new quality productive forces. The two countries can deepen cooperation on innovation and jointly promote green development. Some Chinese companies have set up battery plants in France. The Chinese government supports more Chinese companies to invest in France and hopes that France will ensure they operate in a fair and equitable business environment.⁵

Recommendations and conclusions

For these two of the major economies in the world, there are no geopolitical conflicts or conflicts of fundamental interests between China and Europe - cooperation far outweighs competition, and consensus far outweighs disagreement. The two sides should reaffirm strategic partnership and deepen economic and trade cooperation by forging a two-way strategic partnership, establishing a multilateral industrial chain cooperation mechanism, promoting a clean energy community of shared interests, and actively engaging in international cooperation on science and technology innovation.

1. FORGING A TWO-WAY STRATEGIC PARTNERSHIP

China has always attached importance to its relations with the EU, recognised the EU as a strategic force in the international landscape, and taken nurturing China-

EU ties as a priority in its foreign policy. In a trilateral meeting with French President Macron and European Commission President von der Leyen on May 6, 2024, Chinese President Xi Jinping said that China always approaches its relations with the EU from a strategic and long-term perspective, and regards Europe as an important dimension in its major-country diplomacy with Chinese characteristics, as well as an important partner in achieving Chinese modernisation. He hoped that China-France and China-Europe relations would be reinforced and enable them to thrive together. However, the stable development of China-EU relations lies in the EU's orientation towards China. Only by setting aside the triple label on China (partner, economic competitor, and systematic rival) can the EU truly build a two-way strategic partnership with China. On this basis, the two sides can enhance strategic mutual trust, bolster strategic consensus, and find the greatest common ground of cooperation.

2. ESTABLISHING A MULTILATERAL INDUSTRIAL CHAIN COOPERATION MECHANISM

China and Europe are major participants and beneficiaries of global industrial chain and supply chain cooperation. Amid the increasingly turbulent international situation characterised by added uncertainties, the EU's 'de-risking' industrial policy has been gradually weaponised, dampening China-EU economic and trade ties. China upholds economic globalisation, actively engages in bilateral, multilateral and regional cooperation, always safeguards the WTO-centered multilateral trading system, and has proposed initiatives on global supply chain cooperation. While the two important forces advancing multipolarity, China and Europe should actively promote bilateral and multilateral dialogues and negotiations through multilateral mechanisms, such as the UN, G20, and WTO, and play a leading role in fostering a global mechanism of industrial chain cooperation under the new international context.

3. PROMOTING A CLEAN ENERGY COMMUNITY OF SHARED INTERESTS

Chinese clean energy companies are very willing to invest in Europe. The EU should improve the business environment through active measures to attract Chinese companies to localise their operations, to encourage enterprises from the two sides to carry out technical, capital, and production capacity cooperation along the clean energy industrial chain, to facilitate enterprises to establish zero-carbon industrial parks, clean energy equipment manufacturing bases, and critical raw materials mining and smelting bases in Europe, and to collaboratively build a globally oriented clean energy ecosystem and community of shared interests.

4. ACTIVELY ENGAGING IN INTERNATIONAL COOPERATION ON SCIENCE AND TECHNOLOGY INNOVATION

China and Europe are important partners in science and technology innovation, with complementary strengths and common interests in areas such as new energy and the digital economy. The EU is powerful in basic scientific research and diversified innovation systems, while China has advantages in applied technology and a huge market demand. In the past, the scientific and technological cooperation between the two sides was mainly driven by economic and industrial cooperation. In the future, China and Europe should seize the opportunity of the new round of scientific and technological revolution and industrial transformation to explore the economic and industrial cooperation driven by scientific and technological cooperation, thereby injecting a new impetus into China-EU economic and trade ties.

¹ Ministry of Foreign Affairs of China (2024). "[Wang Yi: For Europe, China is an Opportunity, Not a Risk, and a Partner, Not a Competitor](#)"

² European Commission (2023) "[Critical Raw Materials: ensuring secure and sustainable supply chains for EU's green and digital future](#)."

³ Li, L. "China Chamber of Commerce to the EU on the EU CRM Act: Don't weaponize and politicize economic and trade issues". *China Energy News*, 25 March 2024

⁴ Academy of China Council for the Promotion of International Trade (2023). *Business Environment of the European Union 2023/2024*.

⁵ Xi Jinping, "[Carrying Forward the Spirit that Guided the Establishment of China-France Diplomatic Relations, Working Together for Global Peace and Development](#)." *Le Figaro*. 6 May 2024.