

Beyond the Dragon's Grip

A Strategic Rebalancing of
EU-China Relations

Edited by:
Dr. Antonios Nestoras



**FRIEDRICH NAUMANN
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Europe



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Foreword



MEP Hilde Vautmans

*AFET committee
Renew Europe Coordinator*

On the 24 of February 2022, Russia invaded Ukraine, energy prices shot up and Europe woke up to a hard truth: economic interdependence is not a guarantee of peace — it can be a source of strategic vulnerability. For too long, we assumed that deeper trade and investment ties with authoritarian regimes would foster convergence and stability. Russia shattered that illusion with its war in Ukraine. China is now testing it in subtler, but no less serious, ways.

This report is a timely and clear-eyed call for Europe to get serious about its economic resilience. It is not a plea for protectionism, isolation, or paranoia. On the contrary: it reminds us that managing interdependence on our own terms is the foundation of open, sovereign, and confident societies.

For too long, we assumed that deeper trade and investment ties with authoritarian regimes would foster convergence and stability.

We must begin by facing our geopolitical reality. Yes, the transatlantic relationship is more than just a bit difficult under Trump II. But our growing disagreements with the current US administration — on trade and global security — should not push us automatically into Beijing's arms. Strategic autonomy is not a choice between Washington and China. It is the ability to stand firm between them.

Second, we should stop treating cheap Chinese imports as a threat by default. In many cases, they offer affordable inputs for Europe's high-value industries, from automotive to clean tech. But the problem is not price as such. It is competition distortion. When Chinese subsidies, overcapacity, or state-directed acquisitions tilt the playing field, we cannot afford to be passive. Europe too often reacts only once the damage is done—once the battery factories are built, the value chains embedded, and the strategic leverage lost. We must learn to anticipate and act earlier.

Above all, this report speaks a truth we have known for too long but failed to act upon: we must take back control of our critical sectors. From rare earths to semiconductors to pharmaceuticals, the path forward is not confrontation with China. It is capacity-building at home and with trusted partners. We do not need to fight Beijing to reduce our exposure—we just need to stop waiting for permission or a crisis. The good news is: we can do this. The bad news? We've known that for years.

This paper outlines a plan for how to finally turn that knowledge into action. The time for polite declarations is over. Europe must lead its own transformation, before others dictate the terms.

Introduction

Europe's strategic reckoning with China

Europe's energy dependency on Russia was neither unforeseeable nor unremarked. For years, warnings circulated from policy experts, frontline Member States, and transatlantic allies about the dangers of relying on a single, authoritarian supplier for critical energy needs. Yet those warnings were dismissed or downplayed, sacrificed at the altar of economic efficiency and diplomatic convenience. When the crisis finally came – Russia's full-scale invasion of Ukraine in 2022 – the cost of complacency was immediate and severe: soaring prices, supply disruptions, and a race against time to rebuild an energy architecture that had been left strategically hollow.

This moment should have marked more than an energy reckoning. It should have triggered a broader reassessment of Europe's structural vulnerabilities – particularly its deepening dependence on China. From critical raw materials and clean energy technologies to pharmaceuticals, digital infrastructure, and advanced manufacturing, China has become an indispensable – yet increasingly unreliable – pillar of the European economy. In many sectors, there is no fallback. There is no redundancy. And there is no clear strategy to change that.

The risks are not speculative. China has shown a growing willingness to weaponise interdependence, using trade barriers, export controls, and targeted retaliation as instruments of geopolitical coercion. Its control over vital technologies and inputs – rare earths, batteries, solar panels, and semiconductors – gives it asymmetric leverage over Europe's economic resilience and political sovereignty. If tensions over Taiwan escalate, or if Beijing chooses to retaliate against European policies it deems unfriendly, entire sectors of the European economy could grind to a halt.

Yet unlike the Russian energy crisis, which forced Europe into a reactive – but ultimately decisive – pivot, the looming threat of a China shock has yet to galvanise a unified or proportionate response. The current EU framework, which labels China simultaneously as a 'partner, competitor, and systemic rival', reflects institutional hesitation more than strategic clarity. It masks division. It delays action. It invites drift at a moment that demands discipline.

This paper argues that Europe cannot afford another crisis of foresight. Strategic autonomy is no longer an aspirational slogan – it is a prerequisite for sovereignty in an era of weaponised interdependence. It is the ability to act decisively in defence of European interests without being paralysed by fear of economic retaliation. It is not about cutting ties, but about reducing exposure. Not about closing borders, but about building resilience. Not about confrontation, but about preparation.

The time to act is before the next rupture – not during it. As the window narrows, this paper outlines the contours of a European response: a strategic diversification and managed decoupling plan rooted in clear sectoral priorities, coordinated investment, and institutional preparedness. Drawing on the lessons of the past and the imperatives of the future, it makes the case for why Europe must lead its own transformation – before geopolitical reality forces its hand once again.



Chapter 1

Learning from the past: Europe's energy wake-up call

For over a decade, Europe's reliance on Russian natural gas was acknowledged but unaddressed. Warnings from security analysts, Eastern European governments, and transatlantic allies were repeatedly downplayed in favour of short-term economic interests and assumptions of stability. Dependence on a single supplier – one increasingly at odds with European values and security priorities – was rationalised as pragmatic. It was not.

