Europe-China trade: a growing imbalance

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Confidential

Executive summary

Having deteriorated significantly following the energy crisis of 2022, the eurozone's trade balance has been in surplus again since the second half of 2023. However, it has not returned to its initial level, reflecting a loss of competitiveness that is having a lasting negative impact on European businesses. The marked deterioration in the eurozone's bilateral trade balance with China is one of the main manifestations of this.

The current rate of growth in European imports from China has been higher in the past, particularly during the 2000s, known as the "Chinese shock" years following Beijing's accession to the WTO. But what is unique about the current period is that this time it is accompanied by an equivalent decline in European exports to China (-10% year-on-year).

Unsurprisingly, Germany is the country contributing most to the decline in exports to China. It accounts for 62% of the total decline in EU exports, corresponding to a €13 billion drop in its exports to China over one year. It is followed by the Netherlands (-€3 billion), Italy (-€2 billion), Ireland and France (-€1 billion each), with other countries exporting relatively little to China. Most European countries, on the other hand, are affected by the increase in Chinese imports.

The deterioration in the bilateral trade balance with China is affecting many sectors. Whereas until 2022 Europe had a trade surplus with China of around €15-20 billion on cars, it now has a deficit of €3.5 billion. The deterioration in bilateral trade is also significant in the pharmaceuticals and electronics sectors (batteries, transformers, etc.), with the exception of semiconductors and solar panels, where support from the European Commission seems to have mitigated the deficit. The situation is also deteriorating for domestic equipment (furniture, heating, air conditioning, lighting, etc.), textiles (mainly ready-to-wear clothing), metallurgy and cereals. Only aeronautics and industrial machinery stand out with an improvement in their trade balance.

The deterioration in European competitiveness vis-à-vis China appears to be due to multiple factors. Firstly, the eurozone's price competitiveness has deteriorated significantly. $Since 2023, the euro has appreciated by 12% in nominal terms against the yuan, but this appreciation reaches 24% in real terms, due to lower inflation in China than in the eurozone. Labour cost trends in both areas confirm this observation. Secondly, as highlighted in the Commission's report on European competitiveness, known as the "Draghi report", Europe's lag in innovation is detrimental to the industrial sector. China surpassed the EU in R&D spending in 2019.

Aware of this gap, the European Commission has launched several major investment plans in recent years. For its part, China is expected to present a new industrial strategy in its five-year plan in March 2026. The stated objective is self-sufficiency in the most innovative strategic sectors, with investments redirected towards quantum technologies, bio-manufacturing, hydrogen energy and nuclear fusion. Furthermore, the broad outlines presented so far do not suggest a real break with the industrial development model based on export competitiveness, even though stimulating demand is an increasingly pressing challenge in China.

1. In Europe, a weakening trade surplus due to a growing deficit with China

1.1. Eurozone: a trade surplus weakened since 2022

Between the early 2010s and 2021, **the eurozone's trade balance was in surplus, hovering around €200 billion,** or around 2% of GDP. But from 2022 onwards, the rise in the cost of Europe's energy supplies caused a massive and sudden deterioration in the monetary union's trade balance, which plunged to €300 billion over 12 months in December 2022 (-2.4% of GDP), before returning to a surplus from mid-2023 onwards.

Nevertheless, **this surplus never returned to its pre-energy crisis level**, peaking at €180 billion in September 2024. In August 2025 (latest data available), **the European trade surplus** did not exceed €157 billion.

Figure 1. Eurozone trade balance with the rest of the world

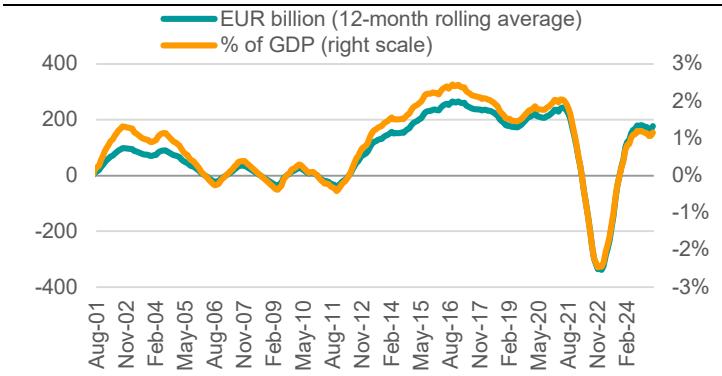
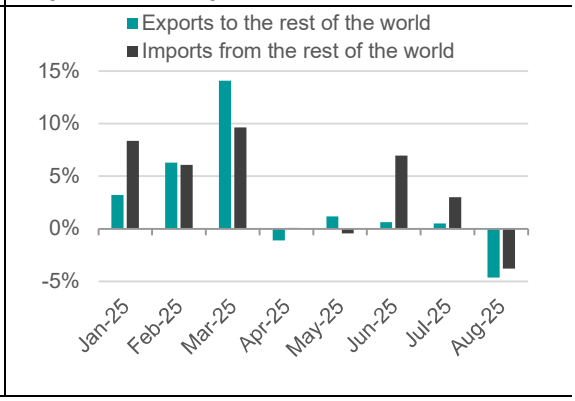


Figure 2. Annual change in eurozone exports and imports



Source: Eurostat

Eurozone exports nevertheless performed well in the first quarter of 2025, particularly to the United States, due to an acceleration in stockpiling by importers in anticipation of the application of additional customs tariffs announced by the US administration. However, since April, export growth has stalled. And since the beginning of the year, **eurozone imports have been on an upward trend,** foreshadowing a further deterioration in the eurozone's trade balance.

