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Navigating a New Functional Model for EU-China Relations: Rebuilding Trust and Enabling Cooperation

By

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Abstract

The main goal of this article is to present a new model for mutual relations between the European Union and China. This primarily concerns rebuilding trust and enabling further development of cooperation. The EU is China's largest export market, and China currently ranks second among Europe's key trading partners. Foreign trade with China dwarfs all other EU trade relations with developing Asian countries. Disrupting these relations would have significant consequences for sales, economic growth, and employment. It should be emphasized that economic growth in China is generally favored in the context of military expansion. Thanks to new investments, the Chinese state can transform its position through industrial expansion in the domestic market and maintain it through international trade. China is particularly sensitive to the benefits of intensive growth and will not be inclined to disrupt its existing economic development, which is crucial to its anticipated success. China is currently less concerned about criticism of its autocratic system from Western countries, but the Chinese people have become more nationalistic and potentially pose a greater threat to trade relations. Commercial interests within autocratic regimes create political dilemmas. EU-China trade is becoming increasingly one-sided, which is not easy to maintain. It is in the interests of both the EU and China that trade relations are sustainable and fair, benefiting current and future generations. The EU hopes to explore other sectors of bilateral cooperation and ways in which the EU and China can address global challenges. The European Union should realistically assess the extent to which it can magically change the Chinese government's views and policy decisions. Leaders in China and the European Union should find a new normal—a functional relationship that benefits both sides.

Keywords: *European Union, China, Trade Political Relations, Technical Progress, Foreign Trade Policy, New Functional Model Relationship, Inflection Point.*

1. Introduction

The European Union's trade with China dwarfs all other EU trade relations with Asian developing countries. It is worth noting that trade interests in autocratic regimes pose specific political dilemmas (Crookes, 2013). On the one hand, Western governments, including the EU, must express their criticism and adapt it to the situation. On the other hand, they must defend their trade interests. Moreover, their overall policies must be balanced to avoid diplomatic brinkmanship, which risks the opposite effect: slowing down or even reversing ongoing reforms (Rosecrance, 2006). Given the growing global uncertainty (Zeneli, 2025), it has become particularly important for the EU and China to find ways to deepen their bilateral economic cooperation. The EU and China share a shared responsibility for maintaining a rules-based global free trade system and other forms of multilateral cooperation (Rodrik 1995, Rodrik 1998, Rodrik 1999). Both sides can deepen cooperation in areas such as trade and investment; infrastructure; energy, the environment; science, technology, innovation and industrial cooperation; financial services; labor exchange; and global governance (Rodrik 1995, Rodrik 1998, Rodrik 1999). Thanks to new investments, China can transform its position through industrial expansion in the domestic market and maintain it through international trade (Rosecrance 2006). It is expected that regardless of whether further trade agreements are concluded between the two partners, services will be the subject of greater trade, and trade policy will have to adapt to changes in the organization of global transformation (Rodrik 1995, Rodrik 1998, Rodrik 1999). China can continue its development by specializing in innovation, especially in electronics, and increasingly in

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services and the knowledge-based economy (Puślecki 2021). At the same time, it should be emphasized that China is particularly sensitive to the benefits of intensive growth and will not want to disrupt important economic arrangements that have been crucial to its success (Guanguyuan 2021). Trade between the EU and China is growing unilaterally and clearly unsustainable (Gaca 2025). The EU and China therefore have a shared interest in ensuring that trade relations are sustainable for the benefit of current and future generations. Consequently, the European Union must realistically assess the extent to which it can change the Chinese government's perspectives and policy choices. At the same time, Chinese and European leaders must find a new normal, a functional relationship that will benefit both sides.

2. Research and Methodology

The main research objective of this article was to conduct a comprehensive analysis of the trade, economic, and political relations between the European Union and China, as well as contemporary geopolitical challenges (Puślecki, 2023). China is expected to significantly feel the consequences of the trade war due to increased tariffs across all development indicators, including prosperity, GDP, industrial employment, and foreign trade (Puślecki, 2025). It was also emphasized that although China will be significantly affected by the crisis, the costs should be balanced and should not significantly harm the Chinese economy (Kugler, 2006). Both quantitative and qualitative research methods were used for analytical purposes. The main research method used in the analysis was the scientific research method, which decomposes the whole (individual elements, their sets, and various phenomena) using logical abstraction. The analogy method, which involves finding similarities and differences between the studied elements, the documentation method, various statistical methods, and other descriptive statistics and forecasting methods were also employed. Deductive forecasting was also employed.

3. Discussion

3.1 The European Union's Strategic Relationship with China

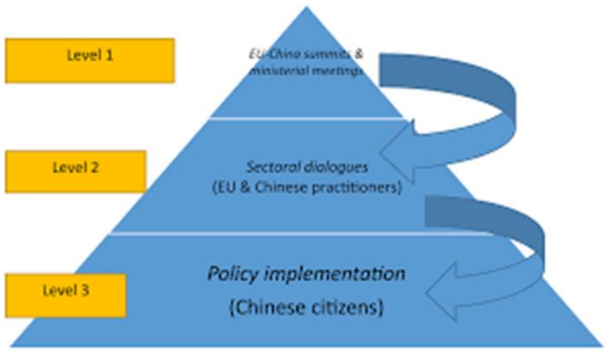
In the strategic relationship between the two trading partners, reducing the EU's high trade deficit with China is a priority. This deficit largely reflects the substitution of other countries' exports to the EU. In other words, China's growing exports to the EU have been accompanied by a decline in exports to the EU from other emerging countries. For example, in a typical sector of EU-China trade, namely machinery and transport equipment, China's trade surplus with the EU has increased by €50 billion since 2000. However, imports of goods in the same category to the EU from other emerging economies have fallen by almost the same amount over the same period. Similar trends are also evident in other trade categories: China is simply substituting

other trading partners (Figure 1). Over the past decade, China has become the center of Asia's trade with the

Source: GIS Reports 2026

Figure 1. The EU cooperation with China

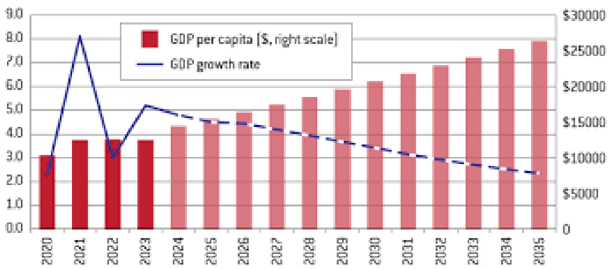
EU. Supply chains within international companies have been fragmented to take advantage of lower labor costs and specialization in various countries. A large portion of China's exports are therefore import-based—and these imports are essential to China's exports. Processing trade, which in economic jargon means refining an imported good before re-exporting it, is a key element of China's export-oriented export development model and is estimated to account for between half and two-thirds of total Chinese exports. The rise in Chinese exports to Europe, therefore, does not equate to a decline in European production. In fact, China's typical export to the EU comes from a sector in which the EU has long lacked a comparative advantage, meaning that the EU could only resume its own production at the expense of its own well-being (as it would have to cease producing some of its current output) (Figure 2).