When Russia invaded Ukraine in 2022, the consequences of this complacency were immediate and far-reaching. Energy prices soared, supply was disrupted, and Europe was forced into an accelerated – and costly – restructuring of its entire energy system. Only under extreme duress did the EU take the necessary steps to diversify its suppliers, invest in renewable capacity, and reduce consumption through coordinated action.

The lesson is clear: strategic dependencies, once weaponised, leave little room for manoeuvre. Waiting until a crisis erupts to act is not only irresponsible – it is also dangerous. Europe paid a high price to regain its energy security. It cannot afford to repeat the same mistake in other domains, especially with China.

The parallels are striking. Just as Russia controlled the flow of gas to Europe, China controls the flow of critical raw materials, green technologies, and digital infrastructure. Just as Russia used energy as a tool of coercion, China has already demonstrated its willingness

to leverage economic relationships for political purposes. And just as Europe believed that economic interdependence would moderate Russian behaviour, many now make the same assumption about China.

But dependency is not deterrence. It is exposure. Europe cannot build its green transition or digital future on supply chains that can be disrupted with a single policy decision in Beijing. The structural vulnerabilities that characterised Europe's energy policy for years are now replicated across its industrial base – and they extend deeper, touching not only energy but also manufacturing, health, and technology.

The response to Russia, though belated, shows that rapid and coordinated action is possible. Within months, the EU cut its reliance on Russian gas by more than half, ramped up liquefied natural gas imports, and fast-tracked renewable energy projects. These steps were driven by necessity, but they offer a blueprint for what proactive resilience can look like – if it is applied before the next crisis.

With China, the urgency is just as great, but the window for preparation remains open – for now. Europe must act with the same clarity and speed it eventually brought to its energy policy, but without waiting for an external shock to force its hand. The cost of action today is an investment in security. History has delivered its warning. The question now is whether Europe is willing to learn from it.



Chapter 2

Strategic autonomy: Resilience, redundancy, and readiness

Strategic autonomy is often misunderstood as a call for isolation or autarky. In reality, it is the foundation of a sovereign Europe – one that can make decisions aligned with its own values and interests, even in the face of external pressure. It does not imply severing global ties or retreating from trade, but rather ensuring that interdependence remains a choice, not a constraint.

At its core, strategic autonomy is the capacity to act without being paralysed by others. It requires building resilience into Europe's economic, technological, and political systems so that the EU can respond decisively in times of crisis. It means identifying and reducing single points of failure in supply chains, ensuring redundancy in critical sectors, and preparing for disruptions with proactive planning rather than reactive scrambling.

Strategic autonomy also involves cultivating the ability to defend democratic choices without fear of economic retaliation. If Europe cannot criticise human rights abuses, support Taiwan, or enforce digital standards without risking economic punishment, then its sovereignty is already compromised. In this sense, strategic autonomy is not just a matter of security – it is a precondition for the effective functioning of democracy.

To operationalise strategic autonomy, Europe must move beyond declarations and adopt a deliberate, long-term approach grounded in three imperatives: resilience, redundancy, and readiness.

Resilience means the capacity to absorb shocks without systemic breakdown. This involves diversified supply chains, stockpiles of critical materials, investment in domestic production capacity, and strong contingency planning. It also means protecting digital infrastructure from espionage and sabotage and ensuring that essential public services are not reliant on foreign-controlled technologies.

Redundancy means avoiding overreliance on any single country, company, or production hub. In a globalised economy, efficiency often favours concentration. But in a volatile geopolitical environment, efficiency without redundancy is vulnerability. Strategic autonomy requires Europe to design systems with buffers – alternative suppliers, parallel capabilities, and fallback options that can be activated when primary channels fail.

Readiness is the capacity to act quickly and coherently when external conditions change. It requires streamlined decision-making, shared risk assessments, and political will. Too often, Europe recognises risks only after they materialise. A strategically autonomous EU must anticipate pressure points, test its resilience regularly, and be prepared to respond collectively in defence of its interests.

This is not a zero-sum vision. Europe does not need to disengage from China or abandon globalisation. But it must ensure that its openness does not come at the cost of its agency. Strategic autonomy is not about rejecting interdependence – it is about managing it on Europe's terms. In a world where geopolitical competition increasingly plays out through markets, standards, and supply chains, the ability to remain open while preserving sovereignty is no longer optional. It is a strategic necessity.



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Chapter 3

Mapping the risk: Europe's economic exposure to China

Europe's economic relationship with China is marked not only by imbalance, but also by strategic vulnerability. In 2023, the EU's trade deficit with China surpassed €400 billion, the largest in its history. Imports from China now account for more than 20 per cent of all goods entering the EU, while less than 9 per cent of European exports go to China. This asymmetry is not simply a trade concern – it is a structural exposure that touches the most critical sectors of Europe's economy.

