China: rising EU trade imbalance and policy risks

- **China's trade surplus with the EU continues to widen, reflecting faster growth in Chinese manufactured exports than in EU exports to China, with the largest surpluses concentrated in electrical equipment, machinery, automobiles and e-commerce-related goods.**
- **As China moves further into advanced manufacturing sectors historically dominated by European firms, the EU is becoming more dependent on China for critical minerals, batteries, magnets, solar products and other strategic inputs. This has heightened concerns over economic security for EU policymakers.**
- **The EU is likely to combine dialogue with more targeted trade-defence, procurement and supply-chain-resilience measures. China has the capacity to retaliate, particularly through export controls and restrictions on commercial cooperation, escalating the risk of trade tensions.**

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Trade imbalance driving an assertive EU response

The EU is at an important juncture in its economic relationship with China. European policymakers are seeking to address a widening bilateral trade imbalance, intensifying industrial competition and strategic supply-chain vulnerabilities. China's reported trade surplus with the EU has continued to increase as Chinese exports to the bloc have expanded more rapidly than China's imports from the EU. The scale and persistence of this imbalance have increased political support across the EU for a stronger response, although member states continue to differ over the appropriate balance between trade protection, industrial policy and continued commercial engagement with China.

China's export basket increasingly includes intermediate goods, capital equipment and clean-energy products, including batteries, solar panels, electrical equipment, machinery and vehicles. This often directly competes with European producers in sectors that are central to the EU's industrial strategy. China's manufacturing scale, increasingly sophisticated industrial capabilities and cost advantages have supported further gains in global export market share, while the EU's share of global exports has declined since 2021.

Industrial convergence meets strategic dependence

China and the EU are becoming more direct competitors in advanced manufacturing. Export-basket similarity is highest in machinery, electrical equipment and transport equipment, highlighting the growing overlap between the products supplied by China and the EU to global markets. China's shift towards higher-value manufacturing has therefore amplified European concerns over excess capacity, subsidised competition and the potential displacement of domestic production in strategic industries.

At the same time, the EU became more reliant on Chinese inputs and manufactured products across key supply chains. These include critical minerals and processed materials such as permanent magnets, batteries, solar cells and drones. Such dependencies leave European industries exposed to potential supply disruptions or export restrictions in the event of a more serious trade dispute. The combination of growing competitive pressure and persistent import dependence has heightened economic-security concern for EU policymakers.

Dialogue continues, but trade policy risks are rising

The EU is pursuing a dual-track approach. It continues to engage China through the proposed Trade and Investment Consultation (TIC) mechanism, seeking progress on market access, industrial overcapacity and the trade imbalance. At the same time, it is preparing a more assertive trade and industrial-policy response, including broader use of trade-defence investigations, tighter resilience requirements in public procurement and clean-energy auctions, and measures designed to diversify strategic supply chains.

A range of more far-reaching options is under discussion, including stricter "Made in Europe" requirements, multi-supplier diversification rules and a potential new instrument to address concerns about industrial overcapacity. These proposals remain subject to legal, political & practical constraints and should not be treated as agreed EU policy. The 16 September EU State of the Union and 15 October EU leaders' summit could provide further policy signalling, but substantial new measures may require additional consultation and legislative work.

Beijing has warned that it will respond to additional EU restrictions on Chinese imports or investment. China's potential options include tighter export controls on critical minerals and other strategic inputs, restrictions on trade or investment involving European firms, and blocking measures against EU information requests or investigations deemed to have extraterritorial reach. These tools give China meaningful leverage over European supply chains, although their use would also risk damaging China's access to the EU market and accelerating European efforts to diversify away from Chinese suppliers.

The most likely near-term outcome is therefore continued dialogue alongside a gradual ratcheting-up of targeted EU trade-defence and resilience measures. However, the scope for escalation is material: a move towards broad tariffs, explicit localisation requirements or restrictions on Chinese investment could trigger a more forceful Chinese response and shift the relationship from managed competition towards a more damaging trade confrontation.

China-EU key events to watch:

- Ongoing: technical working groups hold bilateral meetings on trade
- 16 September: EU State of the Union, European Commission presents (TBC) new trade tools targeting unfair trade practices and overcapacity
- Early October (TBC): EU Trade Commissioner Maros Sefcovic visits Chinese Commerce Minister Wang Wentao in Beijing, TIC progress report due
- 15 October: EU leaders' summit, decision on potential trade measures
- 10 November: China's suspension of key critical mineral export controls expires

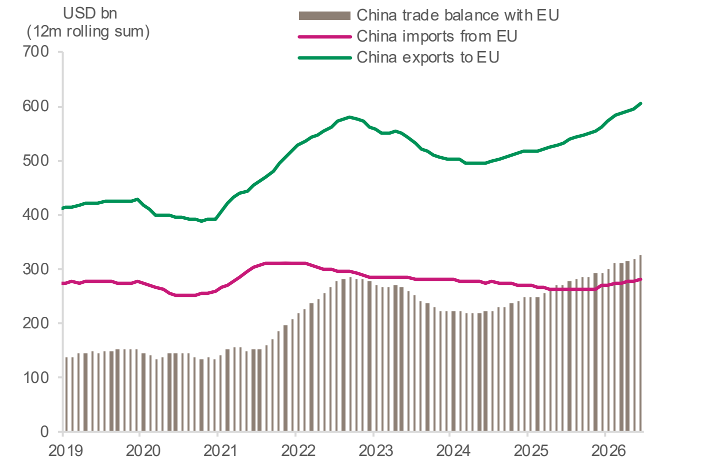
China's trade surplus with EU continues to grow

China's trade surplus with the EU has grown notably in recent years, as its exports to the EU have continued to expand while imports have lagged. According to China Customs data, the surplus rose to USD292bn in 2025 from USD151bn in 2019, representing a CAGR of 11.6%. During this period, China's exports to the EU expanded to USD560bn in 2025 from USD428bn in 2019 (CAGR of 4.6%), while imports declined slightly to USD268bn from USD276bn (CAGR of -0.5%).

Such trend appears to have strengthened further in 2026. China's trade surplus with the EU increased by 25.0% YoY to USD210bn in 7M26 from USD168bn in 7M25, as China's export growth to the EU (+16.7% YoY) was notably higher its import growth from the EU (+7.1%). On a rolling 12-month basis, the EU's share in China's overall goods trade surplus increased to 28.1% in July from 24.7% in 2025.

