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Trade, Power and Strategic Adjustment: The Shifting Landscape of China-EU Economic Relations

From Stabilising Interdependence to Structural Collision

In 2025, China-EU relations have once again reached a critical juncture. Over the past months, the two sides have engaged in multiple rounds of high-level consultations and trade confrontations over electric vehicles, steel, agriculture and agri-food products - particularly pork - as well as broader industrial-policy issues. At the Beijing summit in July, European Commission President Ursula von der Leyen declared that China-EU relations had reached a “clear inflection point”, calling for substantive adjustments on trade imbalances, market access and Europe’s policy toward Russia.¹ Almost simultaneously, China imposed provisional anti-dumping duties of up to 62.4% on pork imports from the European Union - widely interpreted as retaliation for the EU’s anti-subsidy investigation into Chinese electric vehicle exports.² Taken together, these developments indicate that China-EU economic relations have moved far beyond a series of technical trade disputes and are evolving into a systemic contest with pronounced strategic overtones.

As Bruegel observed, recent disputes “reflect not merely market competition, but a clash between two models of industrial policy.”³ MERICS similarly argues that the root cause of rising trade tensions lies in “a structural collision between China’s state-driven development model and Europe’s market-governed system” marking a shift from economic complementarity to institutional competition.⁴ At the same time, Foreign Affairs notes that Europe is caught in a “double bind”: pressed by the United States to de-risk from China while needing to safeguard its own industrial competitiveness.⁵

China has attempted to project an image of openness by reopening certain agri-food certification channels and calling for renewed dialogue. Yet in critical sectors such as electric vehicles, photovoltaics and high-end manufacturing, Beijing has responded firmly. As *The Diplomat* observes, this approach - “flexible engagement combined with institutional

defence” - reflects China’s effort to gain tactical room for manoeuvre under external pressure.⁶ Historically, bilateral trade served as a stabilising pillar of China-EU diplomacy; yet over the past decade, China’s industrial expansion and excess-capacity exports have pushed Europe from complementarity to defensiveness.

Since China’s accession to the WTO in 2001, China-EU relations have entered a new period of rapid institutionalised development. WTO entry provided European firms with a more predictable framework and allowed China to anchor its market opening in a multilateral regime. By 2003, the establishment of the Comprehensive Strategic Partnership elevated the relationship from economic exchange to structured political dialogue. During the 2008 global financial crisis, the partnership functioned as a ballast of stability: China increased imports of European manufactured goods, European firms expanded investment into China, and two-way trade reached record levels. This stability was rooted in complementarity: China as the “world’s factory” and Europe as the centre of high-end technology and branded goods.

The stabilising role of trade was also visible during the eurozone crisis, when China purchased EU bonds and signalled confidence in Europe’s recovery. From 2013 onwards, the Belt and Road Initiative broadened the scope of engagement. Several EU members - Italy, Greece, Hungary - signed memoranda of understanding, seeking infrastructure financing and deeper access to Chinese markets. Yet these same developments later seeded suspicion as the political dimensions of China’s overseas investment became more explicit.

By the mid-2010s, disputes over solar panels, steel and telecommunications marked a shift from stabilising interdependence to structural friction. The EU’s 2013 anti-dumping action against Chinese solar products, its largest trade defence case at the time, institutionalised the idea that industrial-policy asymmetries were becoming structural. The deterioration

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of relations between China and Sweden over the Gui Minhai case, as well as UK-China tensions over Hong Kong, further eroded political confidence. Meanwhile, the United States began reframing China as a strategic competitor, influencing Europe's own policy posture. The European Commission's 2019 document *EU-China: A Strategic Outlook* formalised this shift, defining China as "a partner, an economic competitor, and a systemic rival."

By the early 2020s, the foundations of complementarity had eroded. The relationship entered a phase where economic ties no longer mitigated political tension but increasingly amplified it.

Industrial Overcapacity, Defensive Regulation and Escalating Retaliation

Over the past decade, China-EU relations have revealed deep-seated structural tensions. China is no longer satisfied with its traditional role as the "world's factory." Through the Belt and Road Initiative and a vast array of domestic industrial policies, Beijing has actively promoted the externalisation of excess capacity. The solar-panel dispute of 2013, the steel tensions of 2016-2019, and the recent EV disputes all demonstrate a recurring pattern: industrial overcapacity in China spilling outwards and Europe responding through defensive regulation.⁷

By 2018, China's crude steel output exceeded half of global production, prompting intense defensive action from the EU.⁸ In 2022, Chinese exports of new-energy vehicles (NEVs) surged to 675,000 units, representing 21.8% of all vehicle exports.⁹ The EU's anti-subsidy investigation into Chinese EVs, launched in October 2023, marked a decisive escalation.¹⁰ China responded by initiating counter-investigations into European pork, dairy products and brandy. The reciprocal nature of these actions confirms that trade disputes have become embedded in state-led policy strategies on both sides.

