

Europe Between Washington and Beijing

The new competitiveness challenge

- While Washington appears increasingly interested in stabilizing its relationship with Beijing, Europe is becoming more concerned about the impact of Chinese competition on its industrial base.
- Europe's challenge is how to remain competitive in a world where both Beijing and Washington are actively supporting their strategic industries.

Introduction

For much of the last decade, the transatlantic debate on China seemed relatively straightforward. The United States pushed for a tougher stance, primarily because of concerns about technological leadership and strategic dependence on China. Europe, while sharing some of these concerns, generally preferred engagement, trade, and economic cooperation.

Today, that distinction is becoming less clear. A growing number of developments suggest that Washington and Brussels may be moving toward a surprising convergence, but from opposite directions. The United States, under President Trump, appears increasingly focused on stabilizing its broader relationship with China and prioritizing technological leadership, while Europe is becoming more willing to defend itself against Chinese economic pressure and is more focused on industrial resilience.¹

Europe's fears are increasingly economic

Europe's fears are increasingly economic rather than geopolitical. For years, European policymakers worried primarily about access to the Chinese market. Today, many are more concerned about Chinese exports entering Europe. Since 2021, EU imports from China have grown at a compound annual growth rate of 6%.²

Chinese firms have also rapidly expanded their presence in sectors that Europe considers strategic. China now accounts for more than 80% of the global solar panel manufacturing capacity, dominates much of the battery supply chain, and has become the world's largest exporter of electric vehicles (EVs).^{3,4} In 2025, China accounted for nearly three-quarters of the world's EV manufacturing and approximately 40% of global EV exports.⁵ Chinese manufacturers have also gained market share in industrial machinery, clean-energy equipment, and a growing range of advanced manufactured goods.⁶

Europe's concern is increasingly less about market access and more about industrial competition

The concern in Brussels is not simply the scale of Chinese exports, but the combination of industrial overcapacity, state support, and the speed at which Chinese firms have moved up the value chain.

Several sectors traditionally associated with European industrial leadership, most notably automobiles and clean-tech manufacturing, are facing growing Chinese competition.⁷ For example, despite Brussels's October 2024 decision to impose additional tariffs on Chinese-made EVs, EU sales of Chinese battery EVs (BEVs) have continued to grow. In the first four months of this year, Chinese brands accounted for 19.7% of the EU's total BEV market, up from 15.3% one year earlier.⁸

This explains the growing willingness of European institutions to investigate subsidies, impose tariffs, and scrutinize foreign investment, as well as the growing consensus among Member States for the European Commission to develop new industrial policy tools to strengthen the EU's trade defenses.⁹

And yet, despite the increasingly combative rhetoric from some EU Member States, particularly Germany, the June 18th European leaders' summit showed the strength and the limits of the emerging consensus. EU leaders broadly agreed that Europe's trade relationship with China has become more unbalanced, yet they stopped short of endorsing an immediate escalation.¹⁰ Instead, they urged European Commission President Ursula von der Leyen to continue "engaging in constructive dialogue" with Beijing while reviewing whether the EU needs faster, broader, and more complementary tools to defend itself against subsidized imports, export controls, and strategic dependencies.¹¹ While Washington increasingly fears China's technological rise, Europe increasingly fears China's industrial strength.

The United States faces a different challenge

The U.S.-China debate is increasingly centered on technological leadership

The U.S. debate, on the other hand, is different. Washington still views China as a strategic rival, but its central concern is technology and national security rather than import competition across the economy.¹² Washington seeks to maintain leadership in critical technologies, such as semiconductors, AI, advanced computing, telecommunications infrastructure, and defense-related technologies.¹³

While tariffs remain in place and tensions persist, recent developments suggest that the larger goal is to prevent China from dominating the technologies that will shape military power and future growth, and that both sides are seeking to avoid a broader economic confrontation.

The result is a subtle but important divergence between the United States and Europe. Washington is increasingly concerned about China's technological rise and losing its edge in the technologies that will drive future growth and military power. At the same time, Brussels is increasingly alarmed about China's industrial strength and fears losing the manufacturing base it needs to remain economically sovereign.

The real competition is between economic models

The debate is often framed around tariffs, but the deeper issue is how different economic systems generate competitiveness and technological leadership. China's rise has been driven by a combination of industrial policy, strategic planning, large-scale investment, and manufacturing dominance. The United States, on the other hand, relies more heavily on private capital, innovation ecosystems, and entrepreneurial dynamism.

Europe finds itself in a difficult position between the two. Unlike the United States, Europe lacks a deep and integrated capital market capable of financing innovation at scale. And unlike China, it lacks the centralized policy tools needed to direct investment quickly and decisively toward strategic sectors.

Europe often excels at research, engineering, and regulation, yet struggles to translate these strengths into globally dominant companies. Its challenges are increasingly visible in sectors ranging from EVs and batteries to AI, semiconductors, and clean technologies. Europe now faces competition from Chinese manufacturers supported by industrial policy and U.S. firms backed by deep capital markets and large-scale federal incentives, despite the Trump administration's partial rollback of the Biden-era industrial policies. The CHIPS Act, which has received nearly \$53 billion to bolster U.S. semiconductor manufacturing, has allocated \$33 billion thus far.¹⁴ Experts estimate the remaining credits from the Inflation Reduction Act for clean energy and advanced manufacturing will likely amount to over \$350 billion over the coming decade.¹⁵

Europe is increasingly squeezed between China's industrial scale and America's innovation ecosystem

Caught between Washington and Beijing

The risk for Europe is not simply Chinese competition. It is simultaneous pressure from both sides.¹⁶ Chinese manufacturers continue to expand their global market share, while U.S. industrial policies are attracting investment that might otherwise have flowed into Europe. As a result, Europe must simultaneously compete with China's manufacturing scale and U.S. technological leadership.¹⁷

If current trends continue, Europe risks becoming dependent on U.S. technology platforms while relying on Chinese manufacturing capacity in key sectors.