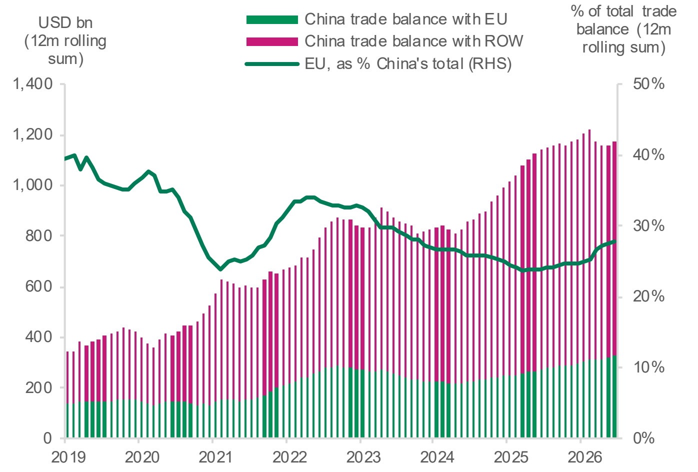
European officials frequently cite a larger goods trade deficit with China, of around EUR360bn in 2025. This difference reflects standard bilateral "mirror statistics" discrepancies. Exports are generally recorded on a free-on-board (fob) basis, while imports use a cost-insurance-freight (cif) basis. This convention would make the EU's reported deficit larger than China's reported surplus. Furthermore, differences in partner-country attribution, especially for goods routed through Hong Kong, Singapore and European logistics hubs, would also contribute to the gap. Both EU and China sources point to a large and widening EU goods deficit with China.

China exports to EU grew while imports stagnated



Source: CEIC, Crédit Agricole CIB

China's trade surplus with EU rose steadily since 2024



Source: CEIC, Crédit Agricole CIB

Detailed trade data shows that China's widening surplus with the EU has been concentrated in electrical equipment and machinery, while bilateral auto trade has shifted from a deficit to a surplus and e-commerce exports have expanded rapidly in recent years. By contrast, China continues to run deficits with the EU in selected high-value and technology-intensive categories, including pharmaceuticals, optical instruments and aircraft, although these deficits have generally remained stable or narrowed. The main exceptions are jewellery and cosmetics, where China's deficit has widened modestly, reflecting continued demand for European premium consumer goods. Overall, the pattern points to a growing structural imbalance: China's strength in scaled manufacturing, clean-energy supply chains and consumer goods is outpacing the EU's exports of specialised capital goods and high-value branded products.

Tech & batteries underpin China's trade surplus with the EU

The largest sources of China's goods trade surplus with the EU are electrical machinery & equipment (HS85) and machinery & mechanical appliances (HS84), which generated surpluses of USD106bn and USD44bn, respectively, in 2025. Together, these two categories represent the most extensively traded goods between the two economies and account for 51.5% of China's total trade surplus with the EU in 2025. It highlights the central role of technology-related manufacturing in the bilateral imbalance.

- Machinery & mechanical appliances (HS84, or machinery)
  - China's exports to the EU: automatic data processing (ADP) machines (eg, laptops), household appliances (eg, air conditioners) and standard industrial equipment/components (eg, liquid pumps)
  - The EU's exports to China: semiconductor manufacturing equipment (eg, lithography equipment); specialised factory-automation machinery; high-precision valves; and aircraft & ship engines
- Electrical machinery & equipment (HS85, or electrical equipment)
  - China's exports to the EU: smartphones, lithium-ion batteries, solar panels and integrated circuits
  - The EU's exports to China: specialised sensors, automotive electrical systems and other high-value electrical components

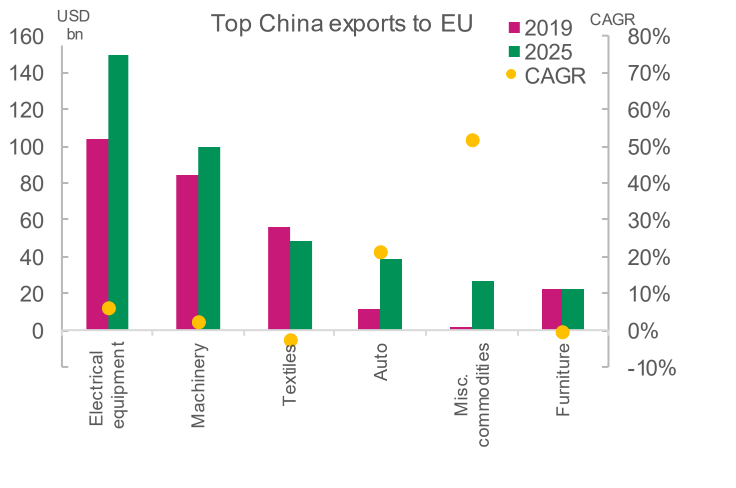
China's surplus with the EU in electrical equipment increased by USD36.0bn to USD105.9bn in 2025 from USD69.9bn in 2019. Its surplus in machinery rose by USD7.4bn over the same period, from USD36.7bn to USD44.1bn. These two categories accounted for 31.0% of the USD140.5bn expansion in China's overall trade surplus with the EU between 2019 and 2025.

Trade values increased in both directions. China's exports of electrical equipment and machinery to the EU rose to USD150bn and USD99bn, respectively, in 2025, from USD103bn and USD84bn in 2019. China's imports from the EU of those goods increased to USD44bn and USD55bn, respectively, from USD34bn and USD48bn.

The composition of bilateral trade, however, differs. China mainly exports high-volume consumer products, intermediate goods and standardised manufactured products, while its imports from the EU are more concentrated in specialised capital goods, industrial machinery and higher-value components. Despite the EU's strengths in advanced machinery and industrial equipment, it has become increasingly reliant on China for competitively priced solar panels, batteries and other electrical equipment.

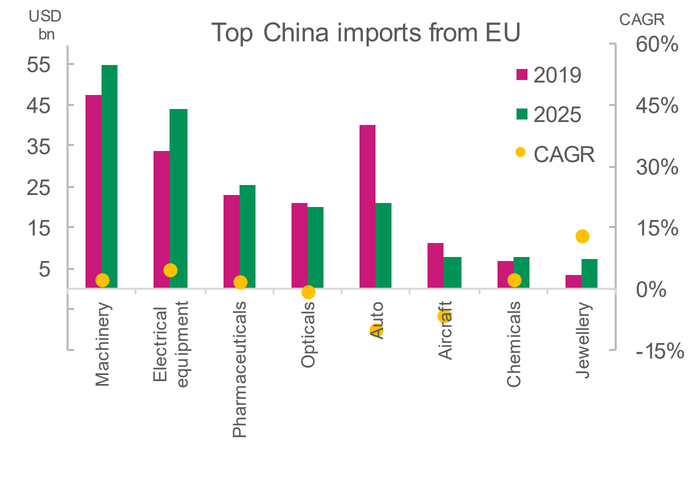
European policymakers have warned that this dependence could weaken or displace the EU's domestic clean-energy manufacturing base. Against the backdrop of concerns about Chinese excess capacity, imports of Chinese electrical equipment have become an important focus of EU trade and industrial policy. This includes electric vehicles (classified under transport equipment, HS87), batteries, power electronics and other HS85 products integral to EV supply chains and broader European concerns economic security in clean-energy manufacturing.

China auto exports to EU expanded particularly rapidly



Source: CEIC, Crédit Agricole CIB

Top China imports from the EU have weak CAGR



Source: CEIC, Crédit Agricole CIB

China's auto trade shifted to surplus with EU

The shift in China-EU auto trade dynamics in recent years is remarkable. China's auto trade balance with the EU has moved to a USD17bn surplus in 2025 from a USD 28bn deficit in 2019. This reflected a rapid growth of China's exports (with a CAGR of 21.3%) alongside a decline in its imports from the EU (-10.1%) during this period. This shift was supported by China's fierce push to grow the green economy and advance renewable energy vehicle industry as well as strong demand for China-made autos and components due to its cost advantage.