1.2. The eurozone's trade balance with China is deteriorating rapidly.

The eurozone's bilateral trade balance with China is structurally in deficit. It remained stable at around €100 billion until 2021. After widening significantly in the wake of the energy crisis, it narrowed slightly, without returning to its initial level, peaking at €200 billion in May 2024. Since then, the deterioration has resumed at a rapid pace, **with the bilateral trade balance falling from €200 billion in May 2024 (over 12 months) to €266 billion in August 2025.** This level is unprecedented in 20 years (excluding the energy crisis). The eurozone has suffered the double impact of a decline in exports and an increase in imports.

Figure 3. Eurozone trade balance with China

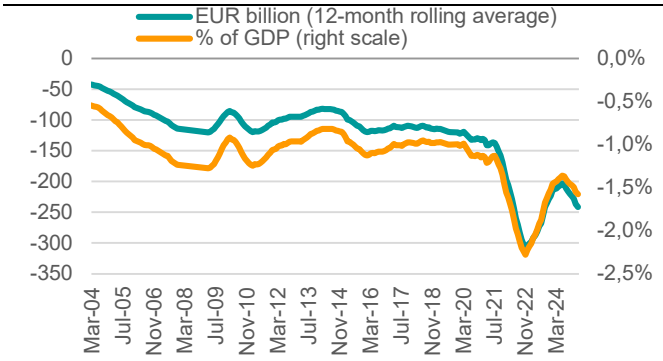
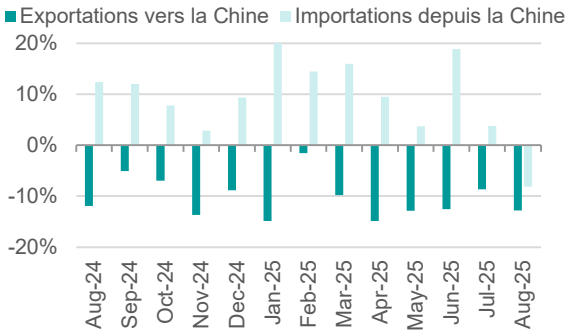


Figure 4. Change in eurozone exports and imports to China (monthly data, annual change)



Source: Eurostat

1.3. Is Europe facing a second "China shock"?

This trade situation with China is reminiscent of the "China shock" that followed China's accession to the WTO in 2001. Trade barriers (customs tariffs, quotas, etc.) imposed by other countries on China were relaxed in exchange for greater access to the Chinese market for WTO member countries. **China then saw its share of global exports rise from 5% in 2001 to 16% fifteen years later,** a tenfold increase in the value of its exports (from around US$250 billion in 2000 to US$2,300 billion in 2015, Figure 5 below).

Figure 5. Market share in global exports

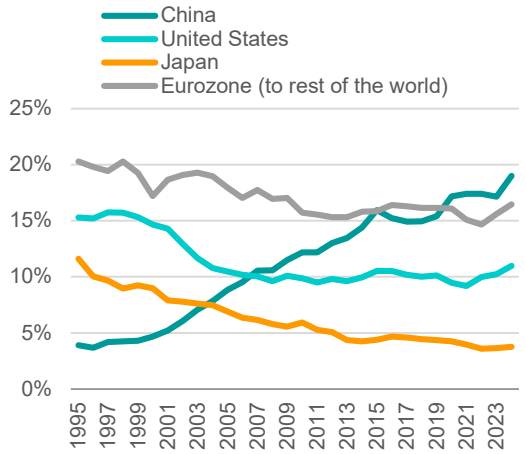


Figure 6. Change in EU trade with China (annual, 12-month rolling average, in value)

Source: UN Comtrade, Eurostat

This current trend is reminiscent of the “China shock” of the 2000s. Several facts are worth noting:

- **The current rate of growth in imports from China, approximately +10% this year in value terms, is high but well below the record levels seen in the 2000s**. At that time, growth remained above 20% per annum for nearly four years.
- **However, in the 2000s, the growth in European imports from China coincided with an increase in European exports to China**, supported at the time by strong growth in the Chinese market (average GDP growth of 10.6% per year between 2001 and 2010) and a need to import high value-added intermediate and finished goods. However, European exports to China are currently declining (-10% year-on-year), particularly affected by sluggish demand on the Chinese domestic market.