Source: Cambridge University Press 2026

Figure 2. Cooperation between the EU and China

Moreover, globally oriented companies in Europe have gained better opportunities to increase their competitiveness through trade with China (Figure 3). Stronger demands from China to correct the deficit (Figure 4) through trade or macroeconomic measures in Europe



Source: Bruegel 2026

Figure 3. Updating the EU strategy on China co-existence

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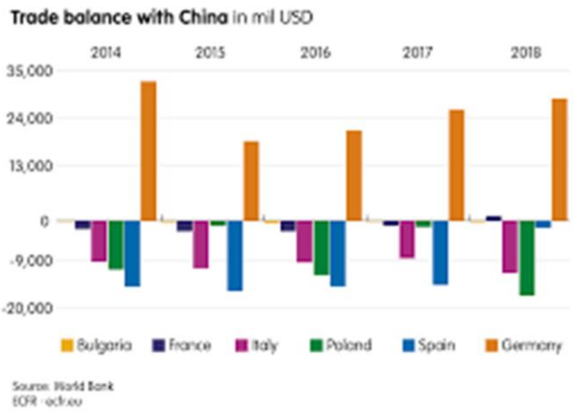
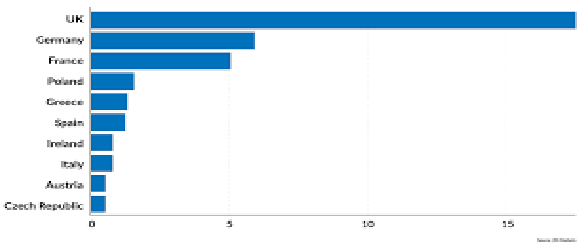


Source; Word Bank 2026

Figure 4. EU trade balance with China in mild USD

implementing these measures will lead to a decline in welfare for both sides. For example, if China were forced to appreciate its currency by 30%, as has been suggested, the main effect would be that European consumers would have to pay more for fewer goods. The deficit itself would not change significantly. Furthermore, the resulting higher cost of capital goods would increase the price of European exports. Second, China and the EU should develop a roadmap for new dialogue and negotiations on a Partnership and Cooperation Agreement (PCA), which would facilitate a "trade-off" approach to trade and investment opening (Puślecki, 2025). Such a goal is important. Inevitably, EU-China talks must begin with the basics: China's WTO commitments. The EU has legitimate trade concerns, which, to some extent, stem from China's accession to the WTO and its difficulties in fulfilling its commitments. These concern China's further tariff liberalization and enforcement of intellectual property rights (IPR) (Erixon and Messerlin 2009).

It is important to emphasize that the EU cooperates with China in four main policy areas: global governance, trade and investment, technical assistance, and political and social change. Unfortunately, most of these areas are marked by bilateral difficulties. The growing distrust and growing hostility that has become evident in bilateral relations threaten to undermine the progress already achieved in some areas, while hampering prospects for reaching meaningful agreement on numerous important issues where agreement remains elusive, even despite ample evidence of continued interdependence and trade and investment cooperation. There is ample evidence of increasing economic interdependence (Figure 5).



Source: GIS Reports 2026

Figure 5. European countries' cooperation with China

It should be emphasized that while the eurozone's difficulties have certainly illustrated the shifting balance of power between some Western economies and China, the image of a fallen and helpless EU, playing the role of suppliant to a resurgent Middle Kingdom that economically dominates the world, is overly simplistic and one-dimensional, failing to capture the complexity of the economic interconnectedness between the two sides and simultaneously ignoring the indications that China is by no means immune to the side effects of the global decline in demand and debt-induced instability. During the development of mutual economic and political relations, the EU has become China's largest trading partner, and the country is currently the second most important recipient of EU trade, after the United States (Kugler, 2006). A significant recent trend, in addition to the growth in bilateral trade, which reached €428 billion in 2011, is the significant increase in EU goods exports to China, which increased by 20% in 2011. This key export relationship provides China with a significant source of advanced machinery, transportation equipment, and chemicals, as well as a range of knowledge-based services [9]. Bilateral trade relations are undoubtedly strong and offer significant opportunities for expansion and further development. Furthermore, according to Chinese estimates, in 2009, over 33,000 European enterprises operated in China, providing jobs, technical expertise, and management skills to Chinese employees, and generating an estimated €190 billion in total sales, which undoubtedly cushioned the effects of the recession in their European headquarters. However, China's export-driven growth model was undermined during the global recession by shortfalls in external demand, insufficiently compensated by domestic rebalancing, significantly impacting business confidence and stability in previously prosperous regions such as Wenzhou and Guangzhou.

3.2 Rebuilding Trust and Enabling Cooperation

It is important to emphasize that, on the occasion of the 50th anniversary of the establishment of bilateral trade and economic relations between the EU and China, the summit on July 24, 2025, provided an opportunity for talks with China at the highest level and to underscore the importance the EU attaches to fair and balanced relations with China. The summit addressed the state of bilateral relations and global geopolitical challenges, including Russia's aggression against Ukraine (Zeneli, 2025). The leaders discussed ways to ensure more balanced, reciprocal, and mutually beneficial trade relations. The EU also advocates the need to protect and maintain multilateralism and a rule-based international order (Zeneli, 2025).

According to Chinese policymakers, the prospects for China's further economic development are positive, despite the trade war initiated by President Donald Trump, and the country's growth target has been maintained at 5%. However, to achieve this level by 2024, China needed a massive trade surplus of $1 trillion. China's foreign trade is currently threatened by a more protectionist external environment. It's worth noting that a more relaxed fiscal policy has led to a

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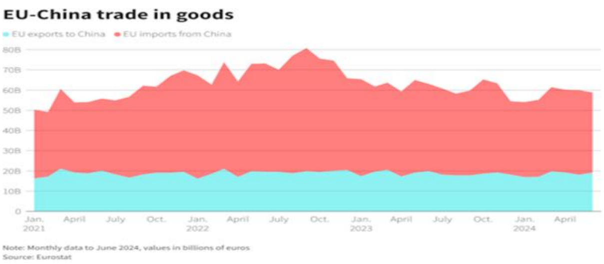
reduction in the official deficit from 3% to 4% of GDP, the highest level on record, and to a less restrictive monetary policy. However, no stimulus measures have been announced. This represents a rather conservative response to the external environment. Meanwhile, China's inflation target has been lowered from 3% to 2%, but the reality is that China is already feeling the negative consequences of prolonged deflation, which the government is clearly unprepared to combat.

These issues may stem from the need to maintain competitiveness in export markets, even at the expense of a deflationary environment. Export prices fell in 2024 and continued to decline in 2025. Even consumer prices in China have fallen since February 2025. While lowering prices to compete is not without risk (Japan's experience in the 1990s is a good example), President Trump's tariffs and the persistent weakness of the dollar leave China little room to maneuver.

