

ANALYSIS

Declining EU-China relations

Their economic partnership is increasingly facing the strategic challenge of avoiding a trade war



Hemant Adlakha

Are China and Europe reaching a tipping point? After the United States (US), Europe is now fearing a second ‘China shock’, with its bilateral trade deficit having reached a €1 billion a day. To make things worse, while blaming Europe for its own economic failures, the People’s Republic has threatened the European Union (EU) with an aggressive trade policy if it chooses to impose tariffs and other trade restrictions to displace Chinese imports.

Thanks to the Ukraine war, which has inflicted a heavy cost on the European economy, European policymakers — having learnt a bitter lesson from their long years of dependency on Russian energy supplies and frustrated by a “hostile” administration in the US under President Donald Trump — are fast realising that Europe must never lean on one side: Neither the US nor China.

In 1975, China established diplomatic relations with the European Community, the predecessor of today’s EU. That was during the height of the Cold War. Recalling that period last October — the 50th anniversary year of the establishment of China-EU relations — the chief of the Chinese Mission to the EU, ambassador Cai Run, remarked in a speech at the College of Europe that in 1975, against the backdrop of highly complex international situation, the

then leaders of China and Europe “showed extraordinary political courage and broke through the barriers of the Cold War to make a historic decision of establishing diplomatic relations”. Highlighting the progress China and the EU have made in economy and trade since then, Ambassador Cai said: “When diplomatic relations were first established, bilateral trade amounted to only \$2.4 billion. By 2024, according to Chinese statistics, that figure had reached \$784.8 billion, while two-way investment stock has now exceeded \$270 billion.”

Well aware of the escalating tensions between the EU and China — not only in business and trade but also in bilateral and political relations — Cai pointed out three fundamental points that require the utmost attention of both China and Belgium.

First, it is important to uphold mutual respect and reinforce the positioning of the partnership. China and Europe are two major forces for building a multipolar world, two big markets supporting globalisation, and two great civilisations that champion diversity; second, it is important to promote openness and cooperation, and properly handle differences and frictions. The essence of China-EU economic and trade cooperation lies in complementarity and mutual benefit; third, it is important to uphold multilateralism and safeguard international rule and order. Multilateralism is the greatest unifying



The author is the vice-chairperson and an honorary fellow, Institute of Chinese Studies, New Delhi. Views expressed are personal



European Commission President Ursula von der Leyen (left) with Chinese Premier Li Qiang during the EU-China Business Leaders Symposium at the Great Hall of the People in Beijing, China, in July 2025

consensus between China and the EU.

The current friction

On May 29, at the end of a meeting to discuss relations with China, the European Commission stated without any signs of ambiguity that “the current economic relationship with China is unsustainable”. This sentiment, experts in several EU member-states feel, is going to top the agenda for the EU leaders’ summit on June 18-19, where China will be a key topic. However, sceptics believe it is perhaps too late for Europe to wake up to the coming ‘China shock’. Because more than an “unfriendly”, “unpredictable”, and “unhelpful” Trump-led US, it is the unprecedented growth of Chinese industrial capacity during the past decade that is increasingly leaving Europe in a situation many in private within the EU are calling a boiling frog scenario — an illusion to the tendency to ignore trends until it is too late.

A significant share of China-EU trade is generated by European companies operating in China

Not surprising, therefore, that at the gathering of G7 heads of state at the French town of Evian-les-Bains, located on the beautiful Lake Geneva (June 15-17), French President Emmanuel Macron wanted the summit to converge on the “need to tackle a flood of subsidised Chinese exports that is disrupting global markets”.

However, in China, officials, the media and scholars are all maintaining a united voice and saying, “Brussels is blaming China for its own failures.” Speaking at the World Convergence for Growth Summit, chaired by Macron — France is also the chair of G7 — on June 11, Zhang Guoqing, a Chinese deputy Prime Minister, completely ignored the French and the EU member-countries’ concerns regarding China’s industrial overcapacity and trade imbalances, and called for “prioritising development, improving global governance and promoting inclusive growth of the world economy”. Zhang was responding to the

online meeting’s agenda to “discuss macroeconomic imbalances between representatives of G7 countries and Beijing”.

At the same time, anticipating EU leaders gearing up for tougher measures to deal with what the bloc fears is the coming ‘China shock 2.0’, an influential pro-China foreign policy research institute has accused Belgium of clinging to a flawed narrative that China’s economic rise is an inherent threat to Europe. In an article posted on social media on June 10, Guo Mingxu, head of the Europe Economic Project at the China Institutes of Contemporary International Relations, argued that Belgium was blaming China for its own failures. “Narratives such as ‘China’s industrial upgrading equals a threat’ and ‘China’s export growth equals a hidden danger’ have proliferated, as if China’s normal development itself were an offence — a kind of ‘original sin’ against Europe,” Guo wrote.

