

PRESS RELEASE

Europe's Economic Policy towards China: a Targeted Strategy to Rebalance Interdependence

Paris/ Berlin, 05.10.2026 – Europe should respond to China's growing industrial dominance by reducing its critical dependencies, strengthening its own strategic capabilities and cooperating with reliable trading partners. Broad-based tariffs or undifferentiated 'Buy European' policies are costly and poorly targeted. The EU already has many instruments at its disposal, with implementation modalities that should be adapted when needed. The priority is to use them more effectively, more rapidly and more coherently to balance resilience and deterrence against the costs borne by European households and businesses.

A new joint statement by the Conseil d'analyse économique (CAE) and Franco-German Council of Economic Experts (FGCEE) on Europe's economic policy towards China calls for a targeted and coherent EU strategy that ensures economic security while preserving the benefits of open trade. China's growing trade surplus, extensive industrial support and leading position in strategically important supply chains have given rise to economic security concerns.

The EU's strategy towards China should focus on a combination of defensive and offensive measures. On the defensive side, the EU should target the dependencies that create scope for economic coercion, using a combination of measures including trade agreements, trade defence measures, and diversification requirements in public procurement and public support. The long-term agenda should aim at deepening trade and investment ties with countries that can provide alternative sources of critical goods and raw materials. For the time being, however, faster, more systematic and appropriately scoped use of existing trade defence instruments should be prioritised.

The complementary offensive strategy should support activities in which the EU can be a critical supplier to the rest of the world by shaping industrial and innovation policies accordingly. Public procurement can play an important role as an early market for innovative European products, particularly where domestic production is necessary to build strategically relevant capabilities. Modern trade agreements, public procurement rules and targeted support can help develop more diverse supply chains.

"Across-the-board tariffs are a costly and poorly targeted response to economic security concerns," states Gabriel Felbermayr, council member of the GCEE. "Policy should instead target products for which dependence on a trading partner creates a strategic vulnerability, rather than treating all imports from that partner as a source of risk."

The aim is not to reduce imports from China across the board, but to limit vulnerabilities that could be exploited for political leverage. For each dependency, the EU should determine whether resilience is best achieved by preserving or developing domestic capacity, diversifying foreign supply, or combining the two. It should then allocate its political and technical resources accordingly.

Product coverage should not be defined too narrowly. Effective policy must account for both current vulnerabilities and those that may emerge as trade patterns adjust. In particular, targeting a single product may redirect demand toward close substitutes that fall outside the policy's scope, thereby limiting its effectiveness. Indeed, tariffs on EVs prompted exporters to reroute their shipments toward hybrids instead – a clear instance of circumvention that undermines the policy's objective.

“Reducing vulnerabilities addresses only one side of economic security,” says Sébastien Jean, member of the CAE. “The EU can also deter coercion by strengthening capabilities on which its trading partners depend. This complementary offensive strategy should build on Europe's technological and industrial strengths, adds Isabelle Méjean, also member of the CAE.”

The EU's bilateral trade deficit with China reached 382 billion Euro January in the year to May 2026, amounting to 2 per cent of the EU gross domestic product and compared with 164 billion Euro in 2019. China shows a large and growing trade surplus of 1,188 billion US-Dollars in 2025, up from 422 billion US-Dollars in 2019. Firms based in China received, on average, between three and eight times more government support than firms in OECD countries over 2005 to 2024. As Chinese exports increasingly compete in sectors that are central to European industry, these developments are intensifying pressure on European producers, particularly in Germany.

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The Franco-German Council of Economic Experts is a permanent, bilateral body that was established on the basis of the Treaty of Aachen. It is independent and tasked with making policy recommendations on economic issues in which both countries have shared interests. The Council of Experts reports to the Franco-German Financial and Economic Council, which consists of both countries' Ministers of Finance and Economic Affairs and the Heads of the two central banks. The co-chair of the advisory body on the German side is the chair of the German Council of Economic Experts, Monika Schnitzer. On the French side, the co-chair is Xavier Jaravel.

The co-chairs can each appoint up to four additional scientists to the FGCEE for the German and French sides, respectively. The activity for the advisory board is a personal honorary office.

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