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# Is “De-Risking” Possible? Responding to China Related Economic Insecurities

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## KEY TAKEAWAYS

- There is now a widely held belief in many parts of Europe that economic relations with China need to be “de-risked”. This is very unlikely to happen, though, without active policy changes to shift commercial behaviour and relations.
- We identify four main (not mutually exclusive) ways of reducing vulnerabilities; interventionist tools, discursive ones, liberal tools, and an emphasis on technological advancements.
- A number of solutions have relatively long gestation periods and thus the slower the response, the longer the continued risk.
- Many of the methods will have financial consequences for either governments, producers or consumers (and possibly all three).
- There are also potential non-financial costs; examples include coordination and collaboration across Europe, and implications for the type of economic systems that Europeans want to live in and promote.
- Urgent research is required to establish the full extent of the costs of de-risking in different areas, and to evaluate if national governments and the EU have the capability and will to do what is needed; or to work out what level or extent of de-risking they are happy and able to live with and promote.

### **Keywords**

*De-Risking*

*Delinking*

*Economic  
Security*

*Weaponizable  
Interdependence*

*Chinese trade  
and Investment*



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## Introduction

To say that there is now a consensus over the need to radically change European economic relations with China might be taking things too far. Indeed, in some parts of Europe, the relationship is *getting stronger*, and expanding into the security realm. That said, Ursula von der Leyen's March 2023 *speech* focussing on the importance of "economic de-risking" reflected a more widespread acknowledgement that something needs to be done to deal with the various vulnerabilities that China related interdependencies have generated.

Identifying a problem is one thing. Outlining and implementing coherent and workable solutions is something else entirely. Particularly when many (if not all) of the potential solutions will either be decided on by non-state commercial actors, or executed by them. Indeed, German Chancellor Olaf Scholz has *argued* that de-risking should be "in essence a private sector activity" rather than something done directly by governments.

What might look like a potential security problem from a government perspective can look like good commercial common sense from other vantage points. And whilst one transaction (for example, a merger or acquisition) or one China-centric production network might not be particularly problematic in itself, those who look at the sum of numerous individual minor issues are in a better position to see an aggregated significance. *Evidence* from South Korea and Japan – where the idea of a China threat has been well established for many years and interventionist government policies have a long and successful tradition – suggests that exhortations to support national goals alone do not work. Persuading commercial actors to change their behaviour and practices, then, is likely to entail making sure it makes commercial sense for them to do so. This is likely to result in increased costs; either to governments (for example, through the provision of subsidies and other

forms of aid) or to consumers (through higher production costs). And very likely, to both.

Many European governments still coping with the financial consequences of the [global financial crisis](#), now compounded by the costs of responding to the [pandemic](#), face important decisions on how best to spend limited resources. Put bluntly, do they have the financial resources that they need to effectively “de-risk” the economic relationship with China? Or perhaps more correctly, does the calculation of the extent of the risk mean that the price is worth paying given that any money spent on de-risking could have been spent on something else?

There are identity and ideology questions to be addressed too. Even in those states that were once the most active proponents of neoliberalism, it is now not uncommon to talk of [industrial policy](#), and other concepts more associated with [economic nationalism](#) than unfettered free trade. Even so, effective de-risking would entail various forms of intervention that might sit uneasily with those who prefer open economies. Not least because there might well be a secondary impact on economic openness per se – i.e.: not just on relations with China – as states seek to protect national economic interests and actors. Indeed, this has already happened as US action to protect and boost domestic producers and interests in part driven by competition with China – for example, the [Inflation Reduction Act](#) – has put up barriers for commercial actors from other countries too. One of the consequences, then, of the emergence of a big and illiberal actor as a major player in the global economy might have been to make others think and act less liberally than they might otherwise want to do. And while there has long been concern in about Chinese protectionism, the evolution of US protectionism has [alarmed proponents](#) of free-trade in other parts of the liberal West.

So what might be done to reduce vulnerabilities and risks? Not all states have the same ability to act in the same way. In addition to the question of the finances and resources needed to fund, for example, industrial policies designed to “re-shore” production, small countries lack the comparative strengths of larger economies (such as large domestic markets, better possibilities for conducting active industrial policy and providing massive state subsidies to national champions or attracting new investments from abroad). So we start from the assumption that not all options will be available – or palatable – to all.