Investment has also become politically charged. COSCO's dominance at the Port of Piraeus raised concerns about strategic dependency.¹¹ Italy's 2023 decision not to renew its BRI memorandum signalled growing scepticism about China's strategic intentions.¹² Human rights and geopolitical factors - ranging from the Gui Minhai case to disputes over Hong Kong - further intensified mistrust.

These bilateral tensions unfolded within a broader geopolitical frame. Since 2018, US-China strategic rivalry has shaped global trade alignments. The United States' export controls on semiconductors, its Inflation Reduction Act subsidies, and its tariff regimes have pushed Europe towards a defensive industrial policy. Europe's security dependence on the US - especially since Russia's invasion of Ukraine - has made full strategic autonomy increasingly difficult.

In 2025, new developments further deepened the structural transformation. In September 2025, China imposed anti-dumping duties on EU pork;¹³ in October 2025, the EU publicly demanded a "prompt resolution" to China's export restrictions on critical materials.¹⁴ In early November 2025, China partially suspended rare-earth export controls and agreed with the EU to establish a dedicated "supply channel" for critical minerals—signalling both Europe's dependency and China's leverage.¹⁵

Europe's institutional response has evolved into a three-dimensional strategy that integrates rules, competitiveness and security. The Foreign Subsidies Regulation grants the Commission far-reaching authority to block acquisitions. The Carbon Border Adjustment Mechanism, entering its payment phase in 2026, functions as a systemic barrier for high-carbon Chinese exports. The Net-Zero Industry Act and the European Battery Alliance aim to reduce dependencies on China for solar energy, batteries and critical raw materials. The Anti-Coercion Instrument allows the EU to respond swiftly to coercive measures, blurring the line between trade and security.¹⁶

In this context, economic engagement is no longer neutral: it has become the institutional terrain on which industrial policy, security considerations and geopolitical rivalry intersect. The mutual escalation of regulatory tools - export licencing in China, FSR probes in the EU - constitutes a new normal.

Strategic Adjustment, Managed Competition and the Future of China-EU Relations

The current trajectory of China-EU economic relations reflects deep structural transformation. China's domestic economic constraints - slowing growth, high youth unemployment and severe local government debt - have increased its reliance on industrial-policy-driven manufacturing expansion. Exporting surplus production

has thus become not merely an economic choice but a structural imperative. This has reinforced Europe's perception of China as engaging in "structural dumping."¹⁷

Meanwhile, the United States has re-entered the picture with renewed intensity under Trump's second administration. The US trade war with China, re-ignited with large-scale tariffs and export-control measures, reshaped the global trade and investment environment.¹⁸ The Trump administration imposed tariffs on Chinese goods at levels reaching cumulative rates of up to 145 %, while Beijing responded with equally sweeping counter-measures.¹⁹ These moves triggered substantial disruptions in global supply chains, especially in high-tech goods and critical materials, and set in motion a policy environment where third parties—including the EU—had to recalibrate their alignment, risk profiles and strategic positioning.²⁰ For Europe, the US-China friction has three critical implications: first, it heightens the urgency of supply-chain risk mitigation; second, it reduces Europe's margin for strategic autonomy as US pressure on allies intensifies; third, it forces Europe to reinterpret its China strategy not only in bilateral terms but within the bigger US-China rivalry.

Europe's policy response is now institutionalised. Through the FSR, CBAM, NZIA, ACI and tightened FDI screening, Brussels has created a comprehensive regulatory system designed to defend its industrial base while managing systemic risk. These tools are now routine governance, not extraordinary measures.²¹

This evolving interaction has created a feedback loop in which each side interprets the other's actions as strategic escalation. China views EU measures as targeted containment; Europe views Chinese policies as state-led coercion. Export controls, counter-investigations, rare-

earth licencing and retaliatory duties have become instruments of negotiation.

In this context, the United States continues to shape this system. Europe's security dependence on Washington ensures at least partial alignment with US strategic preferences. China will attempt to exploit divisions within Europe - between export-driven economies like Germany and more security-oriented states in Northern Europe - but the structural convergence of US and EU policy approaches is likely to persist.²²

Under these conditions, the prospects for fundamental easing of China-EU tensions remain limited. Short-term compromises may stabilise specific sectors, but long-term structural friction appears unavoidable. The bilateral relationship is unlikely to regain its historical role as a diplomatic stabiliser. Instead, it is becoming a domain of managed competition embedded in a broader geopolitical landscape.

If tensions escalate, the multilateral system will face heightened stress. WTO mechanisms may further erode. Global supply chains may fragment into regional blocs. Competing regulatory regimes in green transition, digital standards and carbon governance may undermine international coherence. Multilateral mechanisms for carbon-pricing harmonisation, standard convergence and targeted dispute resolution could mitigate some risks but cannot fundamentally reverse the trajectory.

In essence, China-EU economic relations have shifted from a logic of complementarity to one of institutional competition. The long-term trend is structural decline, tempered only by tactical cooperation and the shared necessity of global system maintenance. The gravitational pull of the United States, China's domestic constraints and Europe's strategic reorientation collectively ensure that the relationship will remain one of managed risk and calibrated confrontation.²³

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