EU-CHINA ECONOMIC RELATIONS - EVOLUTION AND CHALLENGES

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Abstract:
China is the EU's third-largest trading partner for goods and services after the United States and the United Kingdom. China is the EU's second-largest trading partner for trade in goods alone, after the United States. Bilateral trade in goods reached €732 billion in 2024. This represents a slight decrease decline of 1.6% compared to 2023. This article focuses on the evolution of EU-China trade between 2013-2024 and also the evolution of trade by goods between EU and China in 2024. This article provides a picture of the international trade in goods between the European Union (EU) and China. It analyses the type of goods exchanged between the two economies and the shares of each EU country in those exchanges.

Key words: *economic relations, investments, trade balance, EU-Chinese trade*

INTRODUCTION

The EU aims to de-risk its economic relations with China. The EU has a nuanced China strategy, seeing it at the same time as a partner for cooperation, an economic competitor and a systemic rival. Still, in a context of increased geopolitical tensions and complexity, derisking and economic security have become a priority for the EU. President von der Leyen reiterated during the China Summit of December 2023 that de-risking is about learning the lessons from both the global COVID-19 pandemic and Russia's energy blackmail by managing risks, addressing excessive dependencies and increasing resilience[1].

Important progress has been made towards understanding the EU's exposure to China and addressing related risks. Different exercises have mapped out EU-China exposure, mostly focusing on the identification of strategic dependencies and supply chain bottlenecks in the EU's trade with China. To address identified risks, the EU has adopted important pieces of legislation4 that aim to strengthen manufacturing capacities in critical industries. In addition, the EU is actively pursuing new international partnerships to diversify sourcing and has also expanded its toolbox of measures to level the playing field with China, which it is applying actively.

This economic brief focuses on the role of FDI in assessing EU-China exposure[2].

While FDI[3] may deepen the EU's exposure to China, understanding its implications requires a careful assessment. This economic brief shows that FDI (inward and outward) may further extend already identified trade exposure for the EU, in different ways. At the same time, understanding the impact of Chinese investments in the EU (and vice-versa) is complex as they

[1]European Commision (2024), EU-China FDI: recent trends and implications on EU exposure, https://euagenda.eu/publications/eu-china-fdi-recent-trends-and-implications-on-eu-exposure

[2] R. Arjona, W. Connell García, C. Herghelegiu (2023): "An enhanced methodology to monitor the EU's strategic dependencies and vulnerabilities"

[3] Based on the Rhodium Group's Cross-Border Monitor, which provides granular data on global cross-border capital flows covering both acquisitions and greenfield. This "bottom-up" project-level data provides a clearer picture of cross-border economic dynamics (i.e., actual investments in tangible assets, infrastructure and operational business activities) compared to "top-down" official foreign direct investment estimates produced by statistical offices (which reflect financial transactions and are impacted by a range of elements including e.g. intra-company loans, reinvested earnings, round-tripping for tax purposes, etc.).

typically involve benefits as well as possible risks. In particular, the impact of Chinese greenfield investments may warrant further attention, especially in the context of rising trade tensions.

1. EVOLUTION OF EU – CHINA ECONOMIC RELATIONS

Following the 2019 EU-China Summit in Brussels, the two sides reconfirmed the importance of their Comprehensive Strategic Partnership and their willingness to work together for peace, prosperity and sustainable development, promoting multilateralism and respect for international law. The EU's policy on China is defined by the "Elements for a New EU Strategy on China" and the "Council Conclusions on the EU Strategy on China", which were revised in 2019 as the "EU-China Strategic Outlook". Together, these documents reflect the fundamental premises of the EU's commitment, based on a realistic, assertive and multidimensional approach, to promote democracy, the rule of law, human rights and respect for the principles of the UN Charter and international law, with a view to achieving mutual benefits in political and economic relations.