It is worth noting that China has also confirmed that it will continue to increase production as a growth driver—it does not intend to correct excess capacity by reducing supply. Since the increase in the budget deficit appears to be aimed at supporting local government debt restructuring rather than stimulating domestic consumption, and the Chinese labor market remains weak due to low wages and stagnant disposable income, significant consumption growth in China cannot be expected in 2025 (Gaca 2025). Therefore, China will need to continue pushing exports to reduce excess capacity (Puślecki, 2023). For the EU, these trends are worrying, as Chinese products could further flood the European market, and European companies in China will face even greater competition from Chinese players, given the strong deflationary pressures. China also intends to increase its independence in key technologies, including artificial intelligence (AI), quantum computers, and semiconductors—areas where China still lags the US (Wu 2020). A large-scale US investment program, such as the Stargate AI project, has prompted Beijing to direct more resources to AI and quantum technologies, and China appears significantly more credible after the launch of the DeepSeek AI platform in January 2025. The EU and China together account for almost 30% of global trade in goods and services and over a third of global GDP. In 2024, trade in goods and services between the EU and China exceeded €845 billion. In 2024, the EU exported €213.2 billion worth of goods to China and imported €519 billion worth of goods.

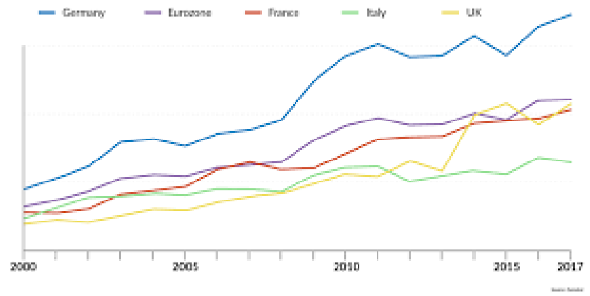


Source: Eurostat 2024

Figure 6. EU-China trade in goods

According to EU data:

- The Netherlands (€109 billion), Germany (€96 billion), and Italy (€50 million) were the three largest importers of goods from China to the EU in 2024.
- The three largest EU exporters to China were Germany (€90 billion), France (€24 billion), and the Netherlands (€24 billion).
- Only Ireland and Luxembourg recorded trade surpluses with China in 2024. The remaining 25 EU countries recorded trade deficits.
- Exports of pharmaceuticals and motor vehicles decreased by €5 billion and €4.9 billion, respectively, between 2023 and 2024.



Source: GIS Reports 2026.

Figure 7. The EU needs to rethink its cooperation with China

EU leaders pushed for a more balanced relationship with China at their summit with President Xi Jinping in the Chinese capital on July 24, 2025, as the bloc runs a massive trade deficit of around €300 billion with the Asian giant. It is important to note that European leaders pressed for a rebalancing of trade at the important bilateral EU-China summit with President Xi Jinping on July 24, 2025. Focusing on trade in their opening speech, they called for concrete progress in addressing the EU's massive trade deficit with China (Figure 8). "As our cooperation deepens

Source: Bruegel 2026

Figure 8. Updating the EU strategy on China co-existence.

have the imbalances" said European Commission President Ursula von der Leyen. "We have reached a turning point. Rebalancing our bilateral relations is essential. "Because for relationships to be sustainable, they must be mutually beneficial," President Ursula von der Leyen also said (Garcia-Herrero, 2025). These imbalances arise amid global financial uncertainty, wars in the Middle East and Ukraine, and the threat of US tariffs. Neither the EU nor China is likely to yield

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on the key issues dividing these two economic giants. It is worth noting that European Council President António Costa called on China to use its influence with Russia to end the war in Ukraine. This call, long repeated by European leaders, will likely remain unanswered.

It should be noted that top European Union officials met with Chinese leaders in China on July 24-25, 2025, amid strained relations, weak preparatory engagement, and unresolved trade tensions. These factors suggest that any significant breakthroughs are unlikely, despite the summit marking the fiftieth anniversary of diplomatic relations between the EU and China.

The most likely outcome was a continuation of the stagnation of the last few summits. The 2020 summit, held amid the COVID-19 pandemic, was characterized by the EU's acknowledgment that China was not only a partner but also an economic competitor and systemic rival. Furthermore, the pandemic exposed the EU's excessive reliance on China for strategic goods and highlighted China's assertive "wolf warrior diplomacy," including the practice of disinformation and coercion. Despite the EU's tough tone, China managed to push negotiations toward concluding the EU-China Comprehensive Agreement on Investment (CAI) by the end of 2020, as scheduled.

It should be emphasized that after a year-long hiatus, the 2022 summit, just months after Russia's invasion of Ukraine, was more difficult than ever. EU ratification of the CAI was suspended after China imposed sanctions on several Members of the European Parliament, academics, and think tanks. China also refused to condemn Russia's aggression. At the same time, the EU was concerned about the growing bilateral trade deficit. This issue dominated the summit, which ended without a joint communiqué.

Difficulties continued at the 2023 summit. China's role in enabling Russia's invasion of Ukraine became even more evident, and the EU's trade deficit with China reached €400 billion, a consequence of unfair Chinese industrial policies (Puślecki 2025). Chinese localization requirements and cross-border data issues also topped the EU's list of concerns ahead of the summit. China, on the other hand, criticized the EU's carbon border adjustment mechanism and ongoing EU trade investigations into Chinese products. As a result, another summit was held without a proper agreement or joint communiqué. It's worth noting that, after another hiatus in 2024, the 2025 summit took place in the shadow of President Donald Trump's return to power and his constant threats to the transatlantic alliance. This significant change in circumstances prompted some European leaders to consider the need for the EU to reform its relations with China. However, by 2025, there were no signs of any new realignment.

First, the 2025 summit was scheduled to be held in Brussels, but President Xi Jinping declined the invitation, so it had to be held in China. Furthermore, instead of attending the summit in person, Xi apparently decided to send Premier Li Qiang as China's highest representative. Preparations for the summit were also hampered, as both the EU and China were occupied with negotiations with the United States, meaning that insufficient time and energy were devoted to addressing the issues between the two parties.

Other negative signals include China's imposition of export controls on rare earth minerals, essential raw materials for Europe's electric vehicle (EV), defense, and renewable energy industries. The European Commission remains frustrated by China's lack of reciprocity and market access, its continued discriminatory practices against European companies, and persistent barriers to fair competition. Consequently, the EU refused to hold the traditional High-Level Economic and Trade Dialogue with China before the summit—a clear signal of frustration and skepticism.

From China's perspective, the EU has refused to lift tariffs on Chinese electric vehicles, which currently include anti-subsidy duties of up to 35.3%, in addition to the 10% base tariff, which China views as protectionist. As part of an offensive to persuade the European Union to soften its tone, China lifted sanctions on some members of the European Parliament in April 2025, hoping to revive the CAI. However, China also issued further threats, initiating new investigations into European cognac, dairy products, and beef. China's goal was to eliminate EU tariffs on electric vehicles, or at least agree on minimum price commitments, and to resume negotiations on a CAI or some other form of trade and investment agreement.

It therefore seemed obvious that the EU-China summit on July 24-25 would once again end without reaching a major agreement. The fact that this was the fifth year without constructive dialogue between the EU and China should be interpreted as a structural reality, not a temporary problem – especially since the difficult EU-US relationship could have fostered a resumption of EU-China dialogue. However, it was predicted that, unfortunately, this opportunity would once again be squandered (Garcia -Herrero, 2025).