According to ACEA and CLEPA, vehicles imported from China accounted for 17.8% of total EU vehicle import value, while auto parts imported from China represented around 30% of total EU import value in this category. These figures underscore China's growing role not only in finished vehicles, but also in the broader European automotive supply chain.

Chinese manufacturers are maintaining a significant presence in the EU auto market, particularly in electric vehicles (EVs). Among Chinese-made cars imported into the EU, 42.9% are battery-electric vehicles (BEVs). The EU has imposed additional tariffs of up to 35.3% on BEVs from some Chinese manufacturers, on top of the standard 10% import duty. The tariffs have reduced China's share of BEVs in the EU's BEV imports, to 17% in Q126, vs a peak of 22% in 2024, according to T&E. Chinese-made BEVs have nevertheless remained competitive: some are still priced around 21% below those from European manufacturers.

Chinese manufacturers have responded to the rising tariffs by expanding local production plants in Europe and shifting their export focus towards plug-in hybrid electric vehicles (PHEVs). China-made PHEVs accounted for 60% of EU PHEV imports in 2026, up from 37% in 2024. Unlike BEVs, PHEVs are not currently subject to countervailing duties and generally face only the EU's standard 10% import tariff. This creates incentive for Chinese manufacturers to adjust their product mix, though PHEVs may soon become a focus of EU trade-policy scrutiny.

The growth of China's auto exports to the EU also extends beyond finished vehicles. Chinese battery exports to the EU, which are classified under electrical equipment and are not covered by the additional duties on BEVs, increased sevenfold to almost USD30bn in 2025 from around USD4bn in 2020, according to T&E.

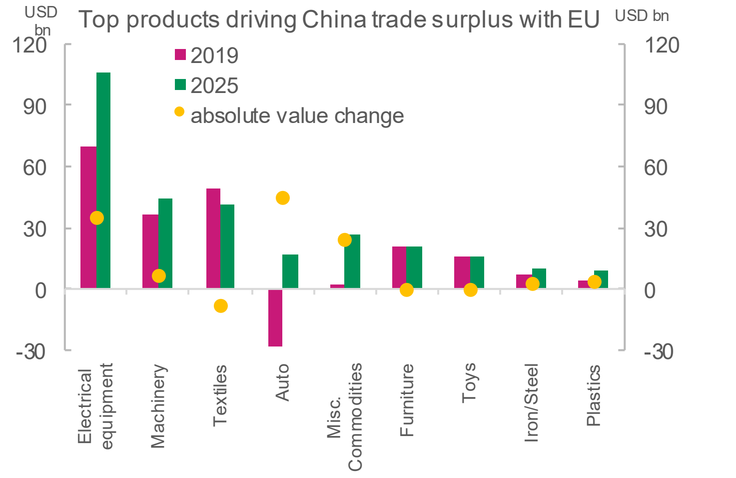
E-commerce surplus faces growing EU policy headwinds

Another important driver of China's growing trade surplus with the EU has been the miscellaneous manufactured goods category, which includes a substantial volume of low-value goods sold through e-commerce platforms such as Temu, Shein and AliExpress. China's surplus with the EU in this category surged to USD27bn in 2025 from less than USD2bn in 2019 (with a CAGR of 53.3%). This growth was fuelled by high-volume, low-value shipments from China that benefited from the EU's EUR150 de minimis threshold for low-value parcels and were facilitated by China's longstanding "buy-export" practice, where unregistered factories could purchase export licences to ship goods overseas.

However, this momentum is unlikely to persist. The rapid expansion of small-parcel shipments has prompted tighter regulatory scrutiny on both sides. In late 2025, China's State Taxation Administration moved to restrict the so-called "buy-export" practice, under which firms without their own export qualifications could use the export registration of another entity. The policy change is intended to strengthen oversight, tax compliance and traceability in cross-border e-commerce exports.

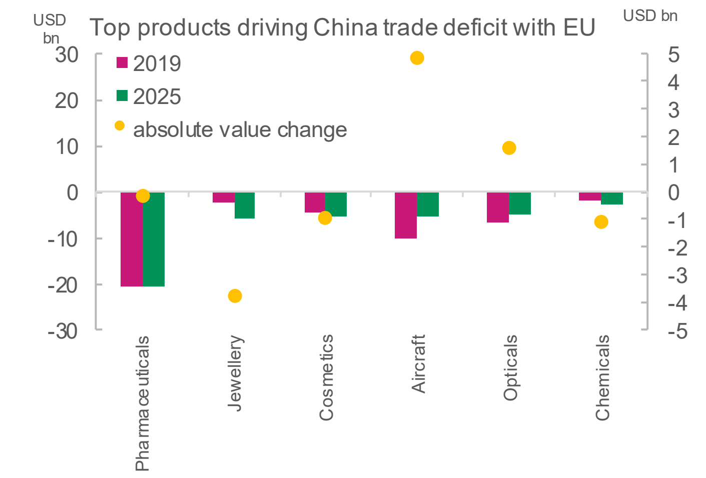
The EU has also moved to tighten the treatment of low-value imports. The planned removal of the EUR150 customs-duty relief threshold and the introduction of a per-item charge from July 2026 would raise the cost of low-value e-commerce shipments from China. These measures should weigh on growth in this category. China's surplus in miscellaneous manufactured goods had already begun to lose momentum from 2025, and the policy changes suggest a further moderation ahead.

China auto trade with EU turned to surplus from deficit



Source: CEIC, Crédit Agricole CIB

Pharmaceuticals a major driver of China's deficit with EU



Source: CEIC, Crédit Agricole CIB

China's deficits with EU concentrated in high-value goods

By contrast, China's trade deficits with the EU are mainly concentrated in pharmaceuticals, jewellery, cosmetics, aircraft and optical instruments.

- **Pharmaceuticals:** Pharmaceuticals represent China's largest trade deficit with the EU and were its third-largest import category from the bloc, after machinery and electrical equipment. The deficit was broadly stable at USD20.7bn in 2025, little-changed from 2019, with imports recording a modest annualised growth rate of 1.9%. European producers retain a competitive advantage in high-value and patented medicines, despite China's continued efforts to localise pharmaceutical production.