At the core of this dependency is Europe's reliance on China for the technologies and materials essential to the twin transitions – green and digital – that define the continent's economic future. The numbers are stark: 97 per cent of rare earth elements used in wind turbines, electric vehicles, and defence applications come from China. Over 80 per cent of the EU's lithium-ion battery imports, central to energy storage and electric mobility, are sourced from Chinese firms. In solar energy, the dominance is even more acute, with more than 90 per cent of photovoltaic wafers and cells originating in China.

But the exposure extends far beyond clean technology. In digital infrastructure, Chinese companies play a key role in the development and deployment of 5G networks, raising persistent concerns over data security, espionage, and systemic vulnerability. In the pharmaceutical sector, more than half of the EU's active pharmaceutical ingredients (APIs) are sourced from China, leaving European healthcare systems exposed to supply disruptions. During the COVID-19 pandemic,

the fragility of these supply chains was laid bare as basic medicines became scarce and production bottlenecks created cascading effects across the healthcare system.

Europe also depends on Chinese inputs in high-value manufacturing processes – machine tools, microelectronics, and key components in industrial automation. Chinese firms are not just exporters; they are also increasingly establishing production capacity within Europe itself. Companies such as CATL and BYD are building battery factories in Hungary and Germany, embedding themselves in European value chains. While this brings jobs and investment, it also deepens long-term exposure by consolidating Chinese control over the critical nodes of future industries. At the same time, this deepening exposure was not driven by Chinese strategy alone.

Just as China has leveraged European investment to climb global value chains over the past three decades, Europe can pursue a more assertive approach – playing offence by directing its own FDI and investment rules to strengthen autonomy.

European policy choices – particularly the application of trade defence instruments such as anti-dumping measures and foreign subsidies investigations – have, in some cases, encouraged strategic partnerships with dominant Chinese firms as a way to localise production and hedge against external vulnerabilities. While these approaches aimed to develop European industrial capacity, they also inadvertently entrenched reliance on geopolitical competitors.



To proceed strategically, Europe must ensure that all incoming Chinese foreign direct investment (FDI) fits within a broader redundancy and resilience framework. Just as China has leveraged European investment to climb global value chains over the past three decades, Europe can pursue a more assertive approach – playing offence by directing its own FDI and investment rules to strengthen autonomy. This includes conditioning Chinese investments on reciprocity, transparency, and alignment with European strategic interests, backed where necessary by reinforced cooperation between EU trade, industrial, and intelligence bodies.

The concentration of supply chains around a single geopolitical actor – one that has demonstrated a willingness to use trade as leverage – creates a systemic risk. Europe has already experienced the consequences of this strategy. In 2023, China imposed export restrictions on gallium and germanium, materials essential for semiconductors and defence technologies. The move triggered immediate disruptions across European manufacturing, exposing the fragility of industries dependent on even small volumes of highly specialised imports.

The danger is not limited to any single material or product. It lies in the cumulative effect of dependencies across sectors, compounded by a lack of redundancy, limited domestic alternatives, and slow policy response. Europe's vulnerability is not theoretical – it is embedded in the structure of its economy. As geopolitical tensions increase, particularly around Taiwan and the South China Sea, the risk of a sudden rupture is growing. In a crisis, Europe may find itself without the industrial resilience or political flexibility to respond swiftly.

To map these dependencies is to understand that they are not simply a function of market forces, but the result of strategic choices – or the absence of them. This reality demands a deliberate and coordinated response, one that treats economic security as inseparable from strategic sovereignty.

Chapter 4

Critical sectors, critical lessons: Case studies in vulnerability

Europe's economic exposure to China is most visible when broken down sector by sector. Across key areas critical to industrial competitiveness, environmental goals, and public health, the EU has allowed dependencies to deepen without building parallel capacities or viable alternatives. These vulnerabilities are not uniform – they vary in severity, urgency, and political visibility – but together they represent a structural risk to Europe's strategic autonomy.

Rare earth elements

China currently accounts for approximately 97 per cent of Europe's rare earth element imports. These materials are essential for manufacturing wind turbines, electric motors, defence systems, and advanced electronics. Europe's reliance is concentrated not just in trade volumes, but also in processing and refining capacity, where China dominates globally.

In response, the EU has taken steps to secure domestic supply chains. Mining and refining projects are underway in Scandinavia, particularly Sweden, which has significant rare earth reserves. At the same time, the EU is pursuing partnerships with resource-rich countries in Africa, such as Namibia and the Democratic Republic of the Congo, with an emphasis on sustainable and ethical sourcing. However, these initiatives remain at early stages and face permitting, environmental, and investment hurdles that will take years to resolve.

Battery supply chains

The battery sector is at the heart of Europe's green transition. Yet approximately 80 per cent of the EU's lithium-ion battery imports come from China, which dominates the global production of anodes, cathodes, and cell manufacturing. While these investments support industrial capacity, they also embed Chinese control deeper into Europe's automotive future.

To counter this trend, the EU has launched several strategic initiatives. The European Battery Alliance aims to build a competitive and sustainable battery value chain within Europe. Northvolt, a Swedish battery manufacturer, is a flagship project supported by EU and national funding that focuses on closed-loop production, including recycling of critical raw materials. Policy efforts now emphasise circularity and resource efficiency, but scale remains a major challenge. Without stronger investment and coordination, domestic production will struggle to meet projected demand.