The practical cooperation agenda for the EU and China is set out in the joint declarations of the EU-China Summit and in the 2020 EU-China Medium-Term Strategic Agenda for Cooperation, jointly signed by the EU and China in 2013. The latter cover areas such as: peace and security, prosperity, sustainable development and people-to-people exchanges. Bilateral relations are conducted at the highest level through the annual EU-China Summit, which is preceded by key bilateral dialogues: the Strategic Dialogue, the EU-China Human Rights Dialogue, the High-Level Economic and Trade Dialogue (HED) and the High-Level People-to-People Dialogue.

In the report adopted on 16 September 2021, the European Parliament presented six pillars on which the EU should build a new strategy for engagement with China: cooperation on global challenges, commitment to international norms and human rights, identification of risks and vulnerabilities, building partnerships with like-minded partners, promoting strategic autonomy and defending European interests and values.

The text proposes continued EU-China cooperation on a number of global challenges, such as: human rights, climate change, nuclear disarmament, combating global health crises and reforming multilateral organisations. MEPs also call for the EU to work with China to improve the response to infectious diseases that could develop into epidemics or pandemics, for example through risk mapping and early warning systems. They call on China to allow an independent investigation into the origin and spread of COVID-19. Parliament stresses the strategic importance of the EU-China relationship, but clarifies that the ratification process of the Comprehensive Investment Agreement (CIA) cannot start until China lifts sanctions against EU MEPs and institutions[4].

On 16 September 2021, the EU officially launched the Indo-Pacific Strategy. The strategy makes it clear that trade between the two regions is higher than anywhere else in the world. The EU is the main investor and one of the largest trading partners of economies in the Indo-Pacific region, and the region is the second largest destination for EU exports. A key challenge in the Indo-Pacific region is the role that an increasingly assertive China will play in the region. The strategy implicitly acknowledges China's attempts to change the regional status quo, citing "tensions around disputed territories and maritime areas" and a "significant military buildup, including from China". The strategy argues that crises in regional hotspots such as the South and East China Seas and the Taiwan Strait could have "a direct impact on European security and prosperity".

[4] European Commision (2024), EU-China FDI: recent trends and implications on EU exposure, https://euagenda.eu/publications/eu-china-fdi-recent-trends-and-implications-on-eu-exposure

The EU and China are two of the world's largest trading partners. China is the EU's second largest trading partner and the EU is China's largest trading partner. In 2024, China was the EU's third largest trading partner in terms of exports and its largest trading partner in terms of imports. The EU is committed to opening up trade relations with China. However, the EU wants to ensure that the PRC trades fairly, respects intellectual property rights and fulfils its obligations as a member of the World Trade Organisation (WTO).

Trade between the EU and China has been flourishing, despite the lack of a formal framework. China is the EU's largest source of imports and its third largest export market. China and Europe trade on average over EUR 1 billion per day. The EU's main imports from China are industrial and consumer goods, machinery and equipment, chemicals, footwear and clothing. The EU's main exports to China are machinery and equipment, motor vehicles, aircraft and chemicals, etc. EU-China trade in services accounts for more than 9% of total trade in goods, and EU exports of services account for around 5% of total EU exports of goods.

EU exports to China decreased between January 2023 (€19.2 billion) and December 2024 (€16.8 billion). They reached a low of €16.3 billion in October 2023 and a high of €21.0 billion in February 2023 (Figure 1). Imports from China dropped from €46.4 billion in January 2023 to €44.1 billion in December 2024. In this period they reached a high of €47.0 billion in April 2023 and a low of €35.6 billion in January 2024. In January 2023 the trade deficit was €27.2 billion, It reached a high of €29.0 billion in August 2024, falling to €27.3 billion in December 2024.