Von der Leyen pointed to [four](#) main strategies: “making our own economy and industry more competitive and resilient; “better using our existing toolbo As part of a project to assess solutions to Finnish vulnerabilities, a panel of 97 leading technical experts, researchers, businesspeople and government officials were asked to provide their views on three different types of risks; foreign (and particularly Chinese) ownership, disruptions of supplies of key goods through production networks, and technological dependencies. Clearly their responses were influenced by the specifics of the Finnish case. Nevertheless, when some of the country specific factors are discounted, and contextualised by what has been

argued and said elsewhere, their observations provide a good starting point for thinking about different ways in which de-risking might take place more generally. x of trade instruments”; developing “new defensive tools for some critical sectors” to fill “gaps in our toolbox” (such as outward investment screening); and “alignment with other partners” who share similar vulnerabilities and concerns. Our analysis comes to some similar conclusions, but points to other potential pathways too.

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Broadly speaking, we can identify four main ways to reduce dependencies and vulnerabilities; interventionist tools, discursive ones, liberal tools and an emphasis on technological advancements. These are not mutually exclusive. Indeed, the discursive tools outlined below in many ways represent a path-laying set of tools that lay the foundation for the others to build on (and there is a case for treating them as an element of each of the other three rather than a set in their own right). While some of the tools point in different directions, it is not impossible to construct a strategy that uses a combination of all four, with different solutions provided for different audiences and different types of challenges and risks. There are different timescales too, with some having longer gestation periods before they can be effective than others.

## Interventionist tools

These are probably what most people think of first when they think of ways of changing international economic relations and de-risking. The need for strong inward investment controls has become more or less consensus thinking amongst [individual countries](#) (and not just European ones), and also at the [EU level](#). However, to date, the emphasis has been on assessing M&A activity, and the more recently dominant Chinese form of FDI – [greenfield investments](#) – has tended to fly under the radar. After decades of searching for greater access to China, even the need to restrict outward investment to China in some strategic areas – most clearly, in advanced technologies – is also now on the agenda. And of course, this is something that has already been done by the [US](#). Tariffs and other forms of legislation can also be used to make economic relationships with China either commercially unviable or illegal. And again, these tools have already been used by both Republican and Democrat

presidents of the USA (and elsewhere too). Stockpiling supplies of potentially vulnerable goods – medicines for example – is also a way of mitigating insecurities in times of crises.

Over the long term, restricting research relationships with China might also be part of an interventionist strategy. [Canadian researchers](#), for example, cannot get federal funding if they work with suspect Chinese partners (or Russian and Iranian ones). UK strategic [export controls](#), whilst not specifically and solely targeting China, places restrictions on the sort of applied research that can be done in China and in collaboration with Chinese researchers (including some cloud based activities).

Of course, such a strategy requires the prior decision of which relationships are risky and thus need action. According to the [Rhodium Group](#), in 2019, while 83 per cent of Chinese exports to the EU met their definition of being “green” or unproblematic, 44 per cent of EU exports to China were not considered to be “completely benign”. In addition, 46 per cent of Chinese investment into Europe and 32 per cent of EU investment in China did “not make it onto the green list”. Even if individual countries and the EU use less strict criteria, the list of relationships that need some sort of intervention to de-risk is likely to be very long indeed. And as a result, very costly (one way or another) through the need to build replacement alternatives. Many production networks are extensive and elaborate, and unwinding them can thus be difficult and slow. This can actually increase vulnerabilities and insecurities during transition processes.

Interventionist strategies are relatively easy to implement if there is political will. But they can have significant financial implications. And legal ones too given the need to be WTO compliant, and to not breach EU competition policy on [state aid](#) and the operation of the single market. There is also the question of cross-European coordination. Quite apart from the issue of legal competencies and what can and should be done at the national (rather than the EU) level, if only some European countries go down the interventionist route while others ignore it, then this will have important consequences for how Europe as a whole interacts with China.