It's worth noting that the EU and China have often clashed over issues such as human rights and political repression in places like Hong Kong, Tibet, and Xinjiang, but this relationship changed in 2021 when the EU imposed sanctions on Chinese officials for their oppression of Muslims belonging to the Uyghur ethnic minority. China responded with its own sanctions against 10 Europeans, including members of the European Parliament and several think tanks.

Beijing lifted sanctions on European MEPs in April 2025 as a gesture of goodwill ahead of the EU-China summit, but other political divisions remain related to China's ongoing and close relationship with Russia since Moscow launched a full-scale invasion of Ukraine in 2022. Beijing is also widely perceived as keeping Russia afloat in the face of ongoing international sanctions, particularly by purchasing Russian energy supplies. The EU also accused China of circumventing the arms embargo by selling Russia "dual-use" goods that can be used for both civilian and military purposes. China defended its actions, claiming a long-standing desire for "negotiations, a ceasefire, and peace" in Ukraine.

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It's worth noting that the European Union continues to scrutinize Beijing's economic ties with Russia, imposing sanctions on two Chinese banks for the first time in July 2025 as part of its latest package of sanctions against Moscow aimed at ending the war. Five companies based in China were also included on the EU sanctions list. China's Ministry of Commerce stated that the sanctions on Chinese banks and companies had "seriously damaged" trade and economic relations with the EU and threatened to take its own action against the EU. William Yang, senior analyst for Northeast Asia at Crisis Group, a Brussels-based nonpartisan think tank, said these issues would cast a shadow over the 2025 EU-China summit. “Beijing views its relationship with Russia as a key interest amid its ongoing rivalry with the United States and continues to deny EU criticism that it has been a factor in Russia’s war with Ukraine,” Yang said. “Given these fundamental contradictions, the chances of any significant breakthrough at a new summit in 2025 were therefore unlikely.”

It's worth noting that, in addition to the trade imbalance and the war in Ukraine, von der Leyen and Costa were scheduled to address Chinese cyberattacks and espionage, restrictions on rare earth metal exports, and the human rights situation in Tibet, Hong Kong, and Xinjiang. "Europe was very careful not to antagonize President Trump even further, perhaps too closely with China, so all of this didn't make this summit any easier," said Fabian Zuleeg, chief economist at the European Policy Centre. "It will be very difficult to achieve anything concrete."

At the same time, China's stance toward the EU hardened, despite several concessions, such as suspending sanctions against European lawmakers who criticized Beijing's human rights record in Xinjiang, a region in northwestern China home to Uyghurs. China believed that its aggressive stance had helped it weather the storm of US tariffs. Barkin said Beijing's bold tactics, which were worked in Washington, should work for other Western powers. "China emerged from the trade confrontation with Trump emboldened. This has reduced its willingness to make concessions to the EU," he said. "Now that Trump has withdrawn, China sees less need to seek European support."

It's worth noting that China and the EU have numerous trade disputes across various sectors, but no dispute is as acute as their massive trade imbalance. Like the United States, the 27-nation bloc runs a massive trade deficit with China—around €300 billion by 2024. It is heavily dependent on China for key minerals, which are also used to produce magnets for cars and various other devices (Puślecki 2025). When China restricted the export of these minerals following US President Donald Trump's tariffs, European automakers protested (Puślecki 2025). The EU imposed tariffs on Chinese electric vehicles to support its own carmakers, offsetting Beijing's heavy subsidies to the automotive industry. It's important to note that China would like to see these tariffs removed.

China's rapid growth in the European market has sparked concerns that Chinese cars will ultimately threaten the EU's ability to produce its own green technology to combat climate change. Business groups and trade unions also feared that the jobs of 2.5 million auto workers, as well as 10.3 million people whose employment indirectly depends on electric vehicle production, could be at risk.

It's worth noting that China has also launched investigations into European pork and dairy products and imposed tariffs on French cognac and Armagnac. It also criticizes new EU regulations on the sale of medical equipment and fears new regulations could further harm the Chinese industry, said Alicia García-Herrero, a China analyst at the Bruegel think tank (Garcia-Herrero, 2025).

In June 2025, the EU announced that Chinese medical equipment companies would be excluded from all government purchases worth more than €5 million (almost $6 million). This measure aims to encourage China to stop discriminating against EU companies, the European Union announced, accusing China of creating "significant and recurring legal and administrative barriers in its public procurement market." European companies in China are seeing significant declines in profitability. However, the EU has an advantage because China still has to sell goods to the EU, García-Herrero said (Garcia-Herrero, 2025).

The latest package of sanctions against Russia also targeted Chinese companies, including two major banks, which the EU accused of links to the Russian war industry. The Chinese Ministry of Commerce said it was "deeply dissatisfied and firmly opposed" the listing and promised to take "necessary measures to resolutely protect the legitimate rights and interests of Chinese enterprises and financial institutions." Xi and Putin maintain a close relationship, which is also reflected in the relations between the two countries. China became a major recipient of Russian oil and natural gas and a source of key technologies after the West imposed broad sanctions on Moscow.

In May 2025, Xi attended Victory Day celebrations with Putin in Moscow but did not attend a similar EU event in Brussels celebrating the end of World War II. It was believed that Von der Leyen and Costa would pressure Xi and Li to reduce their support for Russia, but likely with little effect. Torn between a belligerent Washington and a hardline Beijing, the EU has increasingly openly pursued new alliances on the international stage, signing a trade pact with Indonesia, showering Japan with praise, and developing trade agreements with South America and Mexico (Puślecki, 2025). “We also know that 87% of global trade is with other countries—many of them seeking stability and opportunity. That’s why I’m here on this visit to Japan, to deepen our ties,” von der Leyen said in Tokyo during the EU-Japan summit en route to Beijing. “Both Europe and Japan see a world where protectionism is on the rise, weaknesses are weaponized, and every dependency is exploited (Puślecki 2025). That’s why it’s normal for two like-minded partners to join forces to strengthen each other.” Promoting ties with the EU thus constituted one-third of Japan's new military doctrine for 2025, after maintaining defense ties with the United States and investing in

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indigenous capabilities such as missiles, satellites, warships and drones.

3.3 Global Geopolitical Challenges

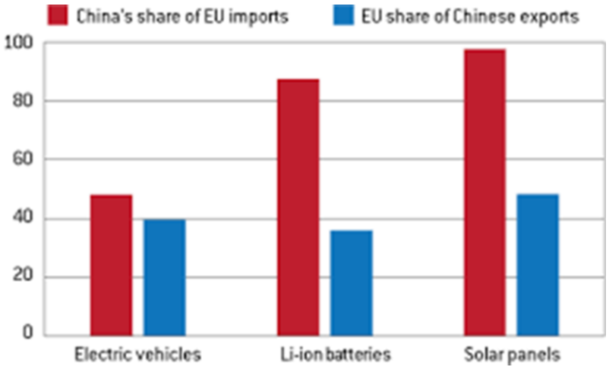
It's worth emphasizing that the European Union's trade deficit with China rivals that of the United States for many reasons, but the path to it leads primarily through the automotive sector. On the export side, the European supply chain supports thousands of smaller companies across the EU, whose components go into vehicles exported primarily from Germany. On the import side, the EU's rapid transition to renewable energy has made the continent at least as dependent on Chinese wind and solar components as it was on Russian fossil fuels. The dramatic increase in reliance on American liquefied natural gas (LNG) is being portrayed as a temporary transition.

