

## **A trade war between the EU and China seems inevitable**

Thucydides thought rising powers tend to cause conflict. Had he been an economist looking at the explosion of Chinese exports to Europe, he might have expected a trade war. So do many analysts these days. The question is no longer whether Europe will pull up some drawbridges, but how many and how fast, and how it will deal with the consequences.

The stakes are clear. Bankruptcies in the European Union have risen to levels last seen in 2015. Germany lost 143,000 jobs in industry in 2025. In most of Europe growth is sluggish and industrial production declining. In France and Germany hard-right parties lead the polls. At a summit on June 18th EU leaders will discuss how to cope with the Chinese challenge, in an increasingly dire global economy.

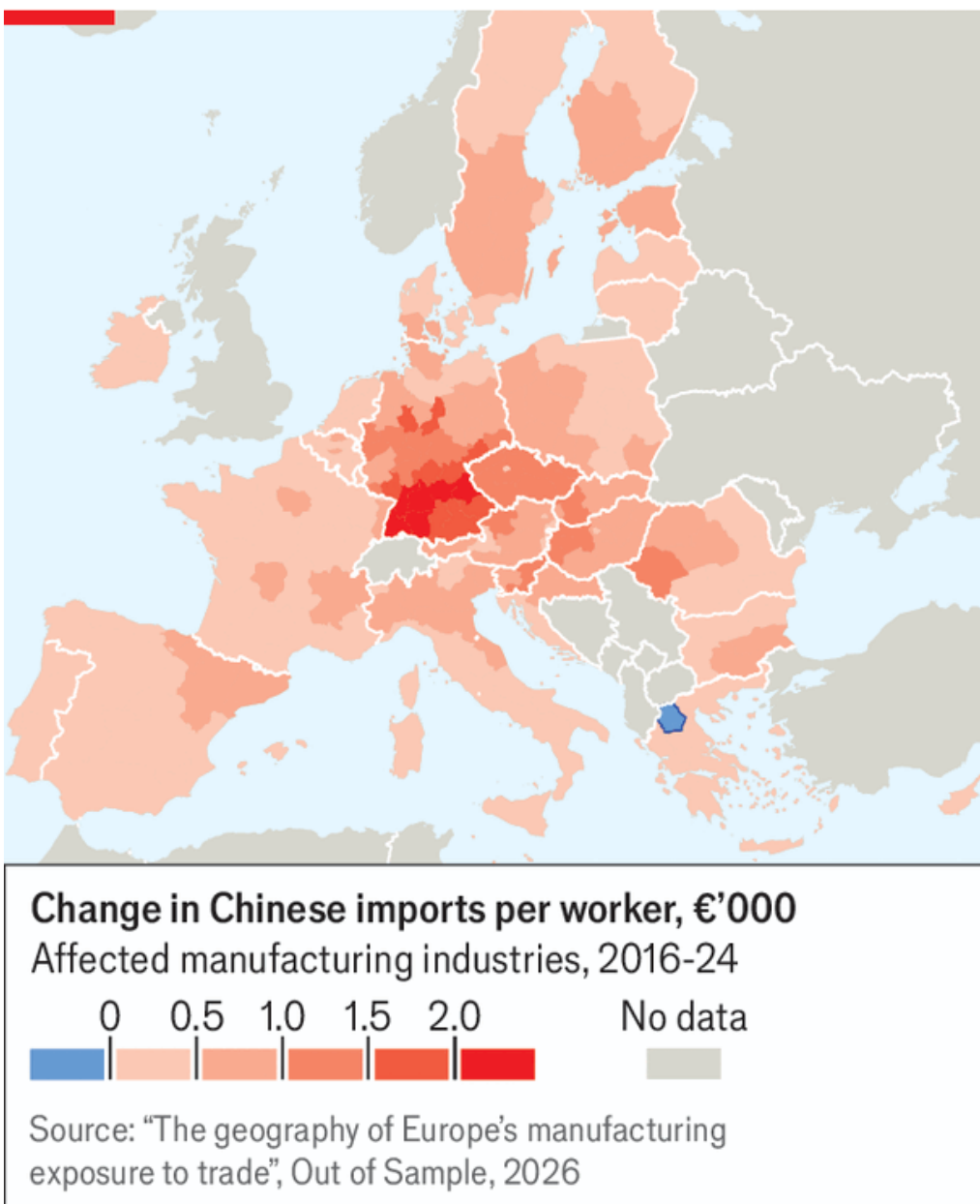
Is China really behind Europe's economic problems? The EU's trade deficit in goods with China was about €1bn (\$1.16bn) a day in 2025, roughly double the figure before the pandemic. Germany especially has seen a constant rise in imports from China and a steep decline in exports going there. Some see foul play. The OECD, a club of mostly rich countries, found Chinese firms got three to eight times more subsidies between 2005 and 2024 than competitors in OECD countries. Some would fail without them: 32% of industrial firms in China lose money.