1.4. Germany and the Netherlands are suffering from fewer opportunities in China, while the trade balance of the rest of the EU is mainly penalised by rising imports.

Over the last 12 months, the deterioration in the bilateral trade balance with China has affected almost all European Union countries. **Only three countries have escaped this trend: Luxembourg, Finland and Greece.** Unsurprisingly, **Germany, Italy, the Netherlands, France, Poland and Spain are the countries most affected by the decline in the trade balance** (Figure 7 below).

In almost all European countries, the widening trade deficit is due more to an increase in imports than to a decline in exports.

Only Germany and the Netherlands have seen a sharp decline in exports to China, which is responsible for the decline in total exports from the eurozone, reflecting a decline in demand for their industrial products.

Figure 7. Annual change in trade balance with China, by EU country (€ bn, August 2025, 12-month rolling average)

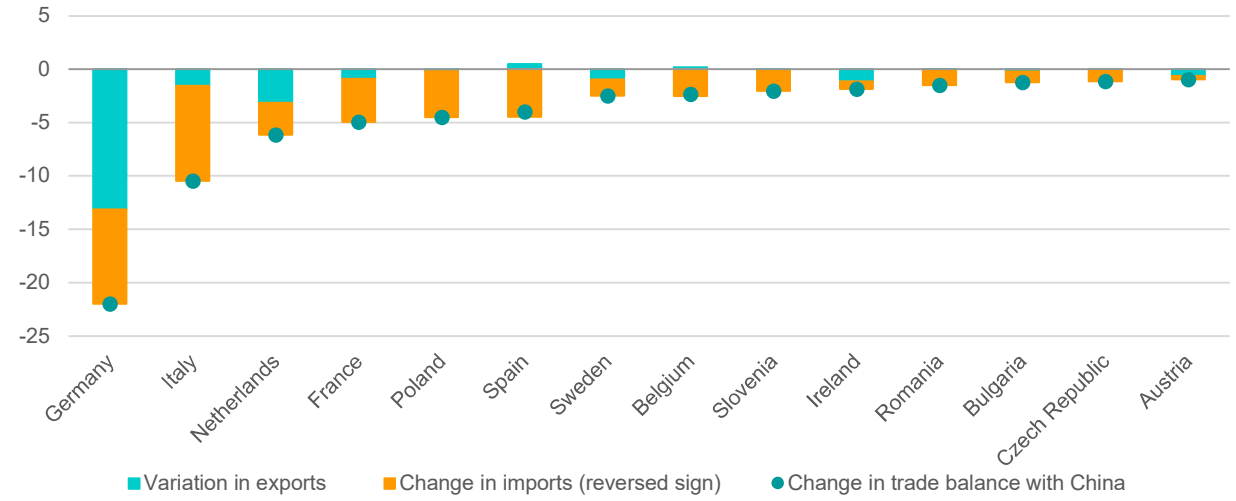


Figure 8. Change in exports to China (August 2025, over 12 months, as a percentage of each country's exports)

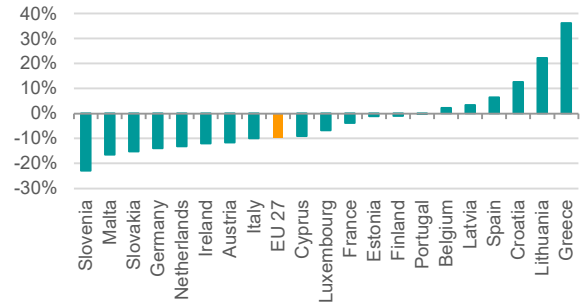
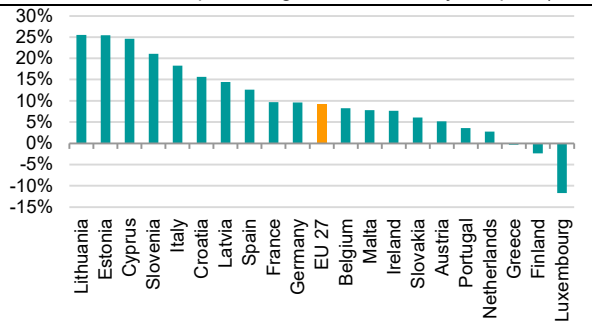


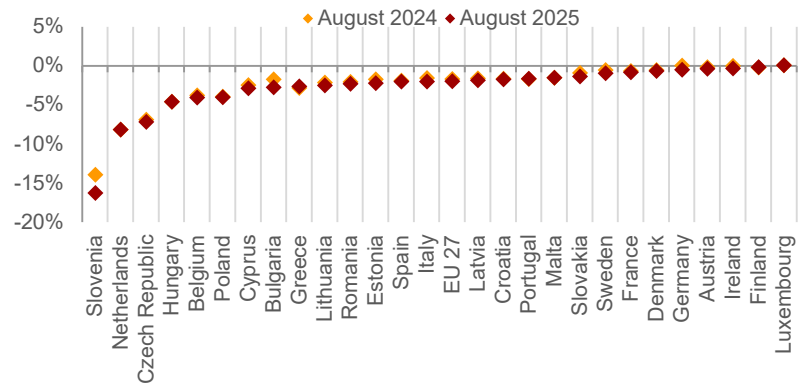
Figure 9. Change in imports from China (August 2025, over 12 months, as a percentage of each country's exports)



Source: Eurostat

In relation to each country's GDP, Slovenia, the Netherlands and the Czech Republic have the largest trade deficits with China, exceeding 15% of GDP in the case of Slovenia.