Semiconductor dependencies

Semiconductors represent one of the most acute vulnerabilities in Europe's technological ecosystem. While China is not the dominant player in the most advanced chips, Europe remains heavily dependent on East Asia – particularly Taiwan and South Korea – for the design, fabrication, and packaging of high-end semiconductors. Given the strategic importance of chips for defence, communications, and artificial intelligence (AI), this dependency poses both economic and national security risks.

The EU Chips Act, launched in 2022, aims to double Europe's share of global semiconductor production to 20 per cent by 2030. The initiative includes funding for new fabs, research and development (R&D) support, and public-private partnerships. However, gaps persist in key areas such as advanced node design, lithography tools, and raw material supply.

True resilience will require more than domestic investment or supply chain reshoring – it must also rely on diversification across trusted global partners. Europe should deepen strategic coordination with the ‘extended West’, including Japan, South Korea, Australia, and others, to co-develop and co-procure critical technologies such as semiconductors, battery components, and rare earth alternatives. Such partnerships not only reduce dependency on China but also create a distributed network of supply and innovation that is less vulnerable to geopolitical blackmail.

Pharmaceutical inputs

The COVID-19 pandemic exposed critical weaknesses in Europe’s pharmaceutical supply chains. Over 50 per cent of the EU’s APIs are sourced from China, particularly for generic medicines such as antibiotics, painkillers, and blood pressure drugs. This concentration creates systemic risk, especially during global health emergencies or geopolitical disruptions that restrict exports.

In response, the EU has launched the Medicine Supply Resilience Initiative, which aims to diversify supply, encourage stockpiling, and re-localise some production. However, progress has been slow, and many manufacturers continue to depend on low-cost inputs from Asia. Structural incentives for reshoring or nearshoring remain insufficient, and the strategic importance of pharmaceutical independence has not yet been fully integrated into EU health and industrial policy.

These sectoral case studies illustrate the scale and complexity of Europe’s dependencies. They also highlight a recurring pattern: awareness of vulnerability followed by incremental response, rather than coordinated action. If Europe is to reduce its exposure to China meaningfully and on a strategic timetable, it must accelerate, integrate, and scale up its efforts – sector by sector, and state by state.

Chapter 5

Weaponised influence: The democratic risks of fragmentation

The absence of a unified European strategy on China has created a patchwork of national policies, each shaped by divergent political priorities, economic interests, and historical relationships. While some Member States continue to prioritise market access, exports, and Chinese investment, others have grown increasingly concerned with national security, democratic resilience, and the geopolitical implications of deep economic interdependence. This fragmentation has resulted in an incoherent policy environment that undermines the EU's ability to act collectively and decisively.

China has exploited this lack of unity with increasing sophistication. Through initiatives such as the now dormant 17+1 framework, Beijing made strategic inroads into Central and Eastern Europe, offering infrastructure projects and financing under terms that often lacked transparency or reciprocity. These deals, frequently tied to political concessions, have enabled China to cultivate influence within EU institutions and policymaking bodies. The most prominent example is Hungary, which has hosted Chinese universities, embraced Huawei in its 5G roll-out, and vetoed joint EU statements critical of China on several occasions, including those related to human rights in Xinjiang and security in the South China Sea.

Beyond infrastructure and investment, China has steadily expanded its influence through information operations and digital media. Platforms such as TikTok, WeChat, and affiliated news outlets have been used not only for commercial purposes, but also to shape narratives,

amplify polarising content, and erode trust in democratic institutions. Several European security services have warned of foreign electoral interference, noting attempts by Chinese-linked actors to fund fringe political parties, manipulate public debate, and co-opt elites in both government and business.

This influence extends into the university sector, where partnerships with Chinese institutions – some linked to the People's Liberation Army – have raised concerns over academic freedom, intellectual property theft, and the misuse of research with dual-use applications. In some Member States, Confucius Institutes remain embedded in public universities despite growing scrutiny over their role in promoting Chinese state narratives and suppressing dissent on issues such as Tibet, Hong Kong, and Taiwan.

The cumulative effect of these activities is the erosion of Europe's democratic cohesion. Economic dependence allows China to apply selective pressure – threatening tariffs, delaying market access, or leveraging its role in key supply chains – to dissuade governments from criticising its policies or aligning too closely with the United States and other strategic partners. This creates a chilling effect, weakening Europe's ability to speak with one voice, defend its values, and uphold international norms.

The current EU framework for dealing with China – describing the country simultaneously as a partner, a competitor, and a systemic rival – has become an excuse for inaction rather than a basis for policy. It masks internal divisions, creates strategic ambiguity, and prevents the formulation of clear priorities. Without a coherent approach, Europe remains vulnerable not only to external coercion but also to internal fragmentation.

If the EU is to preserve its democratic integrity and strategic agency, it must move beyond rhetorical balancing and towards enforceable mechanisms for investment screening, foreign influence monitoring, and coordinated crisis response. Democratic resilience is not a secondary concern – it is central to the EU's capacity to act as a

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geopolitical actor. In a world where economic leverage is used as a political weapon, the line between trade policy and national security has already been crossed. Europe must adapt accordingly.