## Discursive and narrative tools

While discussions and debates might at first sight seem to be something different to controlling and de-risking economic relations, they can be an important component in pushing for change. Here the emphasis is on raising awareness of the perceived nature of the challenge to either prompt a direct change in behaviour, or to create support for subsequent action that might otherwise lack legitimacy and support (or, of course, both). In academic studies, the latter is often referred to as a process of “[securitization](#)” where otherwise and/or previously acceptable and/or “normal” activities and relationships are explained as threatening national security to justify otherwise extraordinary and abnormal responses. And the way that some think tanks

and advocacy groups alongside like-minded politicians and media outlets have promoted certain views of China in some polities seems to fit with this idea of securitizing the relationship.

When it comes to persuading commercial actors, though, the emphasis is often on pointing to underestimated potential economic losses rather than “national security” threats. This might include highlighting the dangers of politically motivated disruptions to production, networks and trade relations, (the idea of “[weaponizable interdependence](#)”), the consequences of both legal and illicit transfer of technology and knowhow through partnerships and/or foreign acquisitions for sustainable future profitable operations, and explaining the ways in which data can be gathered and used. In addition, as the popular discourse on China shifts in many parts of Europe, this can result in [reputational damage](#) for those who are deemed to be too close to China.

A number of governments have also used more internal-facing awareness raising mechanisms too. Things done in China have an increasingly global reach even when there is no deliberate intention to have a direct impact on Europe and Europeans. So greater China literacy is considered essential in preparing for both deliberate and unintentional consequences of future Chinese action. Hence, the importance of providing training courses on China for officials and civil servants whose work does not have an immediate and obvious China related element (for the time being at least).

Promoting a specific narrative can be politically divisive if dominant discourses are perceived as privileging certain domestic interests over others, or become associated with a specific political ideology, approach, or party (or wing of a party). Moreover, discourses cannot be contained within a single national or regional setting. What is said about China will be heard in China, and may well generate a response. It is important, then, to be aware of what the response might be. And also to undertake the prior task of working out exactly what the desired end-point is of a future changed relationship with China.

Restricting who is part of the discussion is also part of the equation. Across Europe (and of course, elsewhere) there is concern that the Chinese authorities are trying to influence the way China is spoken about and thought of overseas. This is probably most clearly manifest in debates over the role and objective of Confucius Institutes in a number of countries. There is also suspicion about the motivation of Chinese students and scholars studying in Europe; particularly but not only those funded by Chinese [government scholarships](#). And there is also a broader concern that Chinese [United Front Work](#) activities have cultivated relationships with friendly groups or individuals within Europe who can disseminate a preferred narrative on China’s behalf. Regulating who can speak, though, is politically sensitive. The closure of clearly Chinese funded institutions like Confucius Institutes (as happened in [Sweden](#)) might have general support. But finding agreement on lines that cannot

be crossed, things that cannot be said, and people who cannot say them is fraught with difficulties.

## Liberal tools

Discursive tools can establish a sort of collectively accepted “common sense” if they have buy-in from groups across the political spectrum. The idea of China as a partner for cooperation but simultaneously an economic competitor and systemic rival repeated in a number of EU level reports and [policy statements](#) might be a good example here. They also have the benefit of being relatively cheap to implement. Whether they are enough on their own, though, to influence a significant shift in actual economic interactions – particularly if the short-term commercial logic points in other directions – remains somewhat questionable.

But this is certainly the expectation or hope of those who favour more liberal approaches to reducing vulnerabilities. In addition to raising awareness of risks, there is also an emphasis on promoting value-based considerations for those who make commercial decisions; for example, when responding to investment or acquisition opportunities and offers. Diversifying sources of supplies rather than cutting off or penalising those that come from China is also a way of de-risking without punishing, by emphasising the need to have flexibility and adaptability to avoid the shocks that reliance on a single country can generate. After all, even without nefarious intent from China, piracy in the Red Sea, bad seamanship in the Suez Canal, and pandemic related work absences have all had an impact on the supply of goods from China to Europe. Promoting technological literacy can also reduce risks by ensuring that technologies are used in ways that doesn't allow data to become usable for political purposes.

From liberal perspectives, strengthening and deepening the EU single market is an important way of reducing risk; particularly, but not only, for smaller states which do not have the benefits of scale in their domestic economies. Capital market support and an improved single market can help provide the realistic scalability that many and particularly small start-ups need that currently often sell out at an early stage; and often to non-EU buyers.

