

# EU-China Update: A looming trade war

DCBF Update  
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In 2025, the President of the European Trade Association (EUCCC), Jens Eskelund, stated that trade relations between China and EU were like a car accident in slow motion. Now, a trade war seems inevitable.

# A trade war between EU and China may be just around the corner

## The Situation in numbers

- The EU's trade deficit in goods with China was in average about 1 billion Euro a day in 2025, and today China's share of all manufactured goods globally is about 30%
- According to a UN organization, China is expected to grow its share of manufactured goods to nearly 50% of global industrial production by 2030
- The renminbi depreciated by about 8 % against the euro during 2025 in nominal terms and economists estimate that the real effective exchange rate – a weighted average against a broader basket of currencies – has fallen 18% from its peak in March 2022
- The decline in prices also masks an increase in the volume of China's export, which has increased its global market share (for every container going from EU to China, China sends 6 containers the other way)
- One estimate is that China's goods export volumes have risen 43% since early 2020 but China's share of global consumption is only 15%, which is even below China's 18% share of world GDP

# EU's position

- The OECD found Chinese firms received 3-8 times more in subsidies between 2005 and 2024 than competitors in OECD countries
- The subsidies are keeping Chinese companies afloat that would otherwise falter, as 32% of industrial firms in China lose money according to the Economist
- EU argues that China is not doing enough to stimulate demand at home which leads to overcapacity and the negative effect of involution resulting in falling prices

# Beijing's response

- That the increase in Chinese exports to Europe has been concentrated in just a few sectors – EVs, batteries, photovoltaic products and chemicals - which is a result of Europe's own decision to embark on a green transition following the war in Ukraine and the decoupling from Russian energy.
- Furthermore, that the decline in European export to China simply reflects China's success in undertaking industrial upgrading and import substitution. Rhodium's report "Was Made in China 2025 a success?" supports this by concluding that China has indeed replaced import with local solutions to a very high degree – including products from foreign owned companies manufacturing and selling in China.
- All in all, Beijing's position is that the imbalance cannot be blamed on China, but should be seen as self-inflicted; an outcome of Europe's own high energy costs, industrial structure and transition choices.

# EU is considering new instruments

- In 2024 the EU Commission created a series of anti-subsidy tariffs designed to slow imports of Chinese EVs, but the process was agonizingly slow as the EU needed to provide detailed evidence of Chinese subsidies before the tariffs could be approved.
- Recently, the EU Commission proposed the Industrial Accelerator Acct (IAA): An instrument to direct investments into Europe and a means to diversify sourcing from Chinese chemical and industrial machinery manufacturers. Or said in a different way—the aim is to force European companies to buy critical components from at least three different suppliers with the aim to reduce the reliance on China.
- Following the EU Summit in Brussels on 18 June, the EU seems to be calling for additional and quicker instruments addressing what they believe is “unfair trade practices”. The EU is now considering to apply the same approach as the US i.e. the ability to place tariffs more swiftly on Chinese imports and without the same level of prior analysis and scrutiny as has previously been required.

# Beijing's toolbox and likely responses

Beijing has already formulated a number of regulations that can be deployed in case a trade war erupts. These include e.g.:

- “China Anti-Foreign Improper Extraterritorial Jurisdiction Regulations” – this aims to restrict companies from complying with EU/US laws (read: against sanctions) if they impact China.
- “China Regulations on Industrial Chain and Supply Chain Security” – focuses on protecting China’s supply chain, including a provision that allows the State Council (China’s government) to investigate and take measures on companies and individuals if they are deemed to cause damage to China’s industrial and supply chains.
- Beijing has also taken steps to protect Chinese overseas investments and deter foreign governments from imposing restrictions on Chinese investors. The State Council’s new regulations on outbound investment reinforce existing export controls on goods, technology, services and related data and stress that Chinese countermeasures can be used in response to foreign trade and investment bans.
- According to MERICS, Europe’s largest China thinktank, these new regulations limit the EU’s ability to challenge Chinese retaliation as unlawful, but they also enable Chinese authorities to respond to trade and investment restrictions in a more systematic and efficient manner.

## If the 'inevitable' happens ...

- DCBF is collecting experiences from our members to better understand how a potential trade war may affect them. We use this for our own understanding, framing towards members as well as to inform our advocacy and dialogue with the Danish government and EU institutions with the aim of lowering the economic impact on Danish companies.
- If your company is interested in a China update and a status on developments related to the potential trade way, we are happy to provide a briefing and a sparring session with key managers and your Board.



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