Chapter 6

Barriers to unity: Institutional limits to coherent EU action

The EU's approach to China is shaped by a conceptual framework that defines the country as simultaneously a partner, an economic competitor, and a systemic rival. While this triadic formula reflects the complexity of the relationship, in practice it has led to strategic ambiguity, policy incoherence, and a lack of decisive action. Rather than clarifying priorities, it enables divergent interpretations among Member States, each emphasising the dimension that best aligns with their national interests.

This fragmentation is further compounded by institutional and procedural constraints within the EU. Foreign policy decisions, including on sanctions, investment screening, and security cooperation, still require unanimity among Member States. This gives individual countries an effective veto over collective action, allowing external actors such as China to exploit internal divisions. The result is delay, dilution, or paralysis – precisely when unity and speed are most needed.

Currently, there is no binding EU-wide mechanism to screen FDI in sensitive sectors. While a voluntary framework exists, implementation is uneven, and national-level systems vary widely in scope, enforcement, and political will. This patchwork allows strategic assets – such as ports, energy infrastructure, and tech firms – to be acquired by Chinese entities under terms that may not align with broader EU interests.

Inconsistent policies across Member States also create a fragmented regulatory environment. Some countries have moved to exclude high-risk vendors from their 5G networks; others have not. Some are actively seeking to attract Chinese investment; others are scaling back. This disunity sends mixed signals to both European industries and external partners, undermining the credibility of the EU as a coherent strategic actor.

China has learned to navigate and exploit this institutional asymmetry. By targeting investments, partnerships, and influence operations at specific Member States, it has gained political leverage within EU decision-making structures. This has enabled Beijing to shape, delay, or dilute EU positions on issues ranging from human rights to cybersecurity and Indo-Pacific strategy.

Attempts to address these challenges have begun but remain insufficient. Proposals for qualified majority voting in foreign policy, tighter investment screening, and stronger coordination on strategic sectors have encountered resistance from Member States wary of ceding sovereignty. Yet without more effective mechanisms for coordination and enforcement, the EU's ability to manage its relationship with China – and protect its strategic interests – will remain constrained.

Coherent action requires more than consensus. It demands a common understanding of risk, a shared strategic vision, and the institutional tools to act on them. If the EU continues to approach China as three things at once without prioritisation or integration, it will remain reactive, divided, and strategically exposed. The time has come to move beyond conceptual balancing and towards concrete alignment – on goals, tools, and timelines.

Chapter 7

Europe's response blueprint: A strategic diversification and managed decoupling plan

Reducing Europe's economic dependence on China is not an ideological goal – it is a strategic necessity. The objective is not to sever ties entirely, but to build resilience through diversification, redundancy, and the ability to act independently when circumstances demand it. Managed decoupling must be proactive, not reactive. It requires a long-term, sector-specific strategy that balances economic continuity with geopolitical preparedness. The following plan outlines a framework for achieving this through phased reductions, clear market signals, and systemic resilience.

Phased, sector-based reductions

Strategic decoupling must begin with a targeted, data-driven approach that identifies the sectors where European exposure to China is both critical and potentially destabilising. These sectors must be prioritised for diversification and capacity-building, with realistic timelines and measurable goals.

- Rare earths: reduce Chinese imports by 50 per cent by 2030 through a combination of domestic refining, strategic partnerships in Africa and Latin America, and investment in recycling technologies.
- Batteries: achieve 60 per cent local content in European electric vehicle supply chains by 2028, including sourcing of raw materials, cell production, and end-of-life recycling.

- Semiconductors: increase Europe's share of global advanced chip production to 20 per cent by 2030, in alignment with the EU Chips Act, supported by international partnerships and domestic R&D expansion.

Each target should be backed by a transparent implementation roadmap, including investment needs, regulatory support, and milestones to assess progress. Decoupling should be implemented in a manner that minimises disruption while maximising strategic autonomy.

Long-term market signals

For diversification to be credible and sustainable, European industry must be guided by predictable, long-term policy signals. Ad hoc or fragmented national initiatives are not sufficient. The EU must provide a unified framework that incentivises risk-aware investment and supports supply chain transitions.

- Set sector-specific diversification benchmarks to give industry clear goals and expectations, based on exposure assessments and availability of alternatives.
- Incentivise nearshoring and R&D in strategic sectors through grants, tax incentives, and simplified permitting for facilities involved in critical production or innovation.
- Establish a common EU diversification fund dedicated to supporting industrial transitions, infrastructure development, and partnerships with trusted suppliers. This fund should prioritise small and medium-sized enterprises and sectors where private investment alone is insufficient.

Predictable market signals reduce uncertainty, attract capital, and give businesses the confidence to invest in alternative pathways. They also reduce the temptation to continue relying on high-risk, low-cost suppliers in the absence of clear direction.

Resilience by design

Strategic autonomy is not simply about production – it is about preparedness. The EU must design resilience into its economic architecture by ensuring that supply chain disruptions do not lead to systemic failure.

