POLICY BRIEF

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The European Union's Economic Dependence on China

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KEY POINTS

1. The problem is bottlenecks, not total trade. China dominates low-volume but hard-to-replace inputs such as rare-earth magnets, battery graphite and legacy chips.

2. The EU's instruments fall short. CRMA targets are ambitious, but traceable public support for strategic projects remains limited and project selection is not systematically tied to dependency reduction.

3. Member States lack a common approach. Germany prioritises economic ties with China, while France favours stronger trade defence; Beijing can exploit these divisions through bilateral relations.

Summary

The European Union aims to reduce its dependence on China, yet its goods trade deficit with China reached €359.8 billion in 2025. This dependence cannot be understood through a single trade figure. It reflects three interconnected challenges: narrow but irreplaceable supply bottlenecks, insufficient and fragmented financing, and the inability of 27 Member States to define shared interests.

In 2023, the EU adopted a "de-risking" approach rather than economic decoupling, and at the end of 2025 it adopted the RESourceEU Action Plan. Meanwhile, China expanded export controls on rare earth elements, demonstrating how economic dependence can become a source of political leverage. The chip supply crisis affecting Europe's automotive supply chain after the Dutch intervention in Nexperia made this vulnerability tangible.

This brief examines the reasons behind the EU's difficulties and presents four priorities for the European Commission and the Council: prioritising critical bottlenecks, providing verifiable financing, coordinating joint procurement and stockpiling, and making external partnerships more binding and results-oriented.

The Current Picture: An Uneven and Deepening Dependence

China is the EU's largest source of imports. In 2024, China accounted for 21.3% of extra-EU imports, while only 8.3% of extra-EU exports went to China (Eurostat). In 2025, the EU exported €199.6 billion worth of goods to China and imported €559.4 billion. Exports fell by 6.5%, while imports increased by 6.4% (Eurostat, via EUbusiness).

Year	EU exports (€bn)	EU imports (€bn)	Trade deficit (€bn)
2015	145.6	295.9	150.3
2024	213.3	517.8	304.5
2025	199.6	559.4	359.8

Source: Eurostat. The 2015 deficit is calculated as the difference between exports and imports.

The composition of imports also matters. Electrical machinery and equipment accounted for €164.9 billion, or 29.5%, of EU imports from China (Cyprus Mail). Since 2015, imports have increased by 89%, while exports have risen by only 37.1%.

How these figures should be interpreted remains contested. Rolf Langhammer of the Kiel Institute argues that the deficit reflects a loss of competitiveness in European exports more than a "flood" of Chinese goods, while trade also brings consumers lower prices and income gains (Courthouse News). The central risk, therefore, lies less in the overall volume of trade than in inputs that cannot readily be substituted.

At the policy level, the EU formalised its "de-risking, not decoupling" approach through the 2023 European Economic Security Strategy (Atlantic Council). In June 2026, the European Council gave the Commission political backing to strengthen its response to China's excess capacity (AJOT).

Why Is the EU Struggling? (1) Irreplaceable Inputs

The EU's most vulnerable points are raw materials that account for a relatively small share of economic value but are indispensable to production. According to Bruegel, China controls 60% of global rare-earth production and 90% of refining. More than half of rare earths are used in permanent magnets, for which substitutes are extremely difficult to find (Bruegel). In 2024, the EU imported approximately €24 billion worth of copper, while imports of rare earths and germanium amounted to only around €0.1 billion. Low trade value can therefore conceal substantial leverage.

Irreplaceable Inputs and the Use of Export Controls

China's refining dominance extends to other inputs: it processes approximately 70% of lithium, more than 90% of the graphite used in battery anodes, and over 75% of cobalt (Bruegel). The EU's domestic extraction share is below 10% for most raw materials. Its processing share ranges from 9.5% for lithium to 49.4% for graphite.

China has already used this position in practice. It introduced export controls on heavy rare earths in April 2025 and expanded their scope in October 2025; the second wave was postponed until November 2026 (European Parliamentary Research Service). According to S&P Global, the expanded measures are scheduled to take effect on 10 November 2026. On 24 July 2026, China added 14 European entities from eight countries—including Germany, France, Italy, the Netherlands and Poland—to an export list requiring special licences (S&P Global).

Following Trade Commissioner Šefčovič's visit to Beijing in October 2026, China said it would provide a "green channel" for rare-earth licences for Europe, while seeking EU support for imports of certain dual-use products (CNBC). Access to critical inputs has thus become a subject of negotiation.

The Nexperia case illustrates the same vulnerability in the automotive sector. At the end of September 2025, the Dutch government took control of the company amid concerns that its Chinese owner would shift production to China. China responded by halting chip exports to Europe (Reuters, via Yahoo Finance). Around 70% of Nexperia chips are completed in China (Supply Chain Digital), and the European automotive association ACEA warned of possible factory stoppages (Reuters, via Yahoo Finance). China eased export restrictions for civilian use in November 2025 (IO+), but the episode demonstrated that dependence can be triggered even at the level of corporate ownership.

Why Is the EU Struggling? (2) Twenty-Seven Member States, No Single China Policy

The EU's China policy reflects competing national interests rather than a single strategic position. According to the Atlantic Council, Member States broadly endorse "de-risking", but this has not yet developed into a unified strategy: influential countries shape the direction, while dissenting members can slow collective action. Implementation of the Commission's economic-security measures has also been constrained by uneven participation among Member States (Atlantic Council).

Germany is the clearest example. China again became Germany's largest trading partner in 2025, with bilateral trade reaching €251.8 billion (Euronews). In February 2026, Chancellor Merz visited Beijing accompanied by executives from 30 companies, including Volkswagen, BMW, Mercedes-Benz and Siemens. Germany's trade deficit with China was expected to reach approximately €90 billion in 2025 (China Briefing). BMW CEO Oliver Zipse has argued that automakers need China to remain globally competitive (New Mobility).