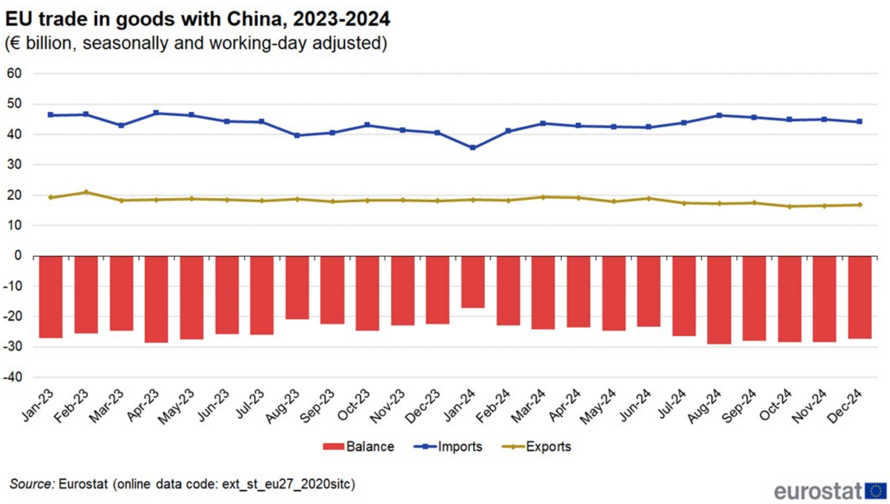

Figure 1: EU trade in goods with China, 2022-2023 (€ billion, seasonally and working-day adjusted)
Source: Eurostathttps://ec.europa.eu/eurostat/databrowser/view/ext_st_eu27_2020sitc/default/table?lang=en

Figure 2 compares EU trade with China against EU trade with other non-EU countries. Between January 2023 and December 2024, EU imports from China decreased by 4.9%. Imports from other non-EU countries (14.8%) dropped more in this period. EU exports to China decreased by 12.5% while exports to other non-EU countries increased by 3.0%.

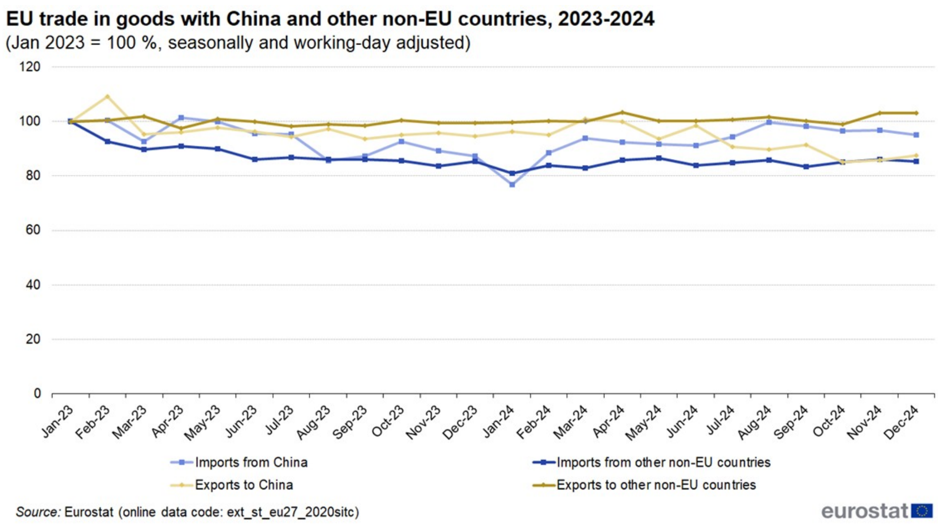

Figure 2: EU trade in goods with China and other non-EU countries, 2022-2023
Source: Eurostat https://ec.europa.eu/eurostat/databrowser/view/ext_st_eu27_2020sitc/default/table?lang=en

The imports and exports of goods of the EU and China indexed at 100 in 2013 for the period to 2024 are shown in Figure no3. It also shows the cover ratio (exports / imports) for this period. Exports from the EU were lowest in 2013 (100) and highest in 2022 and 2023 (both 144). Imports to the EU were lowest in 2016 (98) and highest in 2022 (184). The cover ratio for the EU was lowest in 2022 (85%) and highest in 2016 (116%). Exports from China were lowest in 2016 (95) and highest in 2022 (160). Imports to China were lowest in 2016 (81) and highest in 2022 (139). The cover ratio for China was lowest in 2013 (113%) and highest in 2015 (135%).