Everything indicates that the EU and China will confront US President Donald Trump's tariff war separately, not together. EU frustration with Chinese overcapacity, Chinese support for Russia in Moscow's war with Ukraine, and Beijing's growing ties with EU member states Hungary and Greece contributed to this year's tariff war, which received significantly less publicity than the US tariff war (Puślecki, 2025). From electric bikes to medical equipment to electric vehicles (EVs), Brussels is using Trump's playbook to try to get Beijing's attention. These efforts have so far been unsuccessful.

Beyond economic considerations, the geopolitical negotiating strategies of both sides also stand in the way of a fruitful summit on July 24, 2025. China likely won't welcome an interlocutor or partner; it's trying to project a signal of independent power to the world, despite its uncertain economic situation and shrinking access to wealthy, developed economies. Ironically, the EU is pursuing the same goal. Both China and the EU want to position themselves as home to the second-best reserve currency and a rational alternative to the United States. Joining forces would weaken each side. At this stage, the best we can hope for are quiet photo ops that will smooth over any potential shortcomings and ensure these strategic rivals continue to cooperate seriously (if not productively) at a high level.

It's worth noting that at the time, it was believed that a more important EU summit, on July 24, 2025, could be held alongside China's regional rival, Japan. According to the European Council, bilateral economic relations account for nearly 25% of global gross domestic product and 20% of global trade. These two Group of Seven (G7) partners share mutually reinforcing commitments to strengthening their leadership in energy transition, sustainable development, advanced manufacturing, technology, and governance through multilateral institutions. Balancing Chinese influence in both Asia and Europe, while resolutely supporting Ukraine, is never far from the agenda of these two strategic partners. It was also believed that real, economically significant agreements and decisions would surely follow the 2025 Tokyo summit, not Beijing.

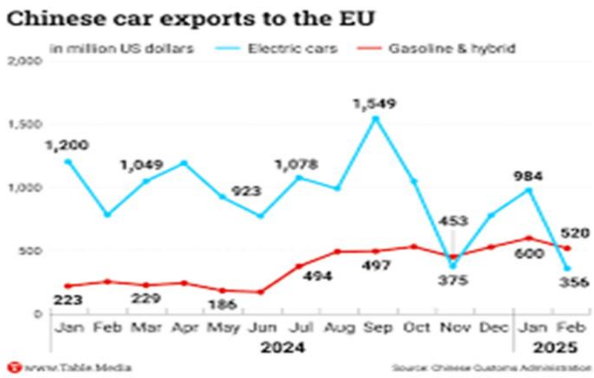
When the EU and China met in Beijing on July 24, 2025, another quiet party took its seat at the table: the United States. It's worth noting that the EU has been trying to forge its own, distinct strategic bilateral relationship with China for at least two decades. However, the result proved less productive from a geopolitical perspective. The crucial weeks leading up to the summit exposed clear challenges. Europe's trade deficit with China rivaled that of the United States in many respects, but the path to this deficit led primarily to the automotive sector (Figure 9).



Source: Bruegel 2026

Figure 9. The EU needs to rethink its cooperation with China

It should be emphasized that China desperately needs the European Union to keep its markets open to Chinese electric vehicles and other goods it produces with overcapacity. With the United States and other major markets closing, the EU is becoming a major export destination for higher value-added goods, especially electric vehicles (Figure 10). Chinese leaders will



Source: Bruegel 2026

Figure 10. Chinese car exports to the EU

be seeking assurances that the European Union will not side with the United States against China or adopt what Beijing calls excessively stringent protective policies (such as tariffs on electric vehicles, which closely mirror Beijing's market-distorting subsidies). China will also seek to quell growing panic in the EU over rare earth export controls. Furthermore, China is trying to find a balance between reassurance and coercion regarding rare earth elements. Chinese officials insist that recent EU shortages are the result of normal bureaucratic adjustments made in China as part of the implementation of its new export control regime and

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that there is therefore no cause for future concern. Meanwhile, Chinese leaders have also suggested that these export controls could become significantly more stringent in the future if the EU adopts policies opposed by China.

China likely already realizes that it will not achieve the mutually beneficial outcome that Chinese leaders initially hoped for. (They attempted to revive the EU-China Comprehensive Investment Agreement, but the EU made clear it preferred to discuss the deteriorating trade balance.) As a result, Beijing likely lowered its expectations for the summit, and it was predicted that it might instead redouble its efforts on bilateral commitments aimed at dividing the block to prevent Brussels from taking more significant trade measures, such as tariffs on electric vehicles.

Beijing previously supported the concept of EU strategic autonomy, in part to drive a wedge between the EU and the United States and weaken transatlantic economic and security relations (Xi Jinping, 2019). At the same time, it seeks to position the EU as a partner, portraying the United States as unreliable. Beijing seeks to boost its reputation within the EU as a responsible global player committed to multilateralism and climate cooperation, while downplaying and softening criticism of its alliance with Russia, aggressive stance towards Taiwan, and ongoing human rights abuses.

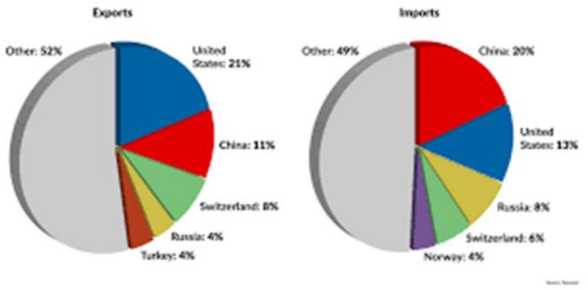
It should be emphasized that in the economic sphere, China's goal is to persuade European leaders to revive the previously abandoned Comprehensive Agreement on Investment, lift EU sanctions and tariffs on Chinese electric vehicles and solar products, and delay other measures aimed at combating industrial overcapacity and state subsidies. In a symbolic gesture of improving relations, the Chinese government lifted sanctions against some members of the European Parliament. Beijing is seeking to buy time and use the dialogue to soften the EU's trade defense and prevent further deterioration of economic relations with the EU (Zeneli, 2025).

The COVID-19 pandemic and Russia's war in Ukraine have sharpened European awareness of the strategic challenge posed by China, but the EU's approach to China remains uneven. These differences stem from ongoing internal debates, both within and between EU member states, regarding the appropriate strategic stance, economic policy, and diplomatic messages towards Beijing. National policies vary depending on the depth of bilateral ties with China, the level of economic and technological dependence, leadership views, public opinion, and tensions between the public and private sectors (Xi Jinping, 2019). While countries such as Lithuania and the Czech Republic have adopted a more critical stance toward China, others, such as Hungary, Spain, and Greece, have advocated a more conciliatory approach, seeking to maintain robust economic relations.