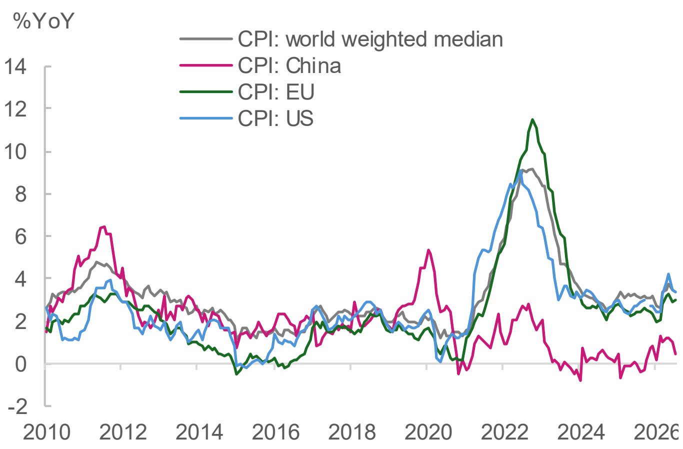
- **Jewellery & cosmetics:** Jewellery and cosmetics account for another meaningful share of China's trade deficit with the EU. The jewellery deficit widened by USD3.8bn between 2019 and 2025, as China's imports from the EU rebounded in 2025, likely supported by higher gold prices. China's deficit in cosmetics widened by a more modest USD0.9bn over the same period, reflecting continued demand for European premium brands, although growth momentum has remained subdued.
- **Aircraft:** China continues to run a trade deficit with the EU in aircraft, although this deficit narrowed by around USD5bn in 2025 compared with 2019. Imports of EU aircraft declined to USD7.5bn in 2025, with a CAGR of -6.5%. However, a series of Airbus purchase agreements announced in late 2025 and early 2026 could support a rebound in aircraft imports and widen the bilateral deficit in this category. These agreements also underline Airbus's continued importance as a supplier to Chinese airlines and aircraft lessors.
  - December 2025: Air China, Spring Airlines, Juneyao Air, China Express, and CALC, combined order of 148 A320neos
  - March 2026: China Eastern Airlines, 101 A320neos
  - June 2026: China Eastern Airlines, 25 widebody A330neos
  - July 2026: Air China, 15 A350-900 and 40 A320neos; Hainan Airlines, 40 A320neos
- **Optical instruments:** China's imports of optical instruments from the EU remained broadly stable between 2019 and 2025, while the bilateral deficit narrowed by USD1.6bn. Demand for EU optical instruments has remained supported by imports of advanced medical and laboratory equipment, as well as optical and electronic components such as camera lenses. Some equipment used in semiconductor manufacturing may be classified in this category, although major semiconductor-processing equipment (eg, photolithography equipment) is generally classified under machinery.

China-EU structural export convergence

China's improving position in global trade reflects its rapid expansion in advanced manufacturing, alongside persistent cost advantages in a range of industrial sectors. China's share of global exports has broadly increased in recent years, while the EU's export share has declined since 2021. This has intensified competitive pressure on European firms in sectors where the EU has historically held a comparative advantage, particularly machinery, transport equipment and other advanced manufactured products.

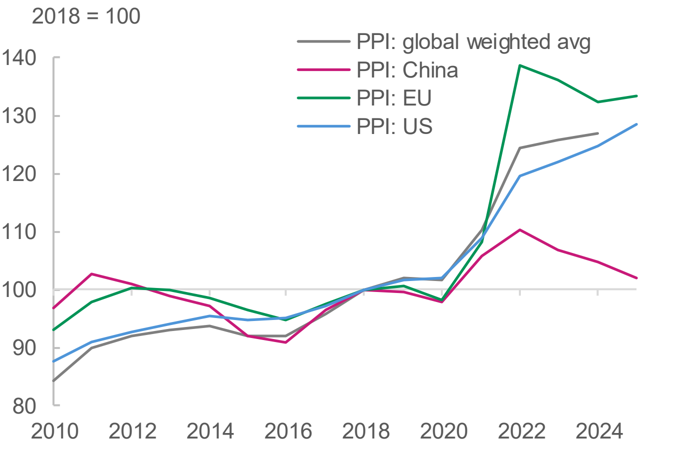
By contrast, China's share of global imports has declined since 2022, reflecting weaker domestic demand following Covid-19 lockdowns and a prolonged property-market correction. The EU's share of global imports also fell notably in 2023-24 before broadly stabilising from H224. The divergence between China's export performance and its weaker import demand has contributed to both a larger external surplus and more direct competition with EU producers in third markets.

China's inflation has been muted since 2023



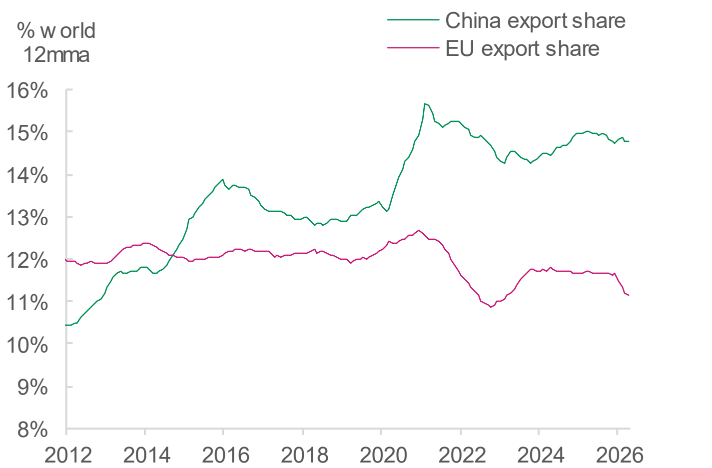
Source: CEIC, WIND, Crédit Agricole CIB

Negative PPI gap vs major economies widened sharply



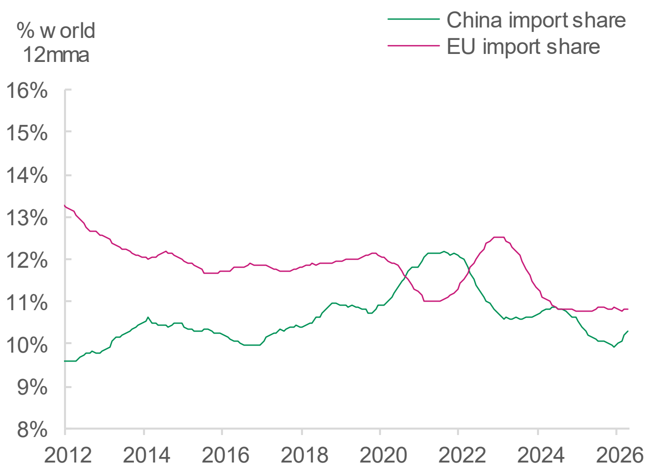
Source: World Bank, CEIC, Crédit Agricole CIB