Member-State Divisions and China's Bilateral Leverage

France, by contrast, has called for stronger trade defence. After returning from Beijing, President Macron said that US-style tariffs could be considered. In December 2025, nine Member States—Czechia, Estonia, Finland, Ireland, Latvia, Malta, Portugal, Slovakia and Sweden—warned that a protectionist shift could do more harm than good (report based on Politico, via Yahoo).

China can exploit these divisions. Asia Society notes that Beijing prioritises bilateral relations with individual Member States over engagement through the EU's institutional channels (Asia Society). The German Marshall Fund (GMF) warns that Europe risks allowing China to play Member States against one another (GMF). Fragmentation is also visible in raw-material policy: national strategies overlap in partner countries, duplicate efforts and weaken the EU's bargaining power with third countries (Bruegel).

The June 2026 summit gave the Commission a mandate, and in October the Commission and China reached an arrangement intended to limit imports of Chinese hybrid vehicles. However, according to OSW, the arrangement does not address the structural causes of China's excess capacity (OSW).

Why Is the EU Struggling? (3) Instruments, Financing and Market Incentives

The Critical Raw Materials Act (CRMA) sets four targets for 2030: at least 10% of annual EU consumption should come from extraction within the EU, 40% from EU processing, and 25% from recycling; no more than 65% of any strategic raw material should come from a single third country (Bruegel). Bruegel's analysis suggests that current strategic projects are unlikely to meet these self-sufficiency targets.

Three obstacles stand out:

- **Project selection does not target dependencies.** Of 60 strategic projects, 47 are located within the EU. Project numbers are linked to expected demand growth, but not systematically to dependence on Chinese imports. Project owners provide their own production forecasts, creating incentives to overstate capacity in order to obtain strategic status.
- **Funding is limited and fragmented.** Bruegel identified approximately €1.26 billion in public support across 21 projects; none of this funding went to a project outside the EU. The European Court of Auditors described the framework as "not a sound policy".
- **The economics do not encourage companies to diversify.** Non-Chinese supply is more expensive. Firms may assume that governments will intervene during a crisis, reducing their incentive to invest in diversification. Smaller buyers cannot generate enough demand on their own to justify a new processing facility. Meanwhile, raw materials account for only around 2.5% to 4.5% of an electric vehicle's cost, indicating that the core problem is competitive pressure and a lack of coordination rather than the overall cost of materials.

Public Support for Strategic Supply Chains

Other major economies are committing substantially more resources:

Actor	Instrument	Scale
EU	RESourceEU financing hub (guarantees and loans)	€3 billion
EU	Tracked public support for 21 strategic projects	Approx. €1.26 billion
Japan	JOGMEC and public budget, as of December 2024	¥2.183 trillion
United States	Federal support for mining and processing projects since 2022	More than $19.2 billion
United States	Project Vault strategic stockpiling programme	$12 billion

Source: Bruegel, July 2026. These figures are not directly comparable because their scope and currencies differ.

The EU's external instruments have also produced limited results. According to Bruegel, strategic raw-material partnerships have had no measurable effect on exports. By contrast, after free trade agreements containing raw-material provisions entered into force, raw-material exports from partner countries to the EU increased by an average of 62.4 points (Bruegel).

Trade-defence measures have also had limited impact on Chinese vehicle sales. Additional duties of between 7.8% and 35.3% on electric vehicles did not stop sales of Chinese brands: approximately one million Chinese-brand vehicles were shipped to the EU in 2025, compared with around 770,000 in 2024 (AJOT).

What Needs to Change? | Policy Recommendations

Based on the findings of this brief, four priorities are proposed for the European Commission and the Council:

- **Prioritise critical bottlenecks.** Strategic raw-material and intermediate-input projects should be selected not by total trade volume, but by the concentration of supply and the risk of production disruption in difficult-to-substitute inputs such as rare-earth magnets, battery graphite and legacy chips.
- **Provide real funding and independent verification.** RESourceEU and related public support should be allocated according to the extent to which projects reduce critical dependencies, not merely their announced production capacity. Production forecasts submitted by project owners should be independently verified.
- **Coordinate joint procurement and stockpiling.** Rather than acting separately, Member States should pool demand through joint procurement and coordinated stockpiling mechanisms for critical inputs. This would strengthen supply security during a crisis.
- **Make external partnerships binding and measurable.** Raw-material partnerships should include measurable supply outcomes and enforceable commitments. The more tangible export gains associated with free trade agreements containing raw-material provisions should inform the design of future partnerships.

Policy Objective

The objective is not to end the EU's economic relationship with China. It is to reduce excessive dependence on a single supplier in critical inputs and to strengthen the bargaining power of Member States through a common European approach. This is consistent with the EU's stated principle of "de-risking, not decoupling".

Conclusion

The EU's economic dependence on China is not simply a question of the size of the bilateral trade deficit. The deeper vulnerability lies in concentrated supply chains for inputs that are difficult to replace, uneven public investment and the absence of a coherent position among Member States. Export controls and the Nexperia episode show that these dependencies can quickly become political and industrial risks.

The CRMA and RESourceEU provide a framework, but their impact will remain limited unless funding is directed towards the most critical bottlenecks, project claims are independently verified, and Member States coordinate procurement and stockpiling. The EU should also move beyond broad declarations of partnership and seek measurable supply commitments from external partners.

A coordinated strategy would not require economic decoupling from China. It would make the EU more resilient by ensuring that no single supplier can exercise disproportionate leverage over essential European industries.

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This policy brief is prepared in the context of EU policy studies and is addressed to the European Commission and the Council of the European Union. The analysis and recommendations are based on the source material provided by the author.