



## The EU's industrial policy towards China

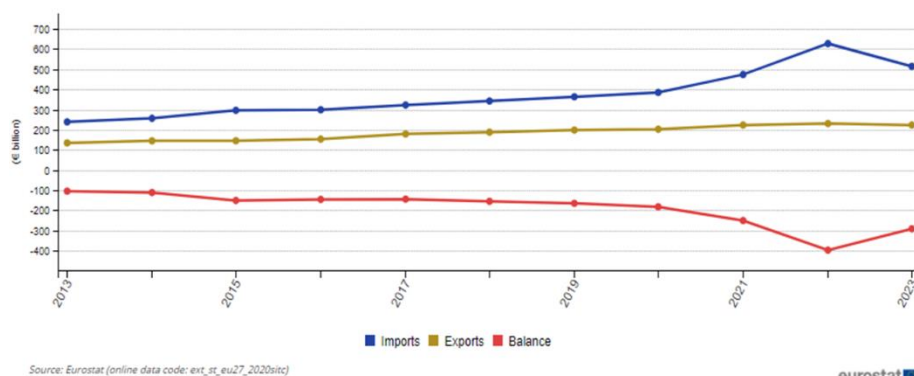
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The European Union has updated its strategic industrial policy in response to its complex and multifaceted relationship with China. This policy aims to enhance the EU's economic competitiveness, safeguard its strategic interests, and promote sustainable development.

### 1. EU-China trade in goods

China is a critical trading partner of the EU, being the largest source of imports to the EU and the third-largest destination for EU exports. The trade between the EU and China is heavily skewed towards Chinese imports, particularly in machinery, transport equipment, and manufactured goods.

The trade in goods between the EU and China, 2013-2023



## 2. Strategic approach

The EU's policy towards China reflects a strategic shift that emphasizes competition and systemic rivalry. The main objectives of this policy include:

- **Reduction of dependencies:** The EU aims to reduce its economic dependence on China, particularly in critical sectors such as raw materials, batteries, and semiconductors. This involves diversifying supply chains and promoting the development of domestic industries.
- **Promotion of a united EU approach:** The EU seeks a coordinated and united approach in dealing with China to enhance collective bargaining power. This includes strengthening cooperation between member states and aligning national policies with EU-wide objectives.
- **Balancing economic and security interests:** The EU is committed to protecting its strategic interests while maintaining beneficial economic relationships with China.

## 3. Sector specific policies

- **Dependencies and security concerns:** The EU is taking proactive measures to address economic and security vulnerabilities related to its dependence on China. This includes securing critical infrastructure and reducing reliance on Chinese technology and materials. For example, Germany is currently evaluating the possibility of banning Chinese suppliers from parts or the whole of the 5G network, reflecting wider cybersecurity concerns.
- **Automotive sector:** The US recently dramatically increased tariffs on Chinese EVs from 25% to 100%, increasing dumping concerns in the EU, as overproduction of state-subsidized Chinese cars would harm the European automotive industry. Subsequently, the EU is likely to increase the tariff from 10% to 25-40%. The new tariff will affect Chinese brands such as MG Roewe and BYD, but also other electric cars manufactured in China such as the Tesla Model 3, the BMW iX3 or the Dacia Spring.
- **Energy sector:** The energy sector is another area of concern for the EU, particularly due to Chinese subsidized overproduction of solar panels and wind turbines. While this overproduction provides cheaper climate change options for developing countries, it threatens energy industries in other countries through dumping prices. The EU is discussing punitive tariffs to counter these effects and protect its energy industries.
- **Technology sector:** The EU's dependence on China and the US for advanced technologies and materials, such as rare earths, is a major concern. The EU's de-risking strategy includes bi-directional trade restrictions and foreign investment controls to ensure that foreign investment does not compromise security. Specific measures include the Huawei ban and the blocking of ASML exports. The EU is also investing in the development of cutting-edge technologies such as AI-based systems,

quantum computing and genetic engineering to strengthen its technological independence and competitiveness.

#### **4. Cooperation areas**

Despite the competitive stance, the EU maintains selective cooperation with China in areas that do not compromise security and economic interests. Collaboration on global issues such as climate change remains possible. The EU recognizes the importance of working with China on shared challenges, such as environmental sustainability and global health, while protecting its strategic interests.

#### **5. Human rights**

The EU takes a firm stance on human rights issues, particularly regarding Xinjiang and Taiwan. The EU is committed to upholding international human rights standards and addressing human rights abuses. This stance reinforces the EU's broader commitment to promoting democratic values and the rule of law in its international relations.

#### **6. Conclusion**

The EU's current industrial policy towards China is multifaceted, addressing digital transformation, data protection, legislative reforms, environmental sustainability, and strategic economic and security interests. By balancing competition with cooperation, the EU aims to enhance its industrial base, ensure sustainability, and protect its strategic interests in the global arena. This comprehensive approach reflects the EU's commitment to fostering a resilient and competitive industrial environment amidst evolving global challenges.

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