China and EU share of exports to the world diverged



Source: CEIC, Crédit Agricole CIB

EU import from world share is shrinking

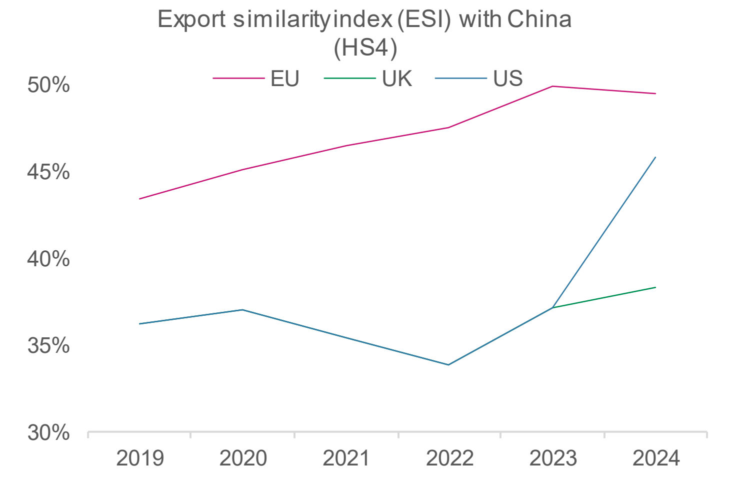


Source: CEIC, Crédit Agricole CIB

The increased export competitiveness of China can be seen in the two economies' export overlap. The Finger-Kreinin Export Similarity Index (ESI) measures the similarity of two economies' export baskets. At the granular HS4-product level, covering around 1,200 product lines, the China–EU ESI reached 49.5% in 2024, up 6.1ppt from 2019. This was higher than China's export-similarity indices with the US, at 45.8%, and the UK, at 38.3%. The results suggest that China's export structure is more closely aligned with that of the EU than with those of the US or UK, increasing the potential for direct competition in global markets. Export similarity does not itself demonstrate displacement, but it indicates a growing overlap in the goods each economy supplies to the world market.

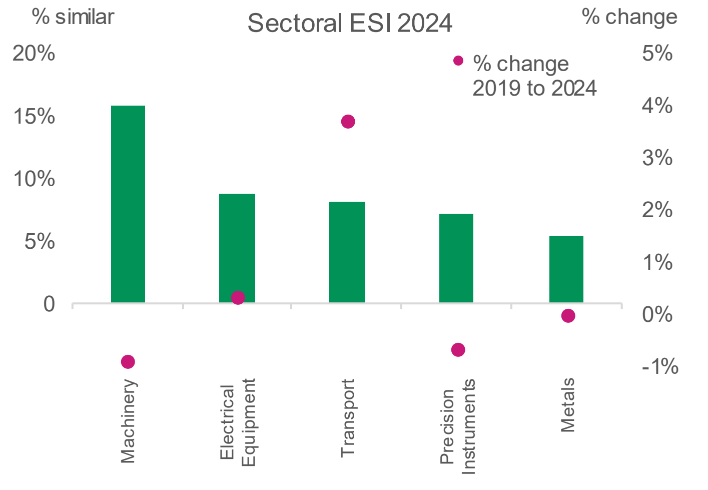
The overlap is concentrated in advanced manufacturing. Machinery accounts for the largest sectoral contribution to the China–EU similarity index, with an overlap of around 16% of their export baskets. Electrical equipment and transport equipment also show substantial overlap, at around 9% and 7%, respectively. These sectors therefore represent the main areas of structural convergence between China's and the EU's manufacturing exports.

Rising similarity between EU and China export structures



Source: UN COMTRADE, Finger-Kreinin, Crédit Agricole CIB

High export overlap in machinery sector



Source: UN COMTRADE, Finger-Kreinin, Crédit Agricole CIB

China dependency challenges EU industrial goals

China's structural evolution and industrial upgrading have brought EU domestic industrialisation to a critical inflection point. Historically, the EU's manufacturing sector served a dominant global role, but European industries have grown more reliant on Chinese imports. European policymakers are seeking to reduce vulnerabilities in supply chains considered central to the EU's industrial base, including clean-energy technologies, advanced manufacturing, aerospace, defence and pharmaceuticals. Dependence spans the value chain, from processed raw materials and critical mineral inputs to components and finished products. For many products, the share of EU imports sourced from China has risen since 2019.

At the upstream level, the EU's exposure is most acute in **magnesium and manganese** (88% reliance, 2025 import value of USD559mn), which underpin aerospace, automotive and battery supply chains. Exposure is also significant for rare-earth inputs, including **scandium and yttrium**. China's share in EU imports of this category fell to 49% in H126, from 78% in 2025. However, this decline likely mainly reflected how EU imports are restricted by China's tighter export-licensing controls rather than a durable diversification of EU supply sources.

Among manufactured goods, **lithium-ion batteries** (90% reliance on China) are the largest exposure by import value (USD29bn in 2025). Batteries underpin nearly all tech-related sectors, such as green energy, electronics, defence and medicine. This is a sharp rise in EU's reliance on China, up from 47% in 2019. Similarly, **rare-earth permanent magnets** (89% reliance, USD1.1bn) are indispensable inputs for EV motors, wind turbines, guided munitions and medical equipment. China holds a dominant position in global battery manufacturing and rare-earth magnet supply chains, reinforcing the EU's concern over concentrated supply.

Solar cells represent the deepest product-level concentration in the analysis, with China accounting for 99% of the EU's imports in this category. This leaves an important component of the EU's renewable-energy buildout heavily dependent on Chinese manufacturing. The EU's 89% reliance on China for **drone** imports is also becoming more strategically relevant as drones are increasingly integrated into defence modernisation and security applications.

These dependencies underscore the tension between the EU's climate, competitiveness and security objectives: rapid deployment of clean-energy technologies benefits from low-cost Chinese supply, but high import concentration exposes the EU to supply chain risks and raises concerns about the future of domestic industrial capacity.

EU import dependencies on China across sensitive strategic sectors

Item	Strategic use	China's Dominance	EU import reliance on China 2025	2019	EU imports from China (2025, USDm)
Scandium & yttrium	Input for permanent magnets, electronics, defence systems	>90% of global refining, both require export licensing	78%	65%	10
Cobalt oxides	Input for lithium-ion batteries and superalloys used in jet engines and gas turbines	>70% of cobalt mines operation in the DRC, 90% of global processing	71%	95%	21
Complex fluorine salts	Used in aluminium smelting, semiconductor manufacturing, and uranium enrichment	>80% of global production	58%	55%	79
Magnesium & manganese	Input for aerospace alloys, automotive, electronics, and industrial applications	~85% of global production	88%	89%	559
Various esters (chemical compounds)	Used across agriculture, defence, chemicals, pharmaceuticals and lithium batteries	More diversified global supply chain, but creates bottleneck for EU battery production	64%	57%	210
Vitamins A-E	Input for pharmaceuticals, nutraceuticals and animal feed; >90% reliance for Vitamin B	More diversified global supply chain, not critical inputs	63%	66%	1,076
Metal permanent magnets	Critical input across modern economy – electronics, green energy, medicine and defence	c.90% of global rare-earth magnet production	88%	84%	1,058
Non-metal permanent magnets	Less strategically significant but widely used across the electronics and automotive sectors	>70% of global production	79%	75%	307
Lithium-ion batteries	Used for energy storage, consumer electronics, and defence applications	85-90% of global production	90%	47%	29,036
Solar cells and modules	Major component in green energy transition	>85% of global production across value chain (polysilicon, wafers, cells, assembled/non-assembled panels)	99%	57%	8,883
Drones	Includes a range of weight classes; most imports fall under 7kg (USD845mn in 2025)	80–90% global production, from hobbyist to heavy industrial	76%	NA*	1,172

Source: CEIC, Crédit Agricole CIB **Drones (HS Code 8806) was created in 2022, therefore there is no categorized drone data for 2019.*

Pressure for a stronger EU regulatory response

In recent months, EU leaders have intensified discussions on how to respond to China's industrial overcapacity, the widening bilateral trade imbalance and Europe's dependence on Chinese imports in strategically important supply chains. Further policy initiatives could be outlined in the Commission President's State of the Union address on 16 September, although the timing and scope of any new measures remain uncertain.