Just as in Europe, in China, too, scholars and experts have been seriously debating the impending crisis that threatens to engulf China-Europe economic and trade relations.

Overlapping with the convening of the World Convergence for Growth Summit in Paris and in the run-up to the G7 summit, over one hundred European studies scholars gathered in the coastal Chinese industrial and commercial city of Canton on June 13 to deliberate on the rapidly changing geopolitical landscape and its impact on China-Europe relations. Jointly hosted by the Guangdong Institute for International Strategic Studies, the Greater Bay Area European Studies Association, the Centre for European Studies at Renmin University (Beijing) of China, the Centre for European Studies at Guangdong University of Foreign Studies, and the Institute for Development and Governance at the School of Humanities and Social Sciences, the Chinese University of Hong Kong, (Shenzhen), the 5th Greater Bay Area European Studies Forum underscored that “China-Europe relations are at a critical crossroads.” Professor Li Qing, in her keynote address, said this was the consequence of escalating competition between China and the US.

Critical crossroads

Reacting sharply to the European Commission statement at the end of its meeting on May 29 — cited above — that the bloc’s “overarching approach remains de-risking, not decoupling”, Chinese state-run media *Xinhua* said: “Recent vociferous talk and highly targeted policies under discussion by the European Union (EU) have cast a shadow over the bloc’s economic and trade relationship with China, precisely at a time when steady bilateral cooperation is urgently needed amid global uncertainties.”

The *Xinhua* commentary further criticised the newly proposed Europe’s Industrial Accelerator Act (IAA), which, it said, “will subject Chinese investors to discrimination in violation of basic market economy principles such as voluntary participation in commercial activities and fair competition, and distort the

level playing field in the EU market”.

The IAA is a legislative proposal presented by the European Commission in March in order to strengthen the competitiveness and resilience of European manufacturing. The Act aims to achieve a target for manufacturing to contribute 20 per cent of EU gross domestic product by 2035 and introduces ‘Made in EU’ (or trusted partners) and low-carbon preferences into public procurement and support schemes, along with conditions on foreign direct investment (FDI). Analysing the pros and cons of IAA, a joint study published by Bruegel — Brussels-based European think tank in May by three authors, Ignacia Garcia Bracero, Ben McWilliams and Simone Tagliapietra. All are senior researchers with Bruegel who claim while “(the Act) is intended to boost demand for European Union-made, low-carbon steel, cement, clean technologies and electric vehicles, it has failed to address its several shortcomings.”

Without going too long back into the past, many in China believe the current

downslide in China-Europe economic and trade relations, in particular and the bilateral relations in general, is the result of the heavy cost the European economy has been paying due to the war in Ukraine. “(Through) severed Russian energy ties and transatlantic frictions over tariffs and defence burdens, it was seeking to prove its ‘reliability’ to Western allies by adopting a hard line on China,” Guo Mingfu said. These scholars have been reiterating for some time now at every forum within China and in Europe that in seeking to reduce “dependence” on an important partner, the EU risks undermining its own competitiveness and long-term economic growth. Any substantial moves aimed at ‘de-risking’ from China would entail significant costs for Europe and harm the interests of its consumers and enterprises.

Furthermore, some in China take a more rational approach and caution the EU that any arbitrary or unilateral measures would be tantamount to contravening World Trade Organization (WTO) principles and disrupting global

EU-China trade since 2010

(\$ bn)

Year	EU exports to China	EU imports from China	Total trade turnover	Net trade balance (EU deficit /China surplus)
2010	150.4	375.7	526.1	-225.3
2011	187.6	424	611.6	-236.4
2012	179.2	371.2	550.4	-192.0
2013	197	372.3	569.3	-175.3
2014	206.2	385.7	591.9	-179.5
2015	161.6	328.4	490	-166.8
2016	170.3	345.5	515.8	-175.2
2017	202	381.7	583.7	-179.7
2018	221.7	422.3	644	-200.6
2019	222.3	406.6	628.9	-184.3
2020	231.2	439	670.2	-207.8
2021	264	559.1	823.1	-295.1
2022	241.9	657.7	899.6	-415.8
2023	241.4	557.2	798.6	-315.8
2024	230.6	567.8	798.4	-337.2
2025	217.6	609.7	827.3	-392.1

Source: The Statistical Office of the European Union, UK Ministry of Defence, Ministry of Commerce of China, and the General Administration of Customs Annual Statistical Bulletins