It is worth noting that in recent years, the European Commission has pursued a values-based foreign policy, pushing for sanctions in response to human rights abuses in Xinjiang and Hong Kong, while some EU member states have opposed or weakened these efforts, often under bilateral pressure from Beijing. These divergent priorities reflect the EU's complex political and economic landscape and continue to shape its policy toward China, as well as its position in the broader US-China rivalry (Zeneli, 2025).

3.4 European Union and China at an Inflection Point in 2026

After a very resilient 2025, mostly supported by rapidly growing industrial capacity and exports, the Chinese economy is bound to decelerate in 2026. Such rapid export growth will be hard to maintain in 2026 as the world – not only the US – is becoming more protectionist (Puślecki, 2025). The EU, China's largest export partner, is piling up measures to protect its market from China's



Source: GIS Reports 2026.

Figure 11. The EU needs to rethink its cooperation with China

overcapacity (Figure11). Emerging economies – including neighboring ASEAN but also India – were increasingly worried about growing trade deficits with China. This means that protectionism is to be expected from the Global South even if their room for maneuvering was generally limited, especially for smaller countries (Puślecki, 2025).

China's domestic demand remained weak in 2025 even if China conducted a moderate – but relevant – fiscal stimulus geared mostly towards infrastructure. The lack of relevant fiscal support for private consumption has not helped rebalance the economy in 2025 and there was no reason to believe that this was bound to change. As clearly stated in the draft Five-Year Plan for the 2026-2030 period, China will continue to prioritize production and innovation. The side effect of this is that China's growing imbalances with the rest of the world, Europe included, were here to stay (Garcia-Herrero, 2026).

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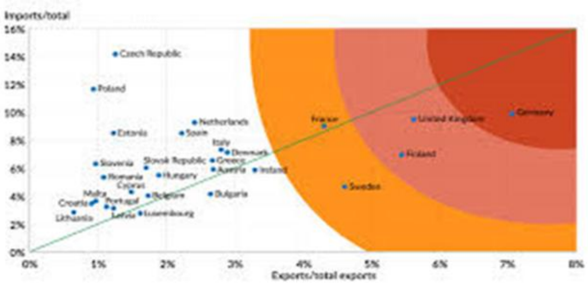
As Brussels dives into the new year, EU–China relations stand at an "inflection point" (Figure 12) driven by deepening.

Source: Next Gen Diplomat-Model Diplomat 12.02.2026

Figure 12. Navigating the EU-China Collision Course

economic competition, geopolitical uncertainty, and EU's remilitarization and reindustrialization efforts. As laid out in the 15th Five-Year Plan (2026-2030), China's priorities in the foreseeable future will center on modernization and innovation, particularly in AI and advanced technology sectors (Garcia-Herrero 2026). However this shift does not imply China's retreat from its vast production (over) capacities in less advanced industries, which remain central to its economic model, and present a great challenge for the EU's market and industry.

Thus, for the European Union, de-risking – not de-coupling (Figure 13)– will remain the guiding principle.



Source: GIS Reports 2026

Figure 13. The challenges of EU-China decoupling

In 2026, Brussels may continue reviewing and sharpening enforcement of instruments such as the Foreign Subsidies Regulation and the Anti-Coercion Instrument to respond to any potential market disruptions and Chinese state subsidies for its companies, as illustrated by the ongoing probes into Chinese platforms and active tariffs on electric vehicles. Trade tensions may further intensify with new measures like a planned EU fixed €3 customs duty on low-value e-commerce parcels from July 1, 2026, aimed at curbing the influx of cheap imports, predominantly from China (Garcia-Herrero, 2026).

At the political level, the EU's stance vis-à-vis China will be shaped not only by Brussels but predominantly by the European Union's largest member states. European Commission President Ursula von der Leyen and French President Emmanuel Macron seem to have recently struck a similar tone: both argue that an "urgent" rebalancing of EU–China relations is needed and that Europe must strengthen competitiveness and innovation, while China should boost domestic demand and encourage investments in Europe. While Macron and von der Leyen's like-mindedness on China may be a good omen, in practice however, the future of EU–China policy will above all depend on Germany. As the EU's largest economy and one of China's most important trading partners, Berlin's approach remains a key variable and one to watch closely in 2026 as the EU seeks to find its way not only vis-à-vis China but also in an international system increasingly shifting away from liberal paradigms toward geopolitical and economic realpolitik.

European climate and industrial goals hinge on materials like neodymium and dysprosium, yet the EU has virtually no domestic rare-earth mining or processing capacity. China dominates globally, accounting for approximately 95 percent of rare-earth oxide production, and supplies around 70 percent of Europe's rare-earth imports (Toth, 2026). As a result, Europe's auto and tech sectors are highly exposed. When China tightened export-licensing requirements in April 2025, rare-earth shipments fell sharply, and several European carmakers were forced to halt production. Moreover, China's control over 85 percent of rare-earth-element (REE) processing and more than 90 percent of high-performance magnet production magnifies its leverage (Toth, 2026).

In 2023, the EU passed the Critical Raw Materials Act, setting ambitious 2030 targets. But permitting remains slow and funding modest. The 2025 ReSourceEU Action Plan aims to mobilize €3 billion, yet tools like joint purchasing and diversification mandates remain optional. For example, Romania's planned rare-earth refinery, designated a Strategic Project under the EU's Critical Raw Materials Act, has stalled amid permitting delays and unresolved challenges related to radioactive by-products such as thorium and uranium. In contrast, Brazil's Serra Verde project, backed by a $465 million loan from the US Development Finance Corporation, successfully renegotiated its long-term offtake agreements to redirect supply away from Chinese buyers and open access to Western markets (Toth, 2026).

The message is clear: Europe's policy ambition outpaces implementation. Without procurement mandates, price support, and faster permitting, Europe's alternative supply chains won't scale in time. In 2026, the contest is not just with Beijing (or the US) – it's within Brussels.

In 2026, Europe's power grids will move from being a neglected security issue to a contested policy battlefield. After years of rapid deployment of Chinese-

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manufactured solar inverters and battery energy storage systems, the assumption that grid digitalization is a purely technical matter is collapsing. Legislators and security authorities are now confronting the reality that these devices are system-relevant, remotely manageable, and often governed by firmware and cloud platforms outside of European control. Several legislative and regulatory measures are already in the pipeline, and debates over restricting or conditioning Chinese solar inverter and storage technologies are likely to intensify. Frictions are to be expected as security and energy objectives increasingly collide. Grid operators and developers worry about cost and deployment speed, while security authorities increasingly argue that resilience cannot be bolted on after deployment and warn that concentrated control over inverter and battery fleets creates structural exposure that cannot be ignored any longer (Langerova, 2026). These tensions are now driving a shift in policy assumptions. Solar and battery systems are on track to be governed less as ordinary consumer technologies and more as a strategic infrastructure fundamental to power grid stability and societal resilience. The key battles in 2026 will therefore be over governance, not decarbonization.