At the same time, discussions with China remain ongoing. A 29 June meeting between EU Trade Commissioner Maros Sefcovic and Chinese Commerce Minister Wang Wentao reportedly established a three-month timetable for a Trade and Investment Consultation (TIC) mechanism, with an October deadline for tangible progress on European concerns. The EU's priorities include reducing distortions associated with Chinese excess capacity, improving market access for European firms and increasing China's imports of EU goods, particularly in sectors such as agriculture, medical devices and automobiles.

A second round of discussions is expected in Beijing in early October, preceded by a video conference between Sefcovic and Wang in mid-September. The outcome of these engagements will be important in determining whether the EU continues to prioritise dialogue and diversification or moves towards a more forceful use of trade-defence and industrial-policy tools.

From gradual diversification to more assertive trade policy

At the 18-19 June European Council meeting, Commission President Ursula von der Leyen called for a more proactive approach to persistent global macroeconomic imbalances. If consultations with China fail to produce meaningful progress, political pressure is likely to increase for the EU to deploy more substantive trade-defence measures and industrial-policy responses to address concerns over Chinese exports, overcapacity and strategic dependencies.

France and Italy have been among the strongest advocates of a more assertive approach. Germany has historically been more cautious, given the potential for Chinese retaliation against German exports, particularly automobiles. However, Berlin's stance appears to be evolving. As Bloomberg reported in late July, Germany has been mapping China's trade and supply-chain vulnerabilities to strengthen its negotiating position. France and Germany are also expected to publish a joint roadmap on China-related trade practices by October.

The EU has already established medium-term targets to diversify strategic supply chains and strengthen domestic manufacturing capacity, over a five to ten year period. Under the Net-Zero Industry Act, the EU aims for domestic manufacturing capacity sufficient to meet at least 40% of its annual deployment needs for net-zero technologies by 2030. The Critical Raw Materials Act also seeks to ensure that no more than 65% of the EU's annual consumption of a strategic raw material, at any relevant stage of processing, is supplied by a single third country by 2030. These are not strict localisation mandates, but they provide a framework to directly respond to China's related dominance.

New measures may extend beyond conventional duties

The EU already has several instruments to address concerns about imports and foreign subsidies. Anti-dumping and anti-subsidy investigations remain the most established tools and have been applied to a range of Chinese imports, including metals, chemicals and manufactured goods. The EU has also used countervailing duties on Chinese battery electric vehicles, demonstrating a greater willingness to deploy trade-defence instruments in strategically important sectors. The Foreign Subsidies Regulation (FSR) provides a separate tool to address distortions in the EU internal market caused by subsidies from non-EU governments. It can be used in public-procurement procedures, mergers & acquisitions and own-initiative investigations. Depending on the findings, the Commission can impose redressive measures, accept commitments or exclude firms from public procurement; it is therefore distinct from a tariff instrument. Most recently, there has been an ongoing investigation into China's JD.com.

Further EU action is likely to combine trade defence with industrial-policy and procurement measures. Potential options include stricter resilience and diversification requirements in public procurement and renewable-energy auctions, additional investigations into subsidised imports, and incentives for investment in EU-based manufacturing, such as through "Made in Europe". New measures could be revealed at the 16 September State of the Union or 15 October leaders' summit, though they could be more likely to be targeted, sector-specific and framed around economic security, supply-chain resilience & fair-competition, rather than with broad based tariffs or explicit local-content requirements.

EU actively expanding trade defence tools, more harsh measures incoming

Measure	Status	Implication	Regulatory Framework
Industrial Accelerator Act	Proposed March 2026, pending legislative vote in December	An industrial policy instrument that would require strict "Made in EU" sourcing obligations for strategic sectors such as steel, cement, automotives and green tech. A proposed draft includes local content requirements for EVs (70%), aluminium (25%) and clean tech (varies).	Binding legislation
Foreign Subsidies Regulation	Used sparingly, two active investigations ongoing	Freezes mergers and acquisitions that may threaten EU's strategic interests while the EU investigates. The EU is actively investigating JD.com and Nuctech.	Regulation
"Overcapacity" instrument	Proposed, pending formal acceptance	A comprehensive tariff and import control mechanism to broadly target overcapacity or state subsidies. Analogous to the US Section 301 tariffs.	Tariff mechanism
Anti-Coercion Instrument (ACI)	Enacted December 2023, never used	Allows EU to deploy retaliatory economic countermeasures against trade bans or blockades, including power to freeze assets and block access to EU financial markets. Originally catalysed by China's 2021 trade embargo on Lithuania.	Regulation
"Diversification" instrument	Proposed, pending formal acceptance	Regulates internal EU companies to enforce stricter "Made in EU" requirements. It would establish a 3-minimum global supplier requirement for critical sectors, including a 40% limit on a single foreign nation.	Regulation
Foreign Investment Screening	Adopted June 2026, legally binding January 2028	Overhauled the EU's cross-border M&A regulation to expand the definitions of "strategic vulnerabilities." It works with the IAA to ensure foreign investors do not control critical supply chains.	Binding legislation

Source: European Commission, Crédit Agricole CIB

Beijing has a growing range of potential responses

Beijing has repeatedly warned that it will take countermeasures if the EU introduces additional restrictions on Chinese imports or investment. China has recently expanded its legal and regulatory toolkit in ways that could be used to respond to EU de-risking measures. Relevant instruments include the Measures for Blocking Improper Extraterritorial Application of Foreign Laws and Measures, regulations on industrial & supply-chain security and rules governing outbound investment. Together, these instruments give the authorities greater scope to challenge foreign measures that China considers discriminatory, extraterritorial or harmful to its commercial interests.

China has already invoked its anti-extraterritoriality framework twice in response to EU Foreign Subsidies Regulation investigations in 2026, for investigations into Nuctech on 15 May and JD.com on 19 August. The resulting orders prohibit Chinese entities from complying with specified EU information requests without authorisation. Beijing's position is that foreign authorities may investigate commercial activity within their own jurisdictions, but demands for information or compliance within China can constitute improper extraterritorial application of foreign law. These cases indicate a greater willingness by China to use its domestic legal framework constrain, EU investigations into Chinese firms.

Supply chain tools to raise the costs of EU de-risking

China has not yet used its industrial and supply-chain security regulations. However, these rules could potentially authorise countermeasures against conduct deemed to disrupt Chinese supply chains or harm China's industrial security. In principle, such measures could restrict transactions, trade, investment or commercial cooperation involving Chinese entities. This could become relevant if European companies materially reduce sourcing from China in response to EU resilience requirements, procurement rules or other de-risking policies.