Compiled by Jaisal Kaur

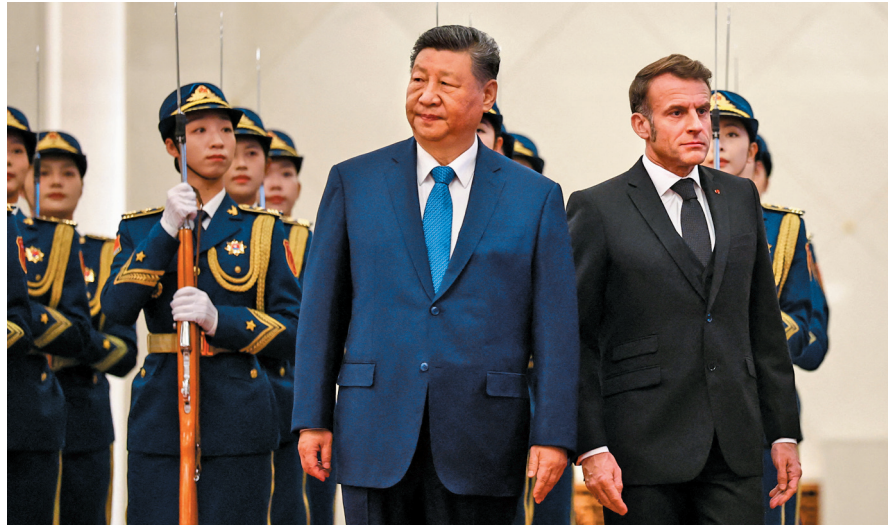
supply chains. Such an approach could also intensify internal differences within the bloc, they say. The *Xinhua* commentary referred to above has emphasised that given the large scale and broad scope of China-EU economic and trade relations, differences and frictions are inevitable. “The key is to properly address them through dialogue and consultation in line with the important consensus reached by the leaders of both sides,” the commentary further added.

What is at stake

Interestingly, scholars in both China and Europe have also acknowledged that the essence of the China-EU economic and trade relations lies in complementarity and mutual benefit. In 2025, China and the EU were each other's second-largest trading partners, with total trade reaching \$828 billion, up 5.4 per cent on-year. In terms of China-EU trade, some facts should be taken into account. Firstly, a significant share of China-EU trade is generated by European companies operating in China. Secondly, high-quality and competitively priced Chinese products help ease inflationary pressures in Europe and reduce the cost of living for consumers there.

Thirdly, around half of China's exports to Europe consist of intermediate goods, which help European companies considerably reduce the production costs of finished products and effectively enhance the competitiveness of EU exports in global markets. In addition, EU export controls on high-tech products to China have constrained the EU's export potential in the Chinese market. Reflecting a positive approach and willingness to deal with escalating tensions between European and Chinese businesses, analysts in China are advocating a non-frictional attitude and dialogue to resolve the outstanding issues.

Denying that China deliberately pursues a surplus-trade policy, some scholars in China hold the view that “it is



Chinese President Xi Jinping (left) with French President Emmanuel Macron in Beijing, China, in December 2025

common normal for one economy to have a trade surplus with some partners and trade deficit with other”. A good example has been cited in the *Xinhua* commentary, which states it is indeed true that the EU has registered a good trade deficit with China in recent years. But simultaneously, the commentary points out, the EU has long maintained a sizeable surplus with China in service trade. According to Chinese statistics, China's deficit in service trade with the EU reached \$48.3 billion in 2025. The EU was the largest source of China's service trade deficit, accounting for 41.6 per cent of China's total service trade deficit. Additionally, the EU has seen a big trade surplus in recent years. In 2025, the EU's trade in goods balance registered a surplus of 128 billion euros (\$147.84 billion). In 2024, the EU trade in services balance reached 194 billion euros, the highest figure in the past decade.

Perceived in Europe as a sign of irreconcilable aggression in trade policy behaviour, China cancelled two high-

level meetings with the EU in Beijing last month. The rare instance of diplomatic aggression on the part of China was interpreted as “retaliation” against France (as the head of G7) for the G7 summit's agenda to deal with “Chinese industrial overcapacity” and “trade imbalance” — seen by many within the EU as “survival threat” to Europe. Reporting on the issue, *the Financial Times (FT)* said: “Beijing has mounted a campaign to deter Brussels from adopting new measures designed to curb Chinese exports, which surged 16.4 per cent between January and May compared with a year earlier, with state media raising the spectre of a ‘trade war’”. No reason was given, but such tactics are often used by both sides to signal unhappiness with each other's policies.”