With Washington's tech war policy process in disarray, Beijing and Berlin are the capitals to watch for substantive moves on the global semiconductor supply chain. Xi's quest for Chinese autonomy has begun producing results. The Netherlands' EU-wide Semicon Coalition and Nexperia court case may attract attention, but much of the European response to Xi depends on German choices.

China's export restrictions on Nexperia heightened the need to address both Beijing's chokehold on legacy chips as well as the limited exchange of expertise and information among EU members – and even between the Dutch ministries. How much room Beijing's semiconductor industry indigenization drive leaves for foreign players will become clearer with its final decision on the import of Nvidia's advanced H200 chips. Meanwhile, Europe will carefully watch the Huawei-led effort to replace ASML's uniquely advanced lithography machines (Hofstede 2026).

Germany has lacked control so far. Its industry was caught unprepared for the Nexperia cut-off. German officials and industry lobbyists expressed private chagrin at being left out of the Dutch export-control discussions – despite ASML's reliance on German suppliers. Yet both cases show Berlin can be a key player, beyond its powerful vote in Brussels [20]. Now Germany is under an even brighter spotlight as Huawei's replacement effort searches for components, and Brussels may be compelled to regulate the second-hand equipment market and talent flows as well.

In Brussels, discussions about energy grids, rare earths, and semiconductors, so by proxy also about China (and the US), increasingly revolve around practical questions – what happens when economic and geopolitical pressure further escalates, and how the EU could respond without losing neither its liberal image nor the control of the situation.

A reference point for this could be the issue of telecom security, first tackled in the 2020 5G Cybersecurity Toolbox. The EU's officially country- and company-agnostic approach to high-risk vendors (such as China's Huawei and ZTE) present in this document could be seen as an example of Brussels' original concept of escalation preparedness and potential retaliation. Brussels tried to rely on risk assessments, procurement rules, and guidance, while leaving room for national implementation.

Based on recent data, it could be concluded that this approach has largely failed as the majority of member states did not wish to comply with Brussels' guidelines. Nonetheless, it did allow most EU countries to put rules in place that restrict certain providers. Over time, this approach may thus help reduce exposure in critical parts of networks while avoiding abrupt political confrontations. The EU tries to speed up the process and is currently reviewing the Commission's proposal for a revised Cybersecurity Act. It is intended to be the EU's more decisive response to changing political realities, but inevitably, its enforcement will not begin soon and will still ultimately depend on the will of the member states. All these experiences now feed into discussions beyond telecoms, as concerns grow around critical raw materials and semiconductors and EU officials explore how similar tools could be applied in these realms.

The potential need for retaliation is part of these discussions, but not through immediate tariff escalation or any similar explicit actions (Puślecki, 2025). Blunt tariff responses could prove costly (and politically difficult), particularly in sectors where Europe remains dependent on foreign, especially Chinese and American inputs. In practical terms, this has been translated into discussions about who moves first (the Commission or national governments), under what legal basis, and how far measures can go so as not to divide the EU even more. Within this context, the Anti-Coercion Instrument (ACI) became the main reference point, albeit for now discussed mainly vis-à-vis the US. This "trade bazooka" has never been used before and could be understood as a coordination mechanism, designed to centralize responses and close off the EU's single market if economic pressure becomes too high.

High-level political signaling also shapes the debate. Stéphane Séjourné, the Commission's Executive Vice-President for Industry, has repeatedly called for a tougher approach toward China, including broader

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trade measures. The prevailing mood, however, remains cautious – proposals must stand on legal grounds and command sufficient support among member states. This caution is especially visible around the concept of "in-kind tariffs," the rarely mentioned contingency option tied to rare earths and other critical materials. The idea would be to require certain Chinese exporters to, along with the exported products, supply raw materials directly into EU stockpiles as a condition for access to the EU market. If the ACI is Brussels' "trade bazooka," then in-kind tariffs would be the EU's nuclear option, which is why they are not officially debated or even commented on. For Brussels, to maintain stability and its liberal image, the emphasis remains on buying time, strengthening preparedness, and keeping escalation manageable – while quietly expanding its toolbox.

4. Conclusions

In summary, it should be emphasized that at the current stage of development of mutual trade and economic relations between the European Union and China, a reassessment of the EU's engagement with countries like China is necessary, where interests determine strategy and the EU has not developed a coherent approach that has a realistic chance of achieving a successful outcome. Progress in building successful foreign relations with China will likely require a two-stage process. First, the EU will need to identify its own core interests that can be credibly presented at various levels of bilateral dialogue. Second, it will need to coordinate the communication and projection of these interests in a way that fully leverages the powers the EU currently possesses to negotiate change. This implies a policy review at the EU level to reconsider precisely what the key foreign policy objectives for future EU-China relations are, in the context of existing policy overlaps. However, to achieve success, the EU will need to prioritize the pursuit of meaningful goals over unrealistic ideals. On the one hand, this will help convince Member States that their own objectives can be better protected at the EU level, and on the other, convince China that it offers significant benefits without having to sacrifice core national interests.

It is worth noting that relations between the European Union (EU) as an international actor and the People's Republic of China are currently in a crisis of sorts. However, this is not merely a temporary crisis related to the current market turmoil regarding EU monetary policy, the conditions of financial assistance, and the economic recession, but one that threatens the very platform for building trust and evolving mutual confidence that both sides have strived to develop over the past 35 years to build an effective strategic relationship. We believe that the current difficulties stem from a fundamental misunderstanding of several key factors in this relationship. First, the EU misjudged China's position in the world as a resurgent power, which undermined the entire basis for constructive engagement based on equality, which China highly values on an emotional and semiotic level. Second, the EU has failed to fulfill its obligations. the EU has recognized and appreciated China's political priorities and interests, which drive both its external engagement. Third, the EU has not sufficiently appreciated where compromise and agreements with China in specific areas might be possible, and what necessary preconditions could facilitate these outcomes. These problems underlie the strategic relationship between the EU and China, extending beyond the current economic turbulence (Puślecki 2025) and showing no signs of being addressed in current policy initiatives. Each of these failures is also interconnected, and we argue that their root cause has been the EU's overemphasis on attempts to achieve comprehensive political and social transformation in China, which not only fails to take into account China's resurgent strength to resist such efforts but also ignores the political implications of China's core national interests, which help explain the country's strategic positioning. The evidence presented here shows that such pressure has undermined trust and weakened the political will of both sides to make progress in other areas. This exposes the fallacy of the EU's primarily values-based model of engagement with China, as such a projection clashes with deeply rooted hostility, differing domestic social norms, and exceptionally high levels of satisfaction among Chinese citizens.

Overall, these factors underscore a European stance that appears not yet able to come to terms with the changing power dynamics in today's international system. Nevertheless, despite current challenges, there remains a real opportunity to rebuild the relationship, as both sides clearly have overlapping interests in many areas, and much can be gained by ensuring that EU-China relations develop in a positive direction, reaching agreement on practical aspects of common concern.

