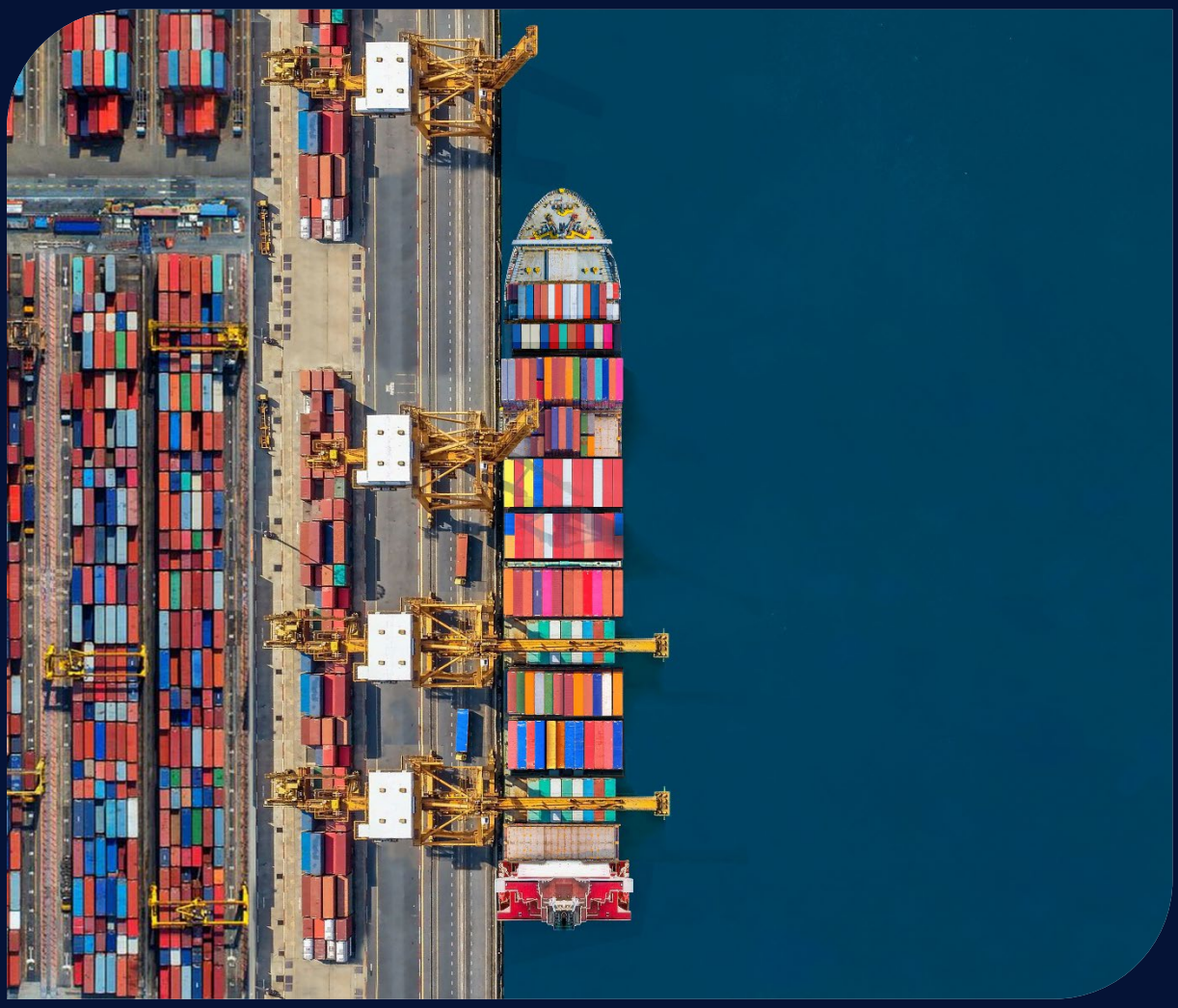
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Insights

EU-China Relations: Finding the Right Balance Between Engagement and Stronger Trade Action

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EU-China economic relations are reaching an important point. The agreement reached in Beijing on 8 October on Chinese hybrid vehicle exports shows that dialogue can produce concessions from China. However, the deal is limited in scope and does little by itself to address the much wider EU-China trade imbalance, which remains at around €1 billion a day.[1]

The main question for the EU is therefore what happens if continued negotiations deliver further sectoral concessions but fail to significantly rebalance the overall trade relationship.

Two broad paths are emerging. The EU could continue with its current approach: negotiate with Beijing sector by sector, secure targeted concessions where possible and continue developing stronger trade-defence and economic security tools without necessarily deploying their most aggressive elements or endangering the bilateral relationship. Alternatively, pressure from France, Germany and other Member States could build behind a more assertive approach, leading the EU to use stronger measures against Chinese imports and potentially triggering Chinese retaliation.

For now, the first scenario still appears more plausible. The hybrid agreement has strengthened the case that negotiations can deliver, while the economic costs and political risks of a broader trade confrontation with China remain significant. The recent stabilisation in U.S.-China relations could also make European governments more reluctant to find themselves pursuing a significantly harder line towards Beijing than Washington.