In late May, Etienne Soula, a researcher with the German Marshall Fund, observed in an exclusive analysis on the rising European fears of the Chinese economic threat, “Chatter in Brussels about an ominous ‘China shock 2.0’ is increasing. In May, five EU member-states circulated a joint non-paper calling for stricter protection against “unfair trade practices”, and now all 27 (EU) members are debating their China posture at the highest level.” Recent research and media reports are a warning that European industry risks

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being flattened by a “steamroller” of cheap Chinese exports targeting the highly advanced manufacturing sectors that fuel the European economy, Soula added.

In another report recently published by the influential Washington-based think tank, the Council on Foreign Relations, the root of the problem has been attributed to China's own political economy. “A party-state determined to keep capital at home produces an enormous savings glut, while industrial planners pour investment into favoured sectors regardless of whether anyone will buy the output. A currency kept deliberately weak compounds the effect, making Chinese goods cheaper abroad and foreign goods more expensive at home. Electric vehicles are the textbook case,” the report said. Moreover, it pointed out, China has built capacity for roughly 25 million cars a year against a home market barely half that size. Weak household demand cannot absorb the surplus, so the only outlet is export. Since the pandemic, Chinese export volumes have surged while imports have stayed flat.

The EU is brewing a tougher trade policy towards China by also intending to restrict Chinese companies

Reflecting the mood of experts and policymakers in Europe, a recent *FT* special feature, entitled “China shock 2.0: should Europe welcome Chinese investment?” wondered whether Belgium’s plan of wanting firms to open factories in the EU to transfer knowledge and employ local staff will still work. Elsewhere, accusing Germany of complacency and hesitation to take effective measures against China, a policy brief by the Berlin-based Centre for European Reform has stated, “Germany remains hesitant, even as China has already eaten much of German industry’s lunch and is preparing to start on dinner.

The EU has launched a scatter of product-specific trade defences and a

piecemeal buy-European industrial policy. But China’s trade surplus with the EU is still growing at around 30 per cent annually, showing these efforts are too slow and too narrow.” At the global scale, ‘China shock 2.0’ is similar in magnitude to the first China shock that followed the country’s 2001 WTO accession, the policy brief noted.

Undeterred by what appears to be a hardened EU thinking, largely shaped by France, Italy, and the Netherlands, the Chinese response to Europe’s possible repeat of the US 301 trade policy against China so far has been unrelenting and firmly rigid.

Reacting to a series of meetings in Europe spread over the months of May and June — European Commission meeting, G7 summit in France, EU heads of state summit in mid-June, etc. — with the agenda to discuss China’s rising economic threat, there is growing anger and rage in China against some EU countries and European leaders. Specifically targeting the European Commission statement after its meeting on May 29 that “rapid expansion of trade deficit with China is unsustainable and

strong countermeasures (against China) be taken,” a signed commentary in Mandarin in China’s popular digital news and current affairs portal *guancha.cn* said, “Europeans are caught in a dilemma. China has already issued a stern warning that it will retaliate against any measures the EU may take, which has put Europe in a dilemma.” Citing the spokesperson of the Chinese foreign ministry, Mao Ning, the signed article further added that China is also closely monitoring the EU’s actions and will take necessary measures to safeguard its legitimate rights and interests.

At another level, refuting what some European policymakers are accusing China of — that is, huge government subsidies, unbalanced import-export

ratio, industrial overcapacity etc — yet another Chinese language analysis counter-blamed Europe, saying “the competitiveness of European domestic industries is weakening, and protectionist sentiments are on the rise. Currently, the EU is brewing a tougher trade policy towards China, not only rehashing the so-called overcapacity issue, but also intending to restrict Chinese companies.”

Finally, it is worth mentioning that most scholars and experts in China are overtly defending Chinese government policies, emphasising that in the face of Europe’s increasingly obvious trade protectionist tendencies, China has always maintained a restrained attitude and has continued to urge the EU to assess the situation carefully. Ding Chun, director of the Centre for European Studies at Fudan University and president of the Shanghai Association for European Studies, told *Guancha.cn* that the European economy is currently mired in a predicament of “internal and external troubles” and is clearly lagging behind in competition with China and the US. Entering the “geopolitical and economic era”, the security and integrity of supply chains have become a core concern, further exacerbating Europe’s anxieties.

With China and Belgium matching each other by announcing gradual measures and countermeasures to put pressure on the other side to “accommodate” and “adjust”, the situation seems fast slipping out of control.

In Europe, Belgian Prime Minister Bart De Wever recently ridiculed the divided European approach in a speech. “They have called it geoeconomic imbalances, just not to name China by name, because we are so afraid that we don’t even dare to do that,” he said. On the other hand, the commentary in *Xinhua* cited above said, “Beijing does not want a trade war with the EU, yet it will take resolute countermeasures should the EU further target Chinese companies or products.” ■