We assume that no solution will be fully effective unless there is a visible effort to align European interests with Chinese interests within the dominant realist framework that underlies China's foreign policy strategy. Chinese strategists and scholars are actively debating China's vision for the international order in the new era. Questions arise: should China support the existing order, which has fostered its development but may also constrain its potential? Or should China attempt to create an entirely new order, which could bring greater benefits but also greater risks? China has various options for choosing the roles it could play. China could play a disruptive role, delegitimize the existing order and replace it with something entirely new. It could also continue to integrate with the existing order and play a proponent of it. Finally, China could also act as a shirker, gaining the privileges of power but not paying for them through its contribution to the overall governance of the contemporary world. Because China remains a deeply conflicted, emerging power with conflicting visions, mixed indicators emerge for each of the three visions.

China must manage its seemingly contradictory roles and interests, which simultaneously represent those of a developing and developed country, as well as a weak and strong country. Due to its multiple identities, China is increasingly finding it difficult to coherently define its interests. Chinese foreign policy officials and scholars are

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actively debating the opportunities and responsibilities of being a major power. It is worth noting that the United States is increasingly suspicious of China's long-term intentions. While the United States wants China to play a larger role as a "responsible stakeholder," China appears to be not only a more influential stakeholder but also a potential "decision-maker." While many neighboring countries welcome China's economic opportunities, they are also increasingly concerned about the strategic implications of China's economic power. China must exercise restraint, assuring its neighbors that it will continue its strategy of peaceful rise.

It is important to emphasize that a country's strength depends primarily on the performance of its domestic economy and its ability to mobilize and allocate resources. Ultimately, China's domestic reforms will determine whether its economy will evolve into a more sustainable model. In this sense, Chinese foreign policy is an extension of China's domestic policies.

In conclusion, we also present a brief forecast for the future of EU-China relations. It is important to emphasize that the EU has much to gain by securing long-term and sustainable cooperation with China. We have argued that unless the EU changes the fundamental framework of its engagement strategy with China, replacing value-based conditionality with one more actively focused on achieving convergence of interest-based policies, the benefits of the relationship for both sides will not be realized. By consistently underestimating China's strategic position in key areas of national interest and by prioritizing initiatives that, in the eyes of the Chinese, proclaimed social and political change, without considering achievable parameters, the EU has undermined the potential for agreement in other policy areas where both sides' interests. Areas such as mutual trade and foreign investment show how important successful bilateral between the two economies are for future prosperity.

It's worth emphasizing that in each of the above areas, examples were presented of ways to shift the debate from values to shared interests. EU leaders themselves must initiate a thorough assessment of what they consider realistically feasible and desirable, but they should do so with a full understanding of China's position, its potential for compromise, and its priorities for action. We argued that there is as yet no evidence that such a process has taken place at the EU level, and until this occurs, progress will be limited, and misunderstandings and disappointments will persist on both sides of the EU-China relationship.

It's worth noting that 2025 marked the 50th anniversary of the establishment of diplomatic relations between the EU and China. During this period, economic and people-to-people ties have grown exponentially, bringing prosperity to both sides. As key trading partners, the EU and China have become closely intertwined economically and socially.

Foreign trade between the EU and China is becoming increasingly one-sided, and this is not sustainable. The EU and China have a mutual interest in a balanced and equitable trade relationship, benefiting current and future generations. The EU looks forward to discussing other areas of bilateral cooperation and how the EU and China can address global challenges. In conclusion, the EU is committed to deepening bilateral partnership and building a constructive and stable relationship based on respect for the rules-based international order, balanced engagement, and reciprocity. The EU is ready to advance the resolution of issues with goodwill and fairness, and to cooperate.

It should be emphasized that structural economic challenges underlie the conflicting trade issues: China and the EU produce similar goods and compete for global dominance in manufacturing. China's current economic approach to the EU stems from a new economic model based on domestic innovation and the modernization of product exports. Products such as electric vehicles and renewable energy equipment are part of the so-called "new manufacturing power," which China sees as a key driver of its economy. This improved export-driven model has become a key source of tension with the EU, in contrast to the stabilizing influence the old economic model had on mutual relations.

The EU's persistent grievances with Beijing also stem from the EU's desire to limit the risks associated with its trade and economic relations with China. This strong belief among European leaders stems from both economic security and the geopolitical implications of the EU's relationship with Beijing. However, there is a fundamental difference in the perception of the two sides. European leaders view their relations with China primarily through the lens of the war in Ukraine. Beijing, on the other hand, views its relations with Brussels and the EU more broadly through the lens of the US strategy of containing China. China's stance on the war in Ukraine has catalyzed growing hostility towards Beijing within the EU. As Russia continues its attack on Ukraine, every interaction between China and Russia seems to deepen unease and suspicion within the EU. This has led to a diplomatic stalemate between Beijing and much of the EU. Neither side believes it has acted inappropriately, which continues to shape and complicate decision-making on both sides.

It is worth noting that this dissonance has created a negative spiral. Chinese diplomats and academics have attempted to further explain China's position, but Europeans have become increasingly frustrated, which in turn has fostered a sense of fatalism within the Chinese strategic community. Chinese leaders have made several trips to Europe since Russia's full-scale invasion of Ukraine to prevent further breakdowns in ties with the continent, but they have been largely left unanswered. The divide remains: Beijing insists the war in Ukraine is a European issue, unrelated to China, while Europeans believe China is justifying its wrongdoing.

It's worth noting that to circumvent this problem, China has developed a two-pronged approach to dealing with the EU and its member states. On the one hand, Beijing continues its war of words with the EU. On the other, it is establishing contacts with European countries, such as Hungary, that are less concerned about a Russian military attack and Chinese economic competition. In the long run, any rapprochement would require China to rethink its current approach. China

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cannot simply rehash calls for "mutually beneficial cooperation," which finds no resonance in much of the EU. The European Union must realistically assess the extent to which it can magically change the Chinese government's views and policy decisions. Chinese and EU leaders must find a new normal—a functional relationship that benefits both sides.

In the coming decades, China will face a series of serious structural challenges that will determine its future role as a global power. Among the most important challenges are a rapid demographic decline, an economic slowdown coupled with a debt crisis, climate change, and rising geopolitical tensions. On the other hand, Chinese artificial intelligence models are conquering the global market. A growing number of companies, including Pinterest and Airbnb, are using Chinese solutions, which are cheaper and more flexible than other equivalents. Experts point out that Chinese open-source technologies are ahead of the competition in terms of popularity and capabilities.

With fewer restrictions on access to foreign computing resources and favorable policies encouraging the wider use of domestically sourced integrated circuits, the country's computing infrastructure will likely see increased efficiency and effectiveness, supporting strategic national ambitions in science, technology, and industry. A key element of these ambitions is the widespread adoption of artificial intelligence (AI) technologies throughout the Chinese economy and society through the "AI Plus" initiative. Expect AI to be a priority in the upcoming Five-Year Plan (2026-2030).

China is expected to adhere to its current strategy of winning global technological competition by prioritizing self-sufficiency. This means that foreign technology will remain important for filling critical gaps in domestic capacity, but not forever. It should be emphasized that once local alternatives to hardware and software become viable, Beijing will not hesitate to implement import substitutions.

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