China could also use outbound-investment policy to restrict or discourage Chinese investment in European manufacturing. This would be particularly consequential if the EU wants to attract Chinese investment as part of local-production, supply-chain resilience or clean-technology objectives. Any Chinese restrictions on investment in Europe would complicate the EU's attempt to combine reduced import dependence with localised production by Chinese firms. However, these tools would involve costs for China as well, including reduced access to European markets and technologies and will therefore more likely be used selectively rather than applied broadly.

Export controls remain a major China leverage

China could also tighten or reimpose export controls on strategically important inputs. It has already used export restrictions and licensing requirements for some products related to critical minerals, rare earths and select battery technologies & components since 2023. Under the US-China trade truce agreed in October 2025, China suspended the application of its 0.1% affiliate rule relating to critical mineral export controls for one year. This suspension is scheduled to expire on 10 November unless it is extended, creating a potential source of renewed uncertainty for global supply chains.

The EU remains highly dependent on Chinese imports in several strategic sectors, including critical minerals, batteries, permanent magnets and drones. China could therefore use export-control measures to raise pressure on European industries that rely on these inputs. Chinese authorities may also add European entities to export-control or other restrictive lists. On 24 July, Beijing placed 14 EU defence-related firms on a restrictive list in response to the EU's latest Russia-related sanctions package targeting Chinese entities. Such listings can restrict access to controlled, dual-use Chinese-origin goods and technologies.

VAT-rebate reform signals modest domestic adjustment

China has also taken some steps to address criticism of subsidised exports, excess capacity and domestic "involution" or excessive competition. In January 2026, Beijing announced changes to VAT export rebates, effective from 1 April, for selected industrial products. Export rebates were eliminated for more than 80 categories of industrial materials, including steel, PVC, industrial chemicals and solar photovoltaic products. Rebates for batteries, including lithium-ion batteries, were reduced from 9% to 6%, with elimination scheduled for 1 January 2027.

These measures could modestly reduce the price competitiveness of selected Chinese exports and signal that Beijing recognises concerns about low-margin competition. However, the reforms are unlikely to address the broader structural concerns highlighted by the EU.

- VAT eliminated: 80+ categories of industrial materials (including steel, PVC, and industrial chemicals) and solar/photovoltaic (PV) products
- VAT reduced: batteries (including lithium-ion) from 9% to 6%, to be eliminated 1 January 2027

CNY valuation debate: perception vs reality

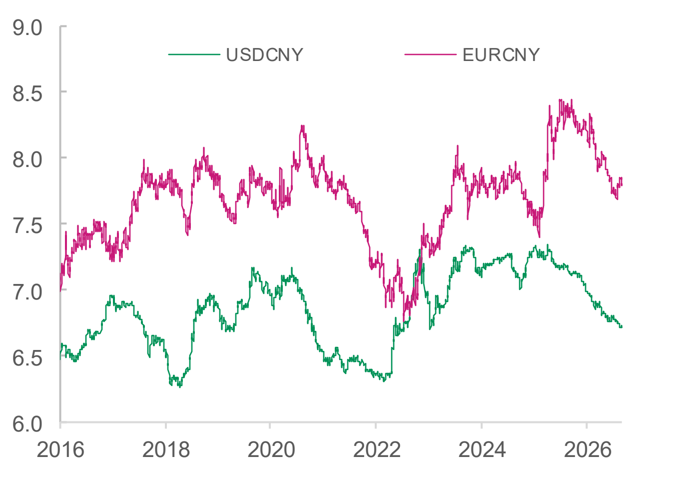
A secondary but increasingly prominent debate in Europe is whether the CNY is deliberately undervalued, giving Chinese exporters a structural competitive advantage. The IMF's External Balance Assessment in July estimated that the CNY REER was undervalued in a range of 12.1-20.7%. EU politicians frequently cite a higher 25-30%.

The CNY has been Asia's strongest-performing currency in 2026. It appreciated 6% against the USD over the past 12 months (4% in 2026 alone), bringing USD/CNY to around 6.72 currently – its lowest level since 2023. The CNY's outperformance reflects a resilient trade surplus (USD1.2trn rolling 12-month surplus as of July 2026), sustained net FX settlement (USD289bn YTD July 2026), and a supportive but managed policy stance from the PBoC that remains wary of excessive CNY strength. In REER terms, the CNY has rebounded 7.6% since mid-2025 after a dip to the lowest level in more than 14 years, indicating that the PBoC has become more willing to tolerate gradual CNY appreciation and to prevent a further deepening of perceived undervaluation.

German Chancellor Friedrich Merz called for a "Plaza Accord" 2.0 to establish a coordinated multilateral effort to pressure CNY revaluation. However, we do not expect Beijing to target a rapid closure of the valuation gap estimated by the IMF or cited by Western policymakers. China's still-negative yield differential against those major developed economies and subdued domestic macro backdrop argue for a measured adjustment of the CNY. Lower Chinese yields relative to global yields continue to weigh on capital flows, while weak domestic demand and lingering deflationary pressure remain genuine headwinds for the CNY. The PBoC must balance any external pressures for a stronger CNY against the need to maintain stable domestic financial conditions to accommodate domestic demand recovery and reflation process. Accordingly, although the broad direction signals a stronger CNY, the magnitude and speed of further appreciation is unlikely to be aggressive.

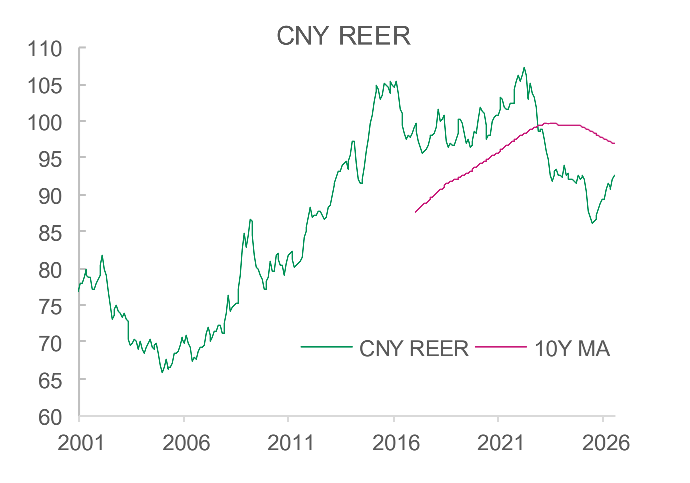
ECB President Christine Lagarde instead supports a multilateral G7 dialogue on "excessive imbalances including a currency aspect". Other European policymakers similarly favour engagement with China before considering coordinated action with economies such as Japan and Korea, which also face intensified competition from Chinese exports. This points to dialogue, market-access negotiations and targeted industrial-policy measures as the more likely initial policy response. A tariff-based approach would likely be pursued to partially offset China's export price advantage but could trigger Chinese countermeasures.