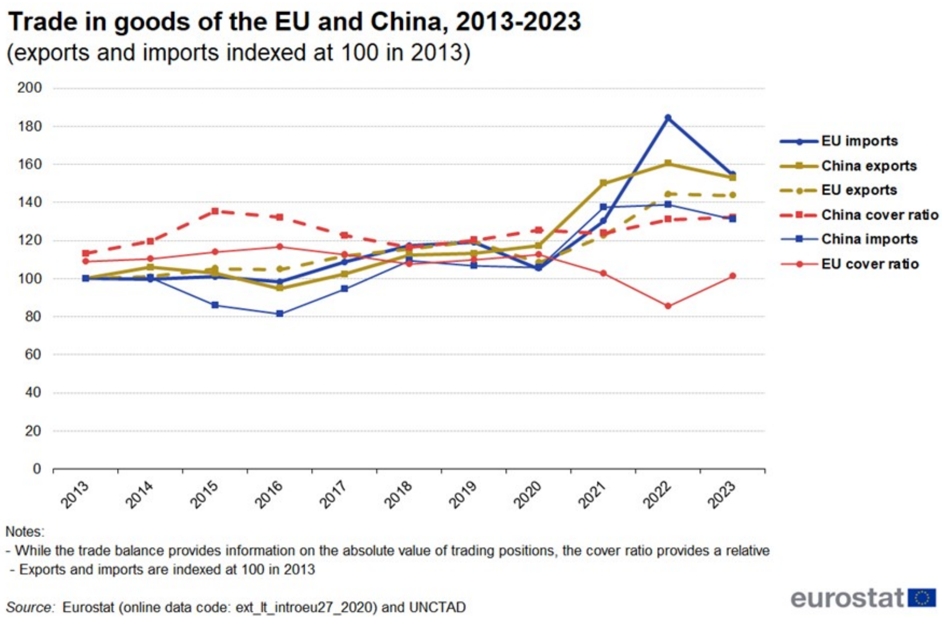

Figure 3: Trade in goods of the EU and China, 2012-2022 (exports and imports indexed at 100 in 2013, cover ratio in %)
Source: Eurostathttps://ec.europa.eu/eurostat/databrowser/view/ext_lt_introeu27_2020/default/table?lang=en

2. ASPECTS REGARDING THE EVOLUTION OF EU-CHINA TRADE BY TYPE OF GOOD IN 2024

The position of China among the largest trade partners of the EU in 2024 can be seen in Figure 5. In 2024, China was the third largest partner for EU exports of goods (8.3%). It was preceded by the United States (20.6%) and the United Kingdom (13.2%) and followed by Switzerland (7.5%) and Türkiye (4.3%). In 2023, China was the largest partner for EU imports of goods (21.3%), followed by the United States (13.7%), the United Kingdom (6.8%), Switzerland (5.6%) and Türkiye (4.0%).

Two pie charts showing China among the EU’s main partners for traders in goods as percentage share of extra-EU exports and imports. For the year 2024, one pie chart represents exports and the other imports.

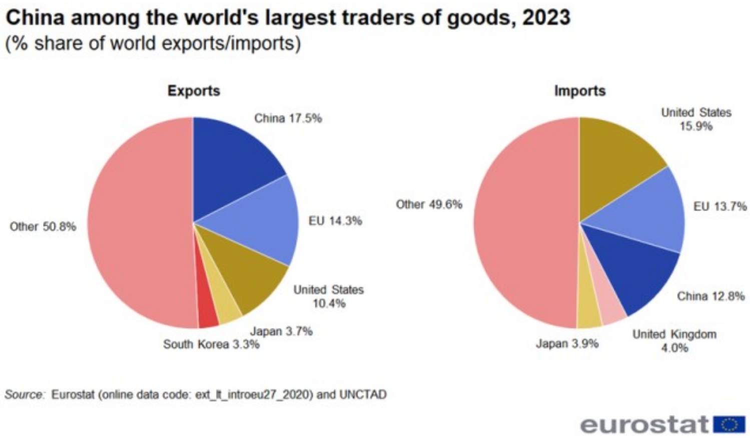

Figure 4: China among the world's largest traders of goods, 2023 (% share of world exports/imports)
Source: Eurostat:https://ec.europa.eu/eurostat/databrowser/view/ext_lt_introeu27_2020/default/table?lang=en