Figure 10. Bilateral trade balance with China (as a percentage of GDP, 12-month rolling average)



Source: Eurostat

In Slovenia's case, this can be explained by the **role of the port of Koper as a logistics hub, which is a major entry point for cars imported into Europe from China**, particularly electric cars. The Netherlands and Belgium are also important logistics hubs for the import of Chinese products, some of which are redistributed throughout the rest of the EU.

Slovenia: a growing hub serving China's trade strategy in Europe

Due to the strategic location of the Slovenian port of Koper in the northern Adriatic Sea, which is easily accessible for ships arriving from the Suez Canal and well connected to *the hinterland* of southern, western and central Europe, **China has made it a key point in its trade strategy in Europe**. Slovenian imports from China have seen the strongest increase of any EU country since 2019 (Figure 11 below). **They have increased fivefold in value between 2019 and 2025 (**from €2 billion in 2019 to more than €10 billion in 2024/2025, a fivefold increase in value). At the same time, imports for the EU as a whole have increased by only 40%.

Since 2012, Slovenia has been participating in **the "16/17+1" initiative,** a format bringing together 17 countries from Central and Eastern Europe to promote economic cooperation, investment and trade with China. In 2017, a memorandum was also signed between the Slovenian and Chinese authorities as part of **the Silk Roads Initiative.**

The car terminal at the port of Koper is a key logistics hub for Chinese imports into Europe, particularly electric vehicles. Chinese companies have repeatedly expressed interest in taking control of it, following the example of the Greek port of Piraeus, also on the Mediterranean side of Europe[1] . The port of Koper frequently receives the BYD Shenzhen, the world's largest ro-ro cargo ship launched in 2025 by Chinese manufacturer BYD, which can carry up to 9,200 cars. **Slovenia is one of five EU members that voted in October 2024 against the Union's 35% surcharge on Chinese electric vehicles,** alongside Germany, Hungary, Slovakia and Malta.

Slovenia is also **an important port of call for other Chinese exports, such as technology products**. The country is a major market for Chinese telecommunications leader Huawei, to the extent that in 2020, the authorities proposed limiting the use of the Chinese firm for the introduction of 5G infrastructure, but these restrictions were not approved by Parliament.

Investments have also been made in industry, with the Chinese firm Hisense acquiring Slovenia's leading manufacturer of domestic appliances, Gorenje, for nearly €300 million in 2018.

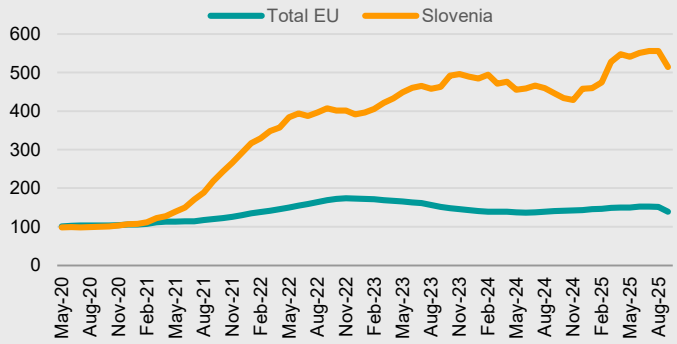
Links have also been forged in the pharmaceutical sector, with the Slovenian leader in the sector, Krka, establishing a joint venture in China, and Chinese companies in the sector choosing Slovenia as the location for their European research centres (Boten PharmaTech).

[1] Chinese Influence in Slovenia - CEPA, CEPA, 10/08/2022

The BYD Shenzhen ship in the port of Koper, Slovenia.

Photo: Österreichische Verkehrszeitung

Figure 11. Imports from China (in value, base 100 = 2019)



Source: Eurostat

2. A deterioration in bilateral trade with China affecting almost all sectors except aeronautics and industrial machinery

2.1. European competitiveness losing momentum in most industrial sectors

The decline in European exports to China, coupled with an increase in imports from that country, is responsible for the significant deterioration in the bilateral trade balance between Europe and China. This deterioration is particularly noticeable in certain specific sectors.

To identify the sectors most affected by the loss of competitiveness, we observed the evolution of the European Union's trade balance with China for all products in HS category 4 (approximately 1,360 product classes) during the 12 months preceding the latest available data (August 2025). **We ranked products according to this variation to highlight those whose bilateral trade balance with China had deteriorated the most,** and those, fewer in number, for which the trade balance had improved.