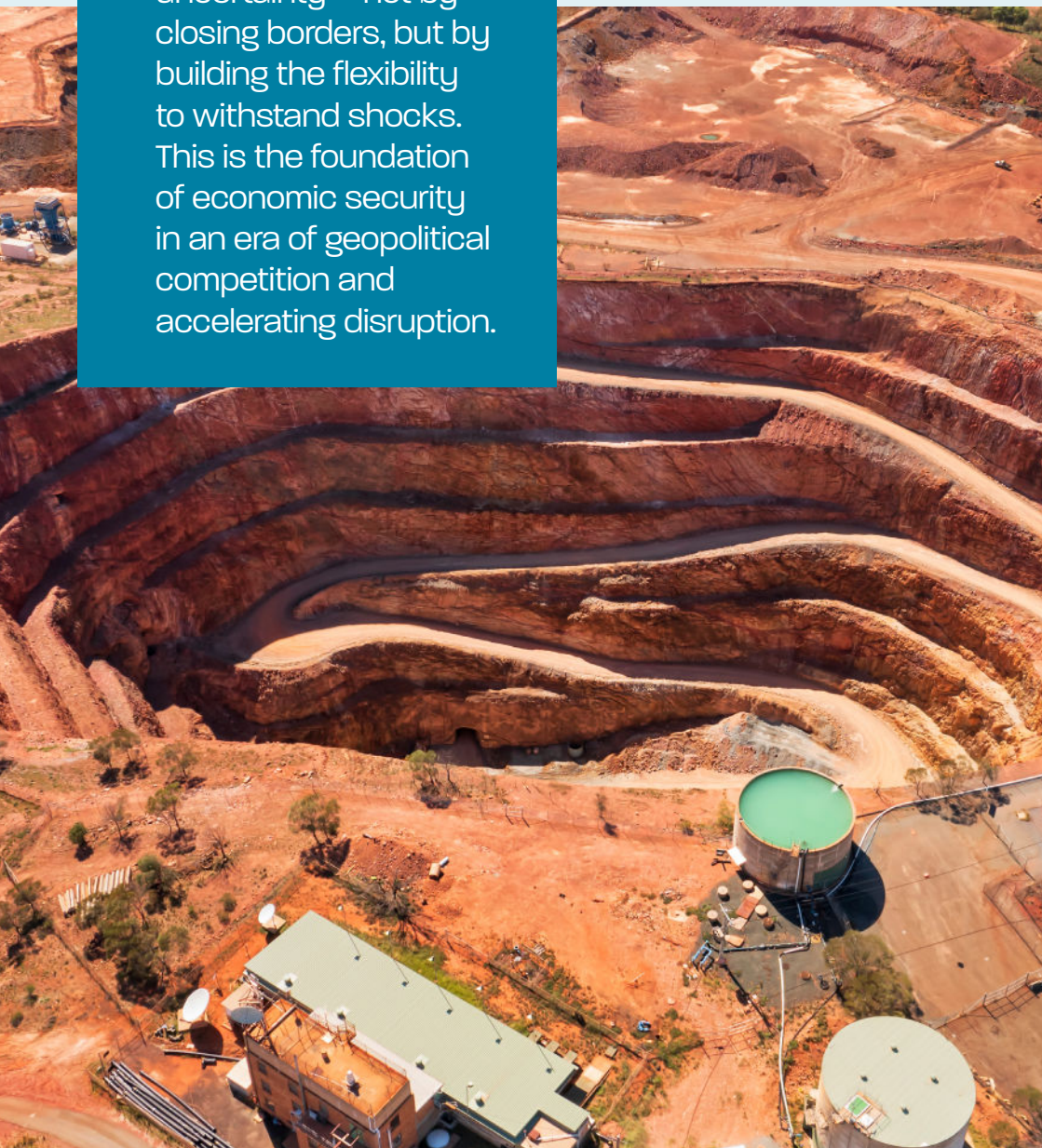
- Secure alternative supply chains through long-term partnerships with countries aligned with European values and interests. These should include co-investments, capacity-building, and regulatory harmonisation.
- Build buffer capacity in critical sectors such as pharmaceuticals, energy storage, and digital infrastructure. This includes maintaining strategic stockpiles, modular production capabilities, and regional manufacturing redundancy.
- Conduct regular stress tests on supply chains to identify weaknesses, simulate crisis scenarios, and evaluate the EU's capacity to respond. These exercises should inform policy updates and resource allocation.

Resilience by design means preparing for uncertainty – not by closing borders, but by building the flexibility to withstand shocks. This is the foundation of economic security in an era of geopolitical competition and accelerating disruption.

Together, these three pillars – phased reductions, market signals, and systemic resilience – form the backbone of a credible strategy for strategic diversification and managed decoupling. They must be

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pursued not as emergency measures, but as permanent features of a sovereign and forward-looking European economic model.



Chapter 8

Capabilities for sovereignty: The enablers of strategic autonomy

Strategic autonomy cannot be achieved through trade policy and supply chain adjustments alone. It requires foundational capabilities that empower Europe to act decisively, sustain innovation, and protect its economic and political sovereignty in times of crisis. These capabilities are not abstract – they are built on talent, technology, and institutional agility. The following enablers are essential to making decoupling not just possible, but also effective and durable.