Figure 4 shows the world's largest traders of goods. In 2023, China (€3 125 billion, 17.5%) was the largest exporter in the world, followed by the EU (€2 557 billion, 14.3%), the United States (€1 869 billion, 10.4%), Japan (€663 billion, 3.7%) and South Korea (€585 billion, 3.3%). China (€2 364 billion, 12.8%) was the third largest importer in the world, preceded by the United States (€2 934 billion, 15.9%) and the EU (€2 523 billion, 13.7%) and followed by the United Kingdom (€732 billion, 4.0%) and Japan (€727 billion, 3.9%).

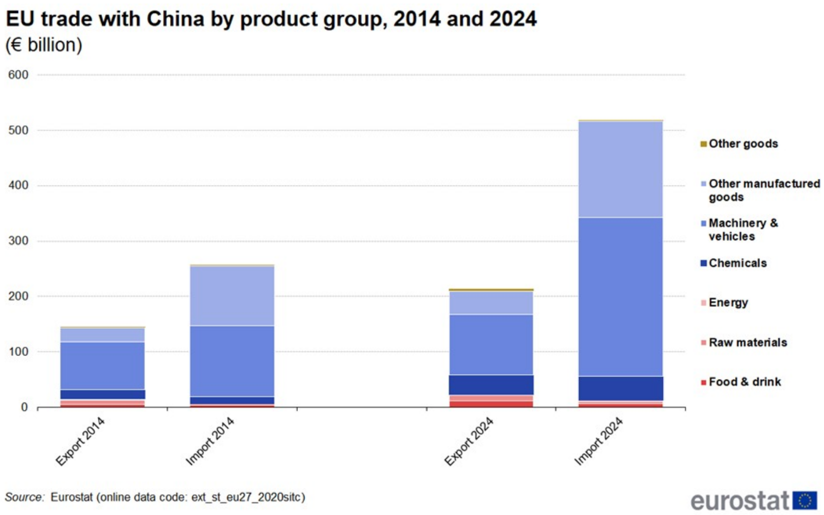

Figure 5: EU trade with China by product group, 2014 and 2024 (€ billion)China among the world's largest traders of goods, 2023 (% share of world exports/imports)
Source: https://ec.europa.eu/eurostat/databrowser/view/ext_st_eu27_2020sitc/default/table?lang=en

The breakdown of EU trade with China by SITC groups is shown in Figure 6. The red shades denote the primary goods: food & drink, raw materials and energy, while the blue shades show the manufactured goods: chemicals, machinery & vehicles and other manufactured goods. Finally, other goods are shown in green. In 2024, EU exports of manufactured goods (88%) had a much higher share than primary goods (11%). The most exported manufactured goods were machinery & vehicles (51%), followed by other manufactured goods (20%) and chemicals (17%). In 2024, EU imports of manufactured goods (97%) also had a much higher share than primary goods (2%). The most imported manufactured goods were machinery & vehicles (55%), followed by other manufactured goods (34%) and chemicals (8%).