In the most weakened sectors, several products, whether finished or intermediate, saw their bilateral trade balance deteriorate. These sectors include:

- Automobiles
- Domestic equipment (furniture, household appliances, etc.)
- Pharmaceuticals and healthcare goods
- Metallurgy
- Textiles and clothing
- Electrical equipment (except for semiconductors and solar panels)

In other sectors, **the change in the trade balance varies depending on the product** but is generally unfavourable to Europe. These sectors include:

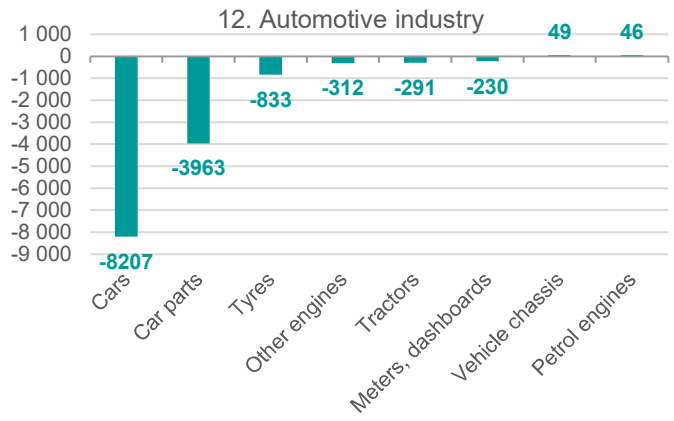
- Food
- Shipbuilding

Finally**, a few European industrial strongholds are holding their own, with their trade surpluses continuing to grow**. These include:

- Aeronautics
- Industrial equipment

2.1.1 Automotive: end of the European trade surplus with China

Figure 12. Annual change in the EU-China trade balance, by product (M€, August 2025, 12-month rolling average)



Source: Eurostat

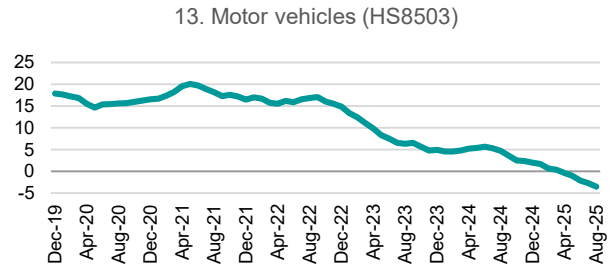
Automobiles are the product that has seen the worst change in its bilateral EU-China trade balance over the last 12 months.

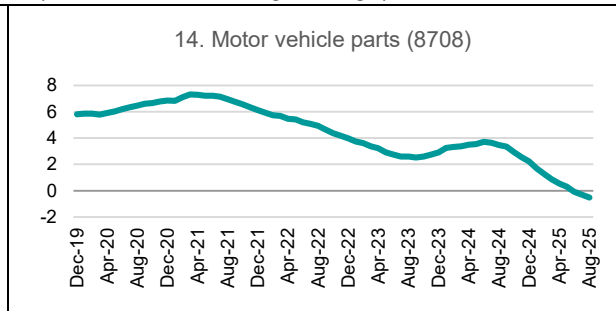
For assembled motor vehicles (HS8703), the bilateral trade balance deteriorated by €8.2 billion over 12 months. For spare parts, the trade balance deteriorated by nearly €4 billion over 12 months.

As a result, **the EU will have a bilateral deficit with China for motor vehicles and spare parts for the first time in 2025** (Figures 13 and 14 below).

The EU's bilateral deficit on automobiles stood at €3.5 billion over 12 months in August 2025, compared with a surplus of €15-20 billion per year until 2022. China's trade offensive in the sector **has both reduced European exports and increased imports from China:** since 2022, imports of Chinese cars into the eurozone have risen by 43% to €13.5 billion, while exports have fallen by 59% in value.

Figures 13 and 14. EU bilateral trade balance with China (€bn, 12-month rolling average)





Products associated with the automotive sector, such as tyres and tractors, are also experiencing the same trend, with European exports falling and imports from China rising, further widening a trade deficit that, for these products, is nevertheless long-standing.

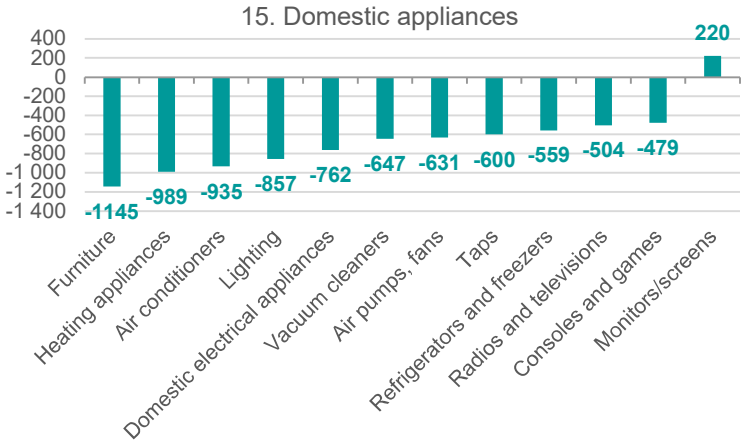
Only a few intermediate products in the automotive value chain are bucking this trend and have had a positive impact on the sector's trade balance over the past year. Chassis, in particular, have benefited from a favourable export trend, while European imports of petrol engines have declined, having a positive impact on the trade balance.