CNY strengthening against the USD & the EUR in 2026



Source: Bloomberg, Crédit Agricole CIB

Climb in CNY REER points to narrowing undervaluation



Source: SAFE, Crédit Agricole CIB

Increasing trade investigations into Chinese exports

Current EU policy often imposes anti-dumping or countervailing measures against Chinese goods. Between 1998 and 2025, global economies initiated over 1,500 anti-dumping or countervailing duty investigations against Chinese goods, according to the WTO. After a record 206 investigations in 2024, a further 161 were initiated in 2025. The pace of cases has increased notably since 2023 as governments respond to the perceived "China Shock 2.0", characterised by rising Chinese manufactured exports, excess capacity and alleged state support. The US has initiated the largest number of investigations since 1998, at 284, followed by India with 246 and the EU with 138.

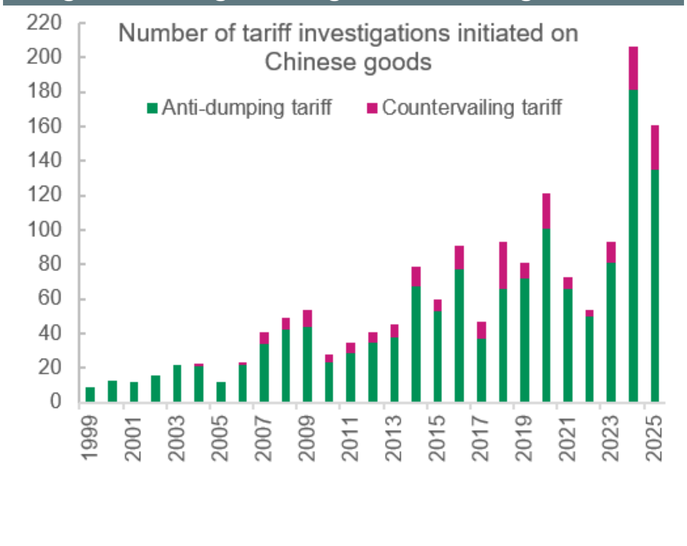
Investigations have been concentrated in base metals, including steel and aluminium, chemicals, machinery & electrical equipment and plastics. These sectors are economically and politically sensitive because they are important inputs into manufacturing supply chains and strategic industries. Anti-dumping measures address imports deemed to be sold below normal value and to cause injury to domestic producers, while countervailing duties address imports benefiting from actionable subsidies. In practice, both instruments have become increasingly important elements of governments' broader response to Chinese industrial capacity and export competitiveness.

Trends in EU anti-dumping and countervailing investigations/duties

Base metals and chemicals account for 36% and 26%, respectively, of EU trade investigations involving Chinese goods. These sectors are important inputs into European manufacturing, including clean-energy technologies, automobiles, aerospace, agriculture & pharmaceuticals, and are therefore particularly exposed to concerns over import competition and supply-chain risks.

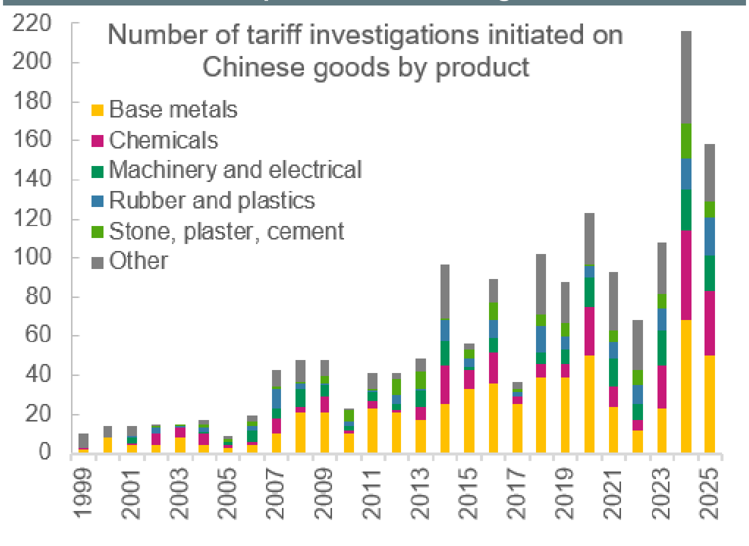
In H126, the EU imposed preliminary or definitive anti-dumping duties on more than a dozen Chinese product categories, with chemicals accounting for a large share of these cases. The EU may also consider extending its trade-defence scrutiny from BEVs to PHEVs, which currently face the standard 10% EU import tariff but are not subject to the additional countervailing duties applied to China-made BEVs. Chinese manufacturers (like BYD or Chery) captured 34% of the European PHEVs sales in June 2026. Markets expect new duties to mirror those currently imposed on full EVs, ranging from 17.0-45.3%.

Surge in investigations against Chinese goods



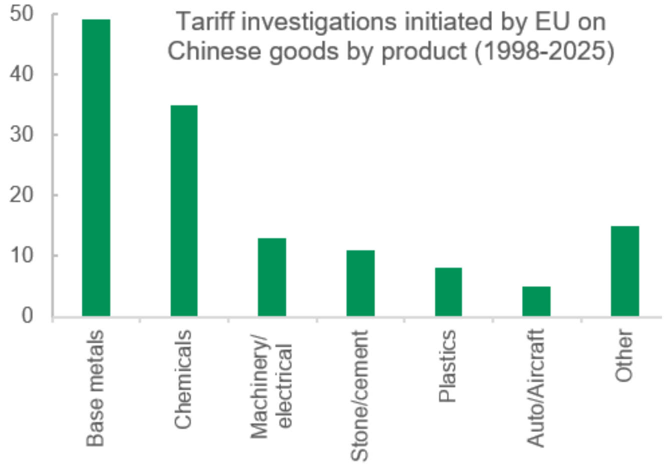
Source: WTO, Crédit Agricole CIB

Base metals make up 37% of all investigations



Source: WTO, Crédit Agricole CIB

EU seeks to shield domestic industrial sectors



Source: WTO, Crédit Agricole CIB

2026 new EU anti-dumping duties on China

Date	Product	Duty	Type
Jul 26	Sodium benzoate	57.6%-116.4%	Provisional
Jul 26	Polyamide yarn	60%-67.7%	Definitive
Jul 26	Car/lorry tyres	4.3%-45.3%	Definitive
Jun 26	1,4-Butanediol (BDO)	105.6%-113.7%	Definitive
May 26	Alkyl phosphonic acids	182.9%-219.4%	Definitive
May 26	PET spunbond	40.5%-67.4%	Provisional
May 26	Adipic acid	29.1%-42.3%	Definitive
Apr 26	Pea protein	42.6%-50%	Provisional
Mar 26	Phosphorous acid	122.80%	Definitive
Feb 26	Benzyl alcohol	52.6%-71.2%	Provisional
Feb 26	Valine	31.3%-53.8%	Definitive
Feb 26	Steel cylinders	57.7%-90.3%	Definitive
Feb 26	Candles	56%-60%	Definitive
Feb 26	Sweetcorn	31%-54.3%	Definitive
Jan 26	Fused alumina	88.7%-110.6%	Definitive

Source: WTO, Crédit Agricole CIB

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