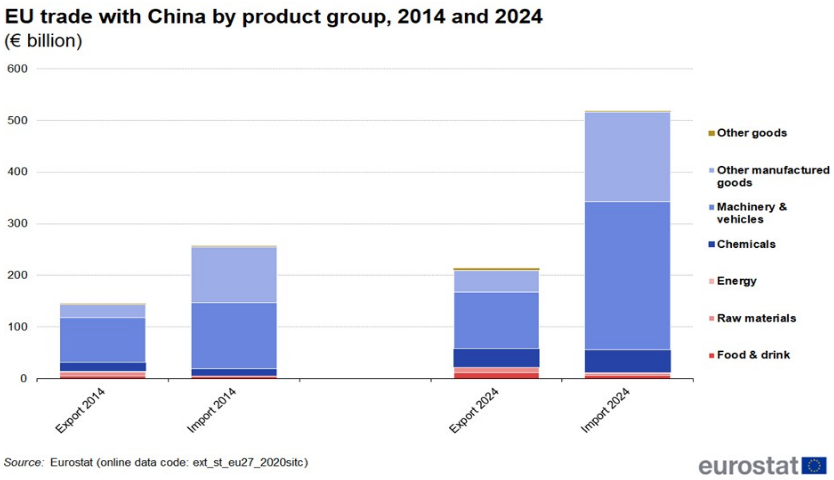

Figure 6. : EU trade with China by product group, 2014 and 2024 (€ billion)
Source: Eurostat https://ec.europa.eu/eurostat/databrowser/view/ext_st_eu27_2020sitc/default/table?lang=e

More detail about the goods imported by the EU from China is given in Figure 8, showing the 20 most imported goods at SITC-3 level. These top 20 goods covered 59% of total imports from China in 2024. Eleven belonged to machinery and vehicles, 8 to other manufactured goods and 1 to chemicals. The most traded group of goods at this level was telecommunication equipment.

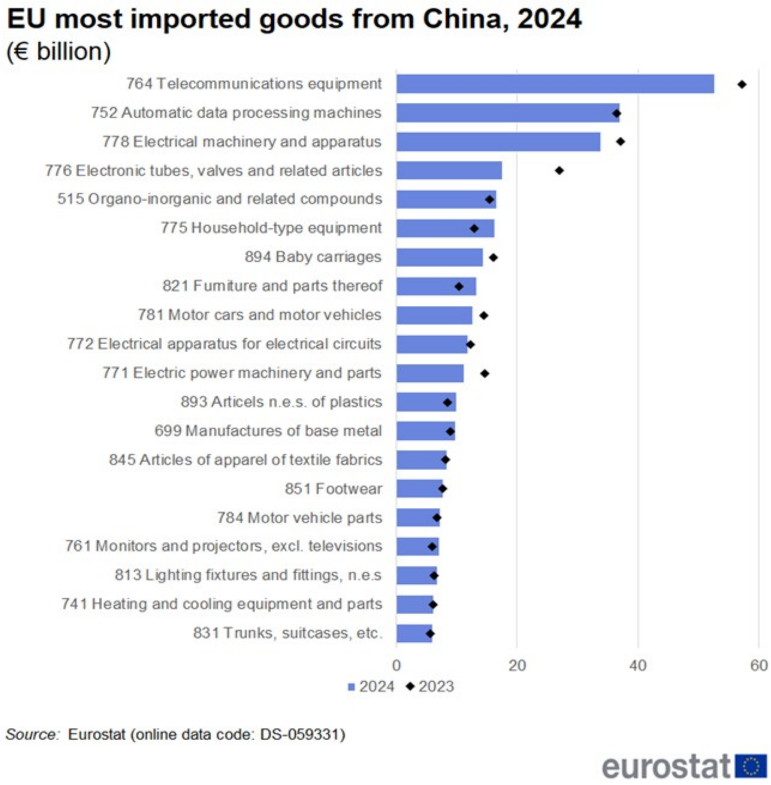

Figure 7: EU most exported goods to China, 2024 (€ billion)
Source: https://ec.europa.eu/eurostat/databrowser/view/ds-059331/default/table?lang=en

Table no.1 shows the exports of goods to China by EU country. The three largest exporters to China in the EU were Germany (€90 billion), France (€24 billion) and the Netherlands (€24 billion). Germany (12.7%) had the highest share for China in its extra-EU exports.