Other automotive sub-products, which are not mentioned in the analysis or shown in Figure 12, have not seen any significant change in their bilateral EU-China trade balance.

2.1.2 Trade balance also deteriorating in the domestic equipment and textile sectors

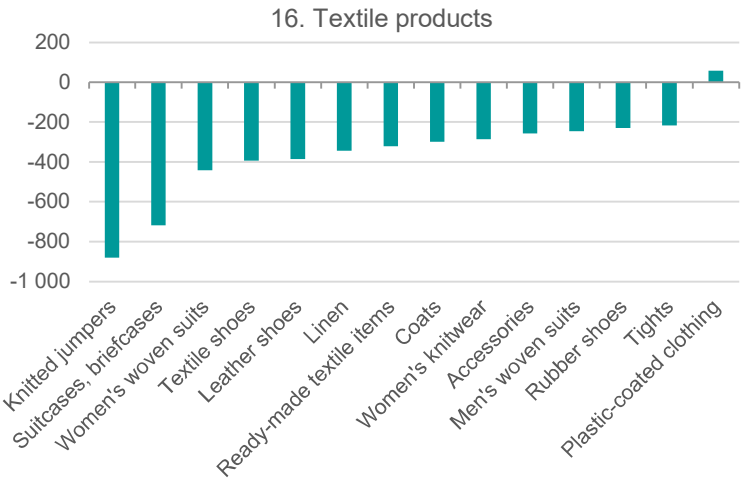
The automotive sector is not the only one to have been hit hard by the deterioration in its trade balance with China.

Figures 15 and 16. Annual change in the EU-China trade balance, by product (M€, August 2025, 12-month rolling average)



Domestic appliances, for example, listed in the graph opposite, have also contributed negatively to European trade with China.

In this sector, almost all products are experiencing a negative trend. Only screens/monitors stand out, with a reduction in Europe's chronic trade deficit for these products.



In the textile sector, China's offensive in Europe is also very marked.

For these products, where imports from China are already structurally higher than exports, **the deterioration in the trade balance mainly reflects an increase in imports** supported by growing demand in Europe for Chinese products.

For most ready-to-wear products, **imports from China have increased by between 10% and 25%, depending on the product (see Figure 16)**.

In the textile **sector**, **this trend has already been highlighted on numerous occasions by industry professionals, who point to an influx of fast fashion products on the European market** and emphasise that most of these imports take the form of small parcels benefiting from tax and customs relief[2] .

2.2. Exporting industrial sectors such as pharmaceuticals and healthcare products are also struggling

In the health products sector (medicines, active ingredients, instruments, etc.), the European trade surplus is eroding. The increase in imports of hormonal products and derivatives (+1277%), the decline in

[2] European textile manufacturers urge the EU to take action against Chinese platforms such as Shein, *Le Monde.fr,* 15/09/2025

exports of vaccines, blood and serums (-41%), and the increase in imports of medicines (+148%) are only partially offset by the strong export performance of antibiotics (+91%) and other products.

Figure 17. Annual change in the EU-China trade balance, by product (€ million, August 2025, 12-month rolling average)

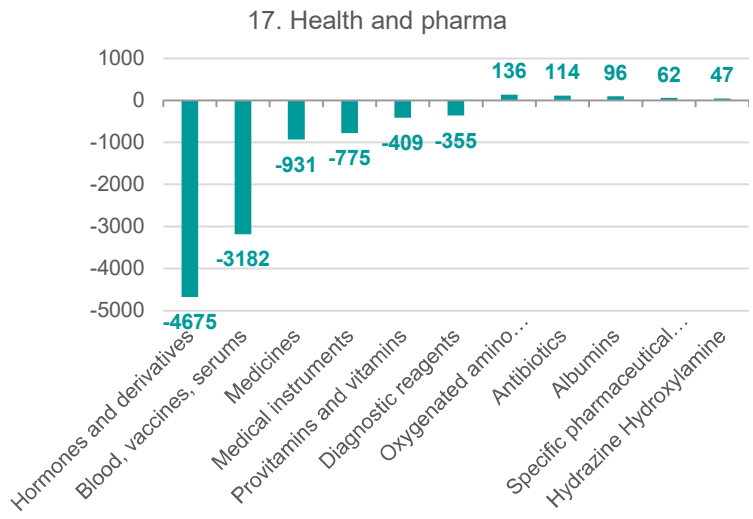
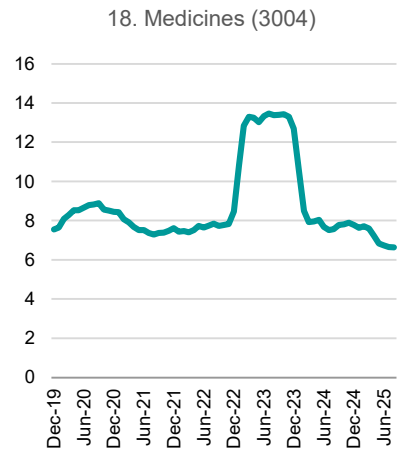