Finally, the idea that engagement and interaction remain the best hope for a secure future still has resonance and supporters. To be sure, the liberal argument that engagement would socialise and change China – both domestically and as an international actor – is hard to maintain given the sort of state and global actor that China has become. Today, the emphasis is instead on how engagement and interaction are essential if Europe is to be in a position to reduce not just China specific risks, but to deal with shared global challenges too. As the [French Finance Minister](#) put in Davos in 2023, “China cannot be out, China must be in. This is the difference of view we have between the U.S. and Europe”.



In addition to maintaining diplomatic dialogue at the highest levels, in stark contrast to the push to reduce or even eliminate academic collaboration with China, this position points to the importance of expanding and enhancing exchanges; not least to increase the levels of China literacy within Europe. For example, while recognising the security risks, not least due to the close relationship between some academic researchers and China's military industrial complex, the [German Academic Exchange Service](#) argues that it is a lack of interactions with China that is the problem, not too many of them. There needs to be clear measures to prevent the exploitation of joint research in detrimental ways in some areas, but overall the best way of being able to avoid other vulnerabilities and risks in the future is by trying to understand China better. And this is best achieved through contacts and collaborations rather than through isolation.

## Technological tools

A longer-term approach focusses on the ability to rely on technological advances to solve insecurities by producing alternatives to China dominated supplies. China's dominance in the supply and processing of [rare earth](#) elements has been identified as a key challenge for the rest of the world; not least because the country has already shown that it is prepared to control and stop not just exports of the rare earths themselves, but also of [extraction and processing](#) technologies that would allow others to process new supplies outside China. Stockpiling reserves provides some sort of alleviation of risk. But developing new indigenous processing technologies would reduce the dependence on China's near monopoly in processing. Developing new technologies that do not rely so heavily on rare earths would also help. Similarly, in addition to building new domestic production capacity, developing new medicines would reduce reliance where China dominates (for example, [in antibiotics](#)). The risks of data harvesting could also be mitigated by new developments in [geofencing](#) and coding to restrict where the data can be seen and collected from.

Technological solutions are for the future. To be sure, some alternatives to China based dependencies and vulnerabilities might already exist. But if they do, there is a reason that they are not being widely used: cost, reliability, performance and so on. So these are generally not a quick fix and would need to be used alongside other tools. Developing new technologies also typically requires significant investment. If the driver is national security concerns rather than commercial advantage, then this is going to entail at least some public funding. New technologies also need to be nurtured and protected; which brings us back to the sort of concerns about technology transfer and new tech start-ups selling out to foreign ownership already discussed above. So government support – and perhaps direct government ownership – is likely to be a component of any viable technological de-risking tool in the future.

## Next steps

This paper is not intended to act as a call to de-risk. That is a choice for others to make. Nor is it intended to be an exhaustive list of tools and responses. Rather it simply points to some of the things that might be done if governments and the EU are serious about making a significant and fundamental shift in their material economic relations with China. The overarching intention is to simply suggest that whatever we call it – delinking, de-risking or something else – then reducing vulnerabilities and insecurities is not going to be easy or problem-free. In addition, some of the solutions will have long gestation periods and need action now if they are going to have an impact even a decade on. And pretty much all of them will entail some sort of costs for public finances, producers, consumers, and voters.

There could also be an impact on the nature of the Europe we will live in in the future. It is not just that economic nationalism and protectionism might increase as a response to the rise of China (and of course, other factors as well), but it might also increase as a response to the response of others as well; most notably, the USA. When China's rise was seen more as an economic opportunity for Europe than a threat, then there was competition between some European states to seize those opportunities, and even become China's best friend in Europe. Now that China is increasingly seen as a challenge or a threat, if individual governments primarily focus on their own responses, then what are the implications for the EU?

The key takeaway is that it is not just enough to talk about delinking. If the decision has been made that it needs to occur, then things need to be done to make it happen.

Individual governments and the EU need to come up with concrete plans and be honest with themselves and their electorates about what this is going to mean. This requires clear strategic thinking of the costs and benefits of different approaches – and not just financial costs. And also to be clear about the end point; what type of relationship do Europeans want to have with China (and not just in terms of economic interactions)? It would also help if there was close consultation between governments and business communities, between European governments (including those who are not members of the EU), and between national governments and the EU too.



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