Table 1 EU exports of goods to China, 2024

EU exports of goods to China, 2024

	€ million	% of China in extra EU exports
Germany	89 937	12.7
France	23 855	8.7
Netherlands	23 772	9.0
Italy	15 344	5.0
Ireland	9 433	7.0
Belgium	7 881	4.8
Spain	7 467	5.1
Sweden	6 558	7.9
Denmark	5 889	10.5
Austria	5 303	8.4
Finland	3 509	11.6
Poland	3 311	3.6
Czechia	3 109	6.2
Slovakia	2 569	10.9
Hungary	1 508	4.6
Bulgaria	752	4.9
Romania	720	2.8
Portugal	614	2.7
Greece	415	1.8
Slovenia	300	0.9
Estonia	244	5.1
Luxembourg	237	8.1
Lithuania	207	1.7
Latvia	201	3.5
Croatia	112	1.3
Cyprus	31	1.1
Malta	29	1.7

Source: Eurostat (online data code: DS-059331)

eurostat

Source: https://ec.europa.eu/eurostat/databrowser/view/ds-059331/default/table?lang=en

Data are collected by the competent national authorities of the EU Member States and compiled according to a harmonised methodology established by EU regulations before transmission to Eurostat. For extra-EU trade, the statistical information is mainly provided by the traders on the basis of customs declarations. EU data are compiled according to EU guidelines and may, therefore, differ from national data published by the Member States. Statistics on extra-EU trade are calculated as the sum of trade of each of the 27 EU Member States with countries outside the EU. In other words, the EU is considered as a single trading entity and trade flows are measured into and out of the area, but not within it.

CONCLUSION

The EU sees China as a partner for cooperation, an economic competitor, and a systemic rival. Recently, EU-China relations have become increasingly complex.

In recent years, the EU has conveyed growing concerns regarding systemic imbalances that characterise the Chinese economy. China's distortive industrial policies and practices – in particular with regard to widespread support for the manufacturing sector – create overcapacity in China, with negative externalities for a wide range of WTO members.

In addition, China has introduced an ever-widening set of export controls which lack clear dual-use justifications. This concerns both critical raw materials and certain technologies. These controls are negatively impacting EU supply chains.

Another area of concern is China's drive towards import substitution and self-sufficiency. While the EU welcomes efforts by the Chinese authorities to attract foreign direct investment, EU companies continue to face discrimination in the Chinese market, and it remains difficult for

European businesses in China to compete due to the lack of a level playing field. Moreover, despite the Chinese government's stated ambition to pursue a high-level opening of its market and build mutually beneficial trade partnerships, China still remains largely closed in many important sectors.

Many European companies feel that the business environment in China has become more politicised over the years. Economic challenges have increased, while regulatory obstacles have remained largely unchanged, which has further negatively impacted the business outlook. A complex and non-transparent legal framework on cybersecurity, combined with restrictive rules on cross-border data flows subject to broadly applied security approvals, insufficient enforcement of intellectual property rights and requirements leading to technology transfer, and a broad concept of national security all further affect the business environment.

The EU is committed to de-risking, not decoupling from China. This entails reducing critical dependencies and vulnerabilities, including in EU supply chains, and diversifying where necessary.

At the same time, recognising the importance of maintaining open communication channels, the EU continues to pursue cooperation with China at both bilateral and multilateral level. The EU and China discuss policies and issues regarding trade and investment in a range of dialogues, of which the most important are:

- The Annual EU-China Summit: Presidential-level exchange to enhance policy coordination on the most important issues, including trade, and;
- The EU-China High Level Economic and Trade Dialogue (HLED): a Vice-President of the European Commission and the Chinese Vice Premier meet to discuss issues. They are accompanied, if needed, by EU commissioners and Chinese ministers.

At global level, the EU is committed to working to reform the World Trade Organisation to respond to the challenges of the Green and Digital Transitions, while promoting a global level playing field. The EU calls on China to play a part commensurate to its economic weight to help achieve these reform objectives.

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