Figure 18. EU-China bilateral trade balance (€bn, 12-month rolling average)



Source: Eurostat

The EU's trade surplus with China for medicines (packaged for retail sale, HS3004) has been close to €8 billion per year in recent years. It had temporarily jumped to over €13 billion in 2023 due to a spike in exports of *Paxlovid,* an antiviral drug against Covid-19 that had been used extensively in China after restrictions were lifted, manufactured by Pfizer in its factories in Italy and Ireland[3] .

Since 2024, however, the European surplus has fallen to €6.6 billion in August 2025. **Although European exports to China have continued to grow this year (+6% year-on-year), imports from China have jumped by 148% over the same period**. Production relocations and the increase in the market share of generic drugs manufactured in China (among other factors) could be behind this trend. In this sector, **European manufacturers complain of unfair competition from Asian imports, which have lower manufacturing costs due to less stringent environmental and social standards** and**,** in some cases**,** newer production machinery. Finally, the Chinese (and Indian) authorities support their local industries through subsidies and the imposition of customs duties. For active ingredients and intermediate products used in the manufacture of medicines, the concentration of supplies from China is also contributing to the deterioration of the balance[4] .

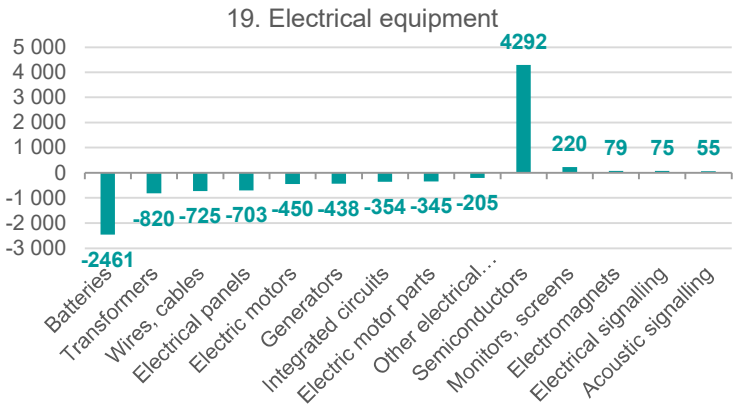
The European Commission proposed a regulation on critical medicines in March 2025, and since June 2025, **the European Council and Parliament have been in negotiations on strengthening the security of supply and competitiveness of European industries by reducing the regulatory burden**.

2.3. A difficult-to-contain influx of electrical and electronic equipment

The EU's bilateral trade balance with China has also deteriorated significantly in a third sector, that of electrical and electronic equipment. **The bilateral trade balance on batteries has deteriorated by nearly €2.5 billion.**

[3] Italy's Mysterious Export Boom to China Was Driven by Pfizer Anti-Covid Drug, Bloomberg.com, 31/05/2023
[4] Faced with Asian competition, the gap widens for European drug manufacturers, Le Monde.fr, 10/01/2025

Figure 19. Annual change in the EU-China trade balance, by product (€ million, August 2025, 12-month rolling average)



Source: Eurostat

EU imports of batteries from China reached €24.2 billion over one year, compared with only €700 million in exports.

The increase in Chinese exports to the EU also applies to most other electrical equipment shown opposite (+14% over one year for wires and cables, +9% for electric motors, +6% for integrated circuits).