Talent strategy for industrial sovereignty

Europe's ability to compete in high-value manufacturing, advanced technologies, and strategic sectors hinges on its workforce. The talent gap is not only a skills issue – it is also a sovereignty issue. Europe must invest in developing, attracting, and retaining the people who can drive innovation and sustain strategic industries.

- Launch '1,000 Talents for Europe', a flagship initiative to recruit engineers, scientists, and technical experts from around the world into EU-based projects and institutions focused on critical technologies and industries. This programme should combine fast-track visas, research grants, and long-term industrial placement schemes.

- Create EU-wide vocational training hubs focused on the needs of strategic sectors such as battery production, semiconductor fabrication, clean energy, and AI. These hubs should align curricula with industrial policy goals and provide cross-border certification to promote labour mobility within the Union.
- Develop a digital skills platform for strategic industries to connect workers, employers, training providers, and governments. This platform should offer modular training, upskilling opportunities, and job-matching tools tailored to sectors targeted for diversification and decoupling.

A skilled and mobile workforce is a critical infrastructure asset. Without it, industrial policy cannot succeed, and strategic autonomy will remain aspirational.

Platform for secure technologies

Technology is the terrain on which geopolitical competition increasingly plays out. To reduce dependency and assert digital sovereignty, Europe must secure control over key technological capabilities, standards, and innovation ecosystems.

- Launch an EU tech sovereignty platform that links public R&D institutions, strategic industries, and national security agencies to accelerate the development and deployment of secure technologies. This platform should focus on critical areas such as AI, quantum computing, 5G and 6G infrastructure, semiconductors, and cybersecurity.
- Fund dual-use innovation through coordinated EU-level programmes that support technologies with both civilian and defence applications. Investment should prioritise technologies vulnerable to foreign control or exploitation and should be guided by strategic risk assessments.

- Screen tech investments and partnerships for national security risks, particularly in sectors vulnerable to foreign ownership, data exfiltration, or intellectual property theft. A centralised EU mechanism should complement national screening regimes and ensure consistency across the single market.

A secure technological base is a prerequisite for open and democratic societies to remain sovereign. Without it, Europe's digital infrastructure, communications networks, and critical services will be exposed to manipulation and disruption.

Coalition for rapid decision-making

Institutional speed and coherence are as important as industrial capacity. The EU's existing foreign and security policy architecture is often too slow and fragmented to respond effectively to emerging threats. Strategic autonomy requires an institutional mechanism that can act when urgency demands it.

- Establish a voluntary coalition of Member States, modelled after the logic of Schengen – but operating outside the EU's formal institutional framework – for rapid decision-making in defence and crisis response. This coalition would allow willing countries to coordinate policy, pool resources, and act jointly without being held back by the unanimity requirement.
- Encourage voluntary joint procurement and coordinated strategic deployments where feasible, particularly in areas such as critical infrastructure protection, cyber defence, and supply chain crisis response. While hard commitments may not be uniformly achievable in a fluid coalition format, shared planning and interoperability can significantly enhance readiness.
- Include non-EU trusted partners such as the United Kingdom, Norway, and other aligned democracies to broaden the

Beyond the Dragon's Grip: A Strategic Rebalancing of EU-China Relations

coalition's scope and strengthen transatlantic and pan-European coordination. This flexible format would allow the EU to act with agility while preserving long-term strategic coherence. This would remain a flexible, opt-in structure – distinct from formal EU treaties – enabling cooperation without requiring legal harmonisation or full political alignment.

Strategic autonomy is not only about capacity; it is also about responsiveness. A coalition capable of timely action reinforces deterrence, protects democratic integrity, and demonstrates that Europe can defend its interests without waiting for consensus.

These enablers – talent, technology, and decision-making agility – form the backbone of a sovereign Europe capable of navigating an era defined by geopolitical risk, technological disruption, and economic coercion. Without them, even the best-designed decoupling strategy will fall short. With them, Europe can lead – not react – in shaping the rules of the global economy.



Conclusion

From rhetoric to resilience

Strategic autonomy is no longer a slogan for policy papers or summit declarations – it is the essential condition for preserving Europe’s sovereignty, security, and stability in a rapidly fragmenting world. The time for caution, hesitation, and rhetorical balancing has passed. What is needed now is action: deliberate, coordinated, and grounded in realism.

The warning signs are clear. Europe’s economic exposure to China spans critical sectors, from energy storage and semiconductors to digital infrastructure and pharmaceuticals. These dependencies are not accidental – they are the result of choices made in pursuit of short-term efficiency at the expense of long-term resilience. The consequences of those choices, if left unaddressed, will not be theoretical. They will be felt in moments of crisis when Europe finds itself constrained, coerced, or incapable of responding.

The lessons from Russia’s weaponisation of energy must inform Europe’s approach to China. Dependence invites vulnerability; strategic ambiguity invites paralysis. Europe cannot afford to wait for a shock to occur before building the structures needed to withstand one.