Those sceptical of blaming China argue that Europe's high energy costs, slow bureaucracies and failure to innovate or integrate are the true culprits. Worse, hampering imports of Chinese materials and parts would harm Europe's downstream businesses. That could hurt competitiveness more than it helps. The list of protected "strategic" sectors is already long.

France, which is hosting a G7 summit on June 15th, is emphasising macroeconomic imbalances. China's currency is undervalued by between 15% and 30%, making its exports cheaper. But the deeper cause is its surplus of savings over investment, the flip side of any export surplus, which protectionism can do little about, except to force the

exports elsewhere. Awkwardly, Europeans know this model well. Germany perfected it in the 2010s, and its current-account surplus is still 4.5% of GDP, in the same ballpark as China's.

Even so, the EU has hit back. On April 21st it let Lisbon go ahead with a light-rail project only after a Chinese-owned contractor that it said received subsidies was replaced by a Polish one. An investigation into subsidies on electric vehicles led to tariffs in 2024. Tariffs on steel were adopted on June 8th. Last year the bloc barred public procurement of medical devices from China, in retaliation for Chinese exclusion of European ones. The list goes on.



For many, that is not enough. A consensus is forming that the threat outweighs concerns over retaliation. “Confronting China is going to be expensive either way, but the longer we wait, the more expensive it will get,” says a German industry representative. China’s economic chokeholds, such as its dominance of rare-earths refining, have helped focus minds.

The EU’s first option is to use existing trade-defence tools more forcefully. Its anti-subsidy and anti-dumping instruments involve careful case-by-case investigations, which can be challenged in court. An official compares them to “taking a little spoon to get water out of the boat”. The EU is exploring applying them to broader groups of products, or even shifting the burden of proof: if macro-data suggest excessive subsidies, firms would need to show they have received none.

A second possibility is to develop stronger barriers against import surges. EU officials have long talked of an “overcapacity instrument”, to be used when countries are producing more of a given product than can be economically justified. But the concept is hard to pin down and may be unworkable. The bloc could simply use safeguards more often, such as those it has applied to steel. But such tariffs are supposed to apply to all countries and are temporary. Sander Tordoir and Brad Setser, in an analysis for the Centre for European Reform, a think-tank, propose a European version of America’s Section 301 tool. This allows sweeping tariffs to counter practices harming American trade.

A third option is to complement defensive trade measures with industrial policy. “That combination of trade measures with investment and industrial policy is a significant intellectual shift,” argues Shahin Vallée of the German Council on Foreign Relations. The EU recently proposed making some public procurement conditional on local content. Its tech-sovereignty package includes a boost to Europe’s semiconductor supply chain. National governments are adding their own subsidies to the mix.

The great unknown is China’s response. It might hit back with export bans that would deny European industry crucial materials or parts. “China is overconfident, but that makes them a difficult negotiation partner,” argues a longtime observer. It has little patience for European complaints about subsidies or overcapacity, and sees them as a sign of European weakness. On June 11th China cancelled two high-level meetings

with the EU. China's trade spat with America will have emboldened its leaders. Still, it will probably adopt strong but tailored responses to Europe, as it will want to avoid a full-scale trade war.

Europe's consensus is frail. Measures beyond broadening existing tools and "Buy European" policies are unlikely. Few believe Europe is willing to endure Chinese retaliation, or activate its powerful anti-coercion instrument in response. Germany and Spain will play crucial roles. Germany, which only recently converted to a tougher stance on China, will fear that retaliation could bring parts of its industry to a standstill. Spain, for its part, is taking a realist stance. It argues that the new global order must accommodate a powerful China, and that measures should be targeted only at demonstrably unfair practices.

"The priority should be to reduce dependencies as quickly as possible, otherwise threats to deploy trade-defence instruments are toothless," says a German official. Maros Sefcovic, the EU's trade czar, has proposed forcing firms to diversify their suppliers (ie, beyond China). The Chinese will push back hard, says Max Zenglein of the Conference Board, a global business association. China's recent decrees on supply chains and other countries' extraterritorial measures make clear that it wants to keep the world dependent. On trade policy, the EU and China are heading for a mighty collision.