Europe risks losing control over critical technologies and industrial supply chains

Europe's strategic choice

The answer for Europe should not be protectionism. Nor should it be a return to the globalization model that prevailed before the pandemic, the energy crisis, and growing geopolitical tensions. Instead, Europe will need a more coherent strategy focused on competitiveness. This means improving Europe's ability to mobilize capital and scale innovation in strategic sectors while reducing the fragmentation that continues to hold back investment. Europe retains significant strengths in advanced manufacturing, industrial engineering, and several high-technology sectors, but it has struggled to scale those advantages into global leadership.

Europe's challenge is to remain open without falling behind

Europe's goal should be to develop a European model capable of competing with those of China and the United States while preserving its economic openness and industrial base.

Between dependence and decoupling

The debate in Washington and Brussels about their respective China policies is often incorrectly presented as a choice between engagement and confrontation.

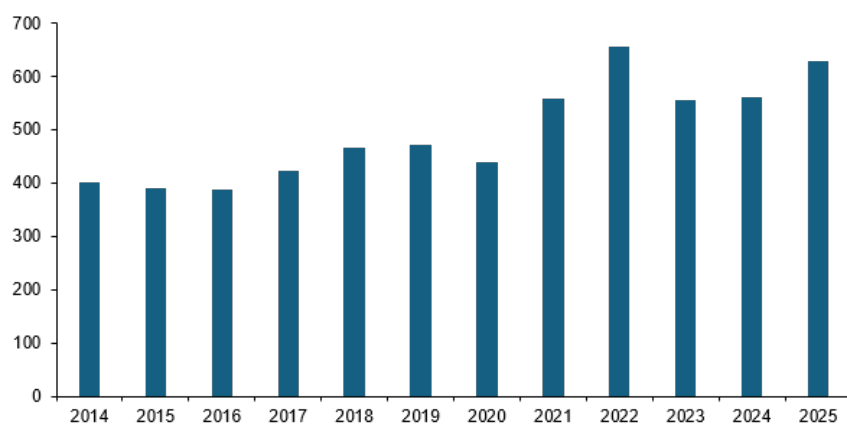
That is increasingly the wrong question. Neither the United States nor Europe appears willing to pursue full-scale decoupling. The economic costs would be too high. At the same time, neither side appears willing to accept growing strategic dependencies in critical sectors.

Europe and the United States may differ in their tactics, but they are gradually moving toward the same conclusion. The emerging consensus is one of selective competition: staying economically connected while reducing vulnerabilities in areas essential to national security, industrial capacity, and long-term competitiveness. Economic resilience now matters almost as much as economic efficiency.

The real question is whether Europe can compete without choosing between Washington and Beijing

For Europe, the real question is therefore whether Europe can adapt quickly enough to remain competitive in a world increasingly shaped by Chinese manufacturing strength and U.S. technological leadership.

EXHIBIT 5.0 – VALUE OF EU IMPORTS FROM CHINA, 2014 – 2025 (USD BILLIONS)



Source: United Nations COMTRADE database.

Notes

- ¹ <https://www.cer.eu/insights/europes-door-chinese-tech-investment-still-ajar>
- ² <https://www.bruegel.org/newsletter/europes-trade-problem-china-becoming-more-measurable>
- ³ <https://iea.blob.core.windows.net/assets/d2ee601d-6b1a-4cd2-a0e8-db02dc64332c/SpecialReportonSolarPVGlobalSupplyChains.pdf>
- ⁴ <https://www.iea.org/commentaries/global-battery-markets-are-growing-strongly-and-so-are-the-supply-risks>
- ⁵ <https://www.iea.org/reports/global-ev-outlook-2026/manufacturing-and-trade>
- ⁶ <https://rhg.com/research/chinas-next-generation-industrial-policy/>
- ⁷ https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en
- ⁸ <https://www.euronews.com/business/2026/05/27/chinese-carmakers-double-eu-market-share-as-evs-drive-sales-growth>
- ⁹ <https://www.politico.eu/article/eu-leaders-demand-von-der-leyen-tools-up-against-china/>
- ¹⁰ <https://www.ft.com/content/e220372c-b20e-418e-9f02-29a5aa269702>
- ¹¹ Ibid.
- ¹² <https://www.cfr.org/backgrounders/contentious-us-china-trade-relationship>
- ¹³ <https://www.politico.com/news/2025/12/11/trump-enlists-5-allies-to-counter-china-on-rare-earths-and-tech-00688068>
- ¹⁴ <https://www.manufacturingdive.com/news/chips-and-science-act-tracker-semiconductor-manufacturing/734039/>
- ¹⁵ <https://www.pgpf.org/article/energy-tax-policy-under-the-obbba>
- ¹⁶ <https://carnegieendowment.org/europe/posts/2026/05/can-europe-compete-with-the-united-states-and-china>
- ¹⁷ https://ec.europa.eu/commission/presscorner/detail/en/speech_26_1289