European Council Leaves Both Options Open

The European Council on 15-16 October did not resolve this question. China was not explicitly named in the conclusions, but leaders called for continued “results-oriented dialogues” on global economic imbalances, effective use of existing EU instruments and an urgent strengthening of the EU toolbox with new measures.[2]

This reflects the EU's current position: Member States broadly agree on the need to address trade imbalances, import pressures and economic dependencies, but there is less consensus on how far the EU should go. For now, stronger trade-defence tools can provide leverage in negotiations with Beijing. Whether Member States are ultimately prepared to deploy these measures, given the risk of Chinese retaliation and the time required for them to take effect, will largely depend on the outcome of the dialogue and the degree of political support for a more assertive approach.

In response to the European Council’s two-track approach, combining continued trade negotiations with the prospect of tougher restrictions on Chinese industries, China’s Ministry of Commerce warned that the EU should not expect to secure concessions through pressure. Beijing also cautioned the EU against underestimating China’s determination and ability to defend its interests.

[1] European Commission | Speech by President von der Leyen at the European Parliament plenary debate | October 2026

[2] European Council | Conclusions 16 October 2026

Hybrid Deal Strengthens the Case for Continued Negotiation

Trade Commissioner Maroš Šefčovič's visit to Beijing on 8-9 October provided an important argument for the more cautious approach. The second EU-China Trade and Investment Consultations produced a series of concrete understandings, with both sides committing to continue working towards a more balanced relationship. This process was launched in June to address trade imbalances, market access, export controls and other bilateral disputes.

The most important result was the understanding to moderate Chinese exports of hybrid and plug-in hybrid vehicles to the EU. According to the Commission, this would cap exports at 350,000 units per year, compared with projections of 800,000 units for all of 2026.[3] Importantly for the EU, the agreement does not involve removing the tariffs imposed on Chinese battery electric vehicles in 2024. Beijing also agreed to improve market access for selected European products including car parts, olive oil and food, totalling almost €4 billion in current export value.[4] In addition, China will further facilitate its export licensing for rare earths and permanent magnets.

The agreement demonstrates that sustained dialogue and rules-based consultation can yield mutually acceptable outcomes without an escalation in trade restrictions. The automotive agreement could also serve as a model for negotiations in other sectors. Šefčovič has presented it as a possible blueprint for quota-based arrangements in areas such as chemicals, industrial machinery, advanced batteries and clean energy equipment. European industry has also raised concerns about rising Chinese competition in sectors including wind equipment and furniture.

However, while sectoral agreements such as the hybrid deal can ease pressure on individual European industries, such deals will not necessarily address the structural trade imbalance, including concerns over Chinese subsidies, market-access barriers and supply-chain dependencies. The hybrid agreement is therefore both a success and a test: further sectoral deals could strengthen support for continued negotiation, while limited concessions and continued growth in Chinese exports could increase pressure for stronger EU trade measures.

France and Germany Keep a Harder Option on the Table

The alternative path is being pushed most clearly by France and Germany. Their joint paper earlier this month called for two complementary tools: one to reduce strategic supply-chain dependencies and another to address severe and systemic market distortions, potentially including the EU's anti-coercion instrument.

On market distortions, Paris and Berlin are advocating a new EU trade instrument that would allow the Commission to respond more quickly to unfair practices by third countries. Unlike traditional anti-dumping or anti-subsidy measures, it could potentially apply tariffs or other restrictions across entire sectors without first having to establish the existence of specific subsidies or dumping. In the most serious cases, this could include a complete ban on access to the Single Market.

On dependencies, the Commission is developing DiversifyEU, due in December, aimed at reducing excessive reliance on individual supplier countries for critical goods. Options under discussion include requiring companies in strategic sectors to source from several countries rather than depend heavily on a single supplier. A related solidarity mechanism would also help Member States respond collectively if a third country retaliated against EU trade measures.

This Franco-German convergence is significant. Germany has traditionally been more cautious than France about trade-defence measures that could trigger Chinese retaliation. Their joint push therefore

[3] European Commission | Speech by President von der Leyen at the European Parliament plenary debate | October 2026

[4] European Commission | Press remarks by Commissioner Šefčovič | October 2026

broadens the political space for the Commission to develop stronger tools, although it remains uncertain how much support there would be among other Member States for actually deploying them against China.

Next Steps

The immediate priority will be to implement the hybrid vehicle agreement and assess whether the same approach can deliver results in other sectors. At the same time, the broader dialogue will continue, with a ministerial video conference planned for January and a third Trade and Investment Consultation in March 2027. The coming months will therefore test whether Beijing is prepared to offer further concessions on market access, export controls and industrial trade. For its part, Beijing would likely be willing to offer at least some additional concessions but will seek to avoid setting a precedent that would unleash similar demands from other trading partners.

Following the October consultations, both sides agreed to continue discussions on outstanding issues, including market access for European medical devices and China's concerns over the EU's Foreign Subsidies Regulation. Alongside these areas of friction, there remains scope for cooperation: China has welcomed further EU investment and highlighted new energy, artificial intelligence, trade in services, the digital economy and green and low-carbon development as potential areas for deeper engagement.

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