This paper has outlined a path forward: a strategic diversification and managed decoupling plan that reduces exposure in key sectors, supports industry through long-term policy signals, and embeds resilience into Europe’s economic architecture. It is supported by foundational enablers: a continent-wide talent strategy, a secure technology platform, and a rapid-response coalition to ensure Europe can act when it must.

Strategic autonomy does not mean isolation. It means having the power to choose – whom to partner with, how to respond, and when to act. It means not being forced into silence, compromise, or dependence. It means shaping Europe’s future on Europe’s terms.

What this publication is about

This book is about policy innovation, influencing change in a way that guarantees our fundamental liberal values while also delivering tangible results for people. It is about convincing the public that the EU is not only relevant in their everyday lives, but also capable of implementing policies that will significantly improve their quality of life. By presenting forward-thinking solutions and actionable strategies, this guide aims to demonstrate how liberal policies can address the pressing issues Europe faces today. Through effective governance, we can showcase the EU's potential to drive positive change, ensuring that our vision for a progressive and inclusive Europe becomes a reality. In answering the question of what kind of Europe we want, the answer is clear: we want a renewed Europe – a Europe with institutional reforms that make it fit for the current geopolitical circumstances, capable of responding swiftly and effectively to external pressures. We envision a renewed Europe that leads in technological progress and sustainability, setting global standards and driving innovation in a way that benefits all its citizens. Furthermore, we seek a Europe that can guarantee the safety of its citizens and uphold the European way of life, ensuring security and stability in an increasingly uncertain world. This vision of a renewed Europe is one that not only meets the challenges of today but is also prepared to seize the opportunities of tomorrow.

Outcome of the Innovation Policy Lab 3.0

This publication is the outcome of a joint undertaking between the European Liberal Forum (ELF) and the Friedrich Naumann Foundation for Freedom Europe (FNF Europe). Most of the ideas and proposals contained in this book were discussed and developed during a two-day conference of the ELF–FNF Innovation Policy Labs held in Brussels on 3–4 March 2025. The editor extends heartfelt thanks to Gréta Kiss from FNF Europe and Bálint Gyévai from ELF for organising the conference,

and to the participants for their invaluable contributions. Special gratitude goes to Benno Schulz, Dr Nele Fabian, Dr Antonios Nestoras and Ailbhe Finn, who served as moderators during the conference and captured the participants' discussions and policy recommendations that form the backbone of this publication. Without the dedication and expertise of all these persons, this work would not have been possible.

Methodology

This publication is the outcome of a joint undertaking between the European Liberal Forum (ELF) and the Friedrich Naumann Foundation for Freedom Europe (FNF Europe). It represents a culmination of collaborative efforts, discussions, and expert insights aimed at addressing the multifaceted challenges confronting Europe. The ELF–FNF Policy Labs brought together a diverse group of policymakers, academics, practitioners, and civil society representatives from across Europe. This dynamic gathering fostered an environment conducive to in-depth analysis, debate, and creative thinking. The participants, each bringing their unique perspectives and expertise, played a crucial role in shaping the discussions and formulating the policy recommendations presented in this book. The process was highly participatory, with structured sessions designed to maximise interaction and the exchange of ideas. Through a series of workshops, panel discussions, and breakout groups, participants delved into key topics, identified pressing issues, and proposed actionable solutions. These insights were rigorously analysed and synthesised by the editorial team, ensuring that the chapters reflect the collective wisdom and innovative thinking of the Policy Labs. It is important to note that not all chapters in this publication were developed solely through this conference. While the majority of the content is derived from the Policy Labs, some chapters were influenced by additional research, expert consultations, and policy discussions. These contributions were integrated to provide a comprehensive and well-rounded set of policy proposals.

About ELF

The European Liberal Forum (ELF) is the official political foundation of the European Liberal Party, the ALDE Party. Together with 56 member organisations, we work all over Europe to bring new ideas into the political debate, to provide a platform for discussion, and to empower citizens to make their voices heard. Our work is guided by liberal ideals and a belief in the principle of freedom. We stand for a future-oriented Europe that offers opportunities for every citizen. ELF is engaged on all political levels, from the local to the European. We bring together a diverse network of national foundations, think tanks, and other experts. In this role, our forum serves as a space for an open and informed exchange of views between a wide range of different EU stakeholders.

About Friedrich Naumann Foundation for Freedom Europe (FNF Europe)

The Friedrich Naumann Foundation for Freedom Europe (FNF Europe) is one of the regional offices of the Friedrich Naumann Foundation for Freedom (FNF), a German political foundation dedicated to promoting liberal values and policies. Headquartered in Potsdam, FNF operates offices across Germany and in numerous countries worldwide. FNF Europe maintains offices in Brussels, Prague, Vilnius, and Geneva, serving as a platform for connecting EU experts, civil society actors, and policymakers. Its mission is to foster open dialogue and advance liberal policy solutions to address Europe's key challenges. In close cooperation with liberal partners, FNF Europe organises innovative formats and campaigns to promote fundamental rights, the rule of law, geopolitics, and geoeconomics. It also coordinates EU co-funded projects focusing on areas such as the internal market, digitalisation, and innovation.

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