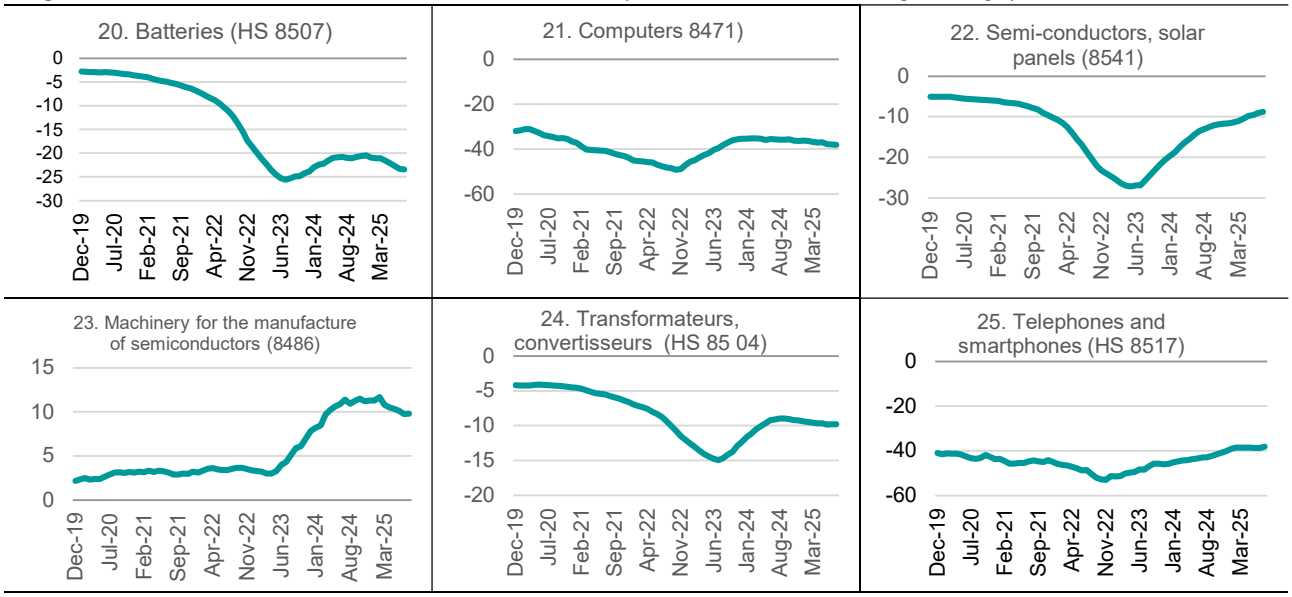
However, the deterioration in the trade balance cannot be explained solely by increased demand for imports driven by the electrification of infrastructure, industry and transport. **For many products that Europe also manufactures, exports to China are declining,** such as transformers (-22%), electrical panels (-14%), electric motors (-12%) and integrated circuits (-1%), reflecting a loss of relative competitiveness for Europe in the Chinese market.

However, semiconductors and solar panels stand out from other products, with an improvement in the trade balance with China over the past year. The 28% decline in imports from China (-€4.1 billion) plays a major role in this development, with the increase in exports to China (+12%, or +€117 million) being more modest.

This improvement in the trade balance could reflect the consequences of *the European Chips Act*, an agreement reached in 2023 between the European Parliament and Member States. This plan aims to give the EU the means to establish, at least partially, strategic autonomy in semiconductors, with the goal of reaching a 20% market share by 2030, compared to 10% today, thanks to €43 billion in public and private investment, including €15 billion directly mobilised through the legislative package. A relaxation of competition rules was also agreed to allow for more subsidies from Member States.

The middle of 2023 therefore marked a turning point for imports of many technological products into the EU (see bilateral trade balances by product, Figures 20 to 25 below). Production capacity had been significantly expanded in Germany, Poland and Portugal in particular.

Figures 20 to 25. EU-China bilateral trade balance (€ billion, 12-month rolling average)



Source: Eurostat

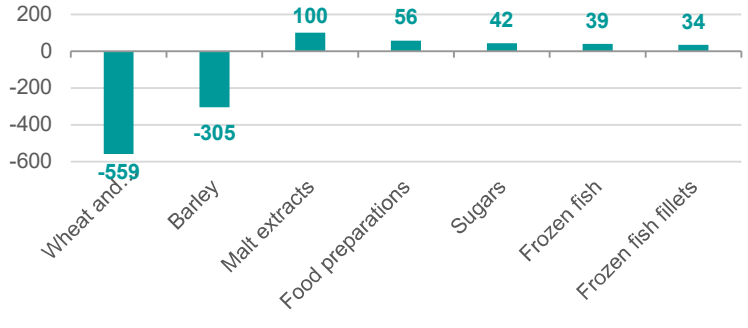
However, this trend is now slowing down and the balance of power with China has shifted unfavourably for many products, including semiconductor manufacturing equipment, of which Europe is a net exporter.

In this context, a revision of *the European Chips Act* is expected to take place. The Commission has already launched a public consultation on this issue. According to the European Court of Auditors, the target of a 20% European market share for electronic chips is now considered unrealistic[5] . A shift in European policy towards considerations related to the preservation of value chains could be made, particularly after China threatened to increase its controls on exports of rare earths, which are essential inputs for the semiconductor industry.

The implementation of the "anti-coercion instrument", which has never been used by the European Union to date, could also be considered against China. This instrument would make it possible to impose surcharges and export restrictions on a player deemed "hostile" or even block its access to European public procurement markets, at the risk of a protectionist escalation.

2.4. In the agricultural and food sector, a decline in wheat exports weighs heavily on bilateral trade

Figure 26. Annual change in the EU-China trade balance, by product (M€, August 2025, 12-month rolling average)



Source: Eurostat

In the agricultural and food sector, the trade balance improved slightly for a few products that Europe exports to China, notably malt extracts, food preparations and frozen fish.

However, European exports of wheat and barley declined, causing a deterioration in the trade balance for the agricultural and food sector as a whole.

[5] The 27 EU Member States call for a review of the Chips Act, www.usine-digitale.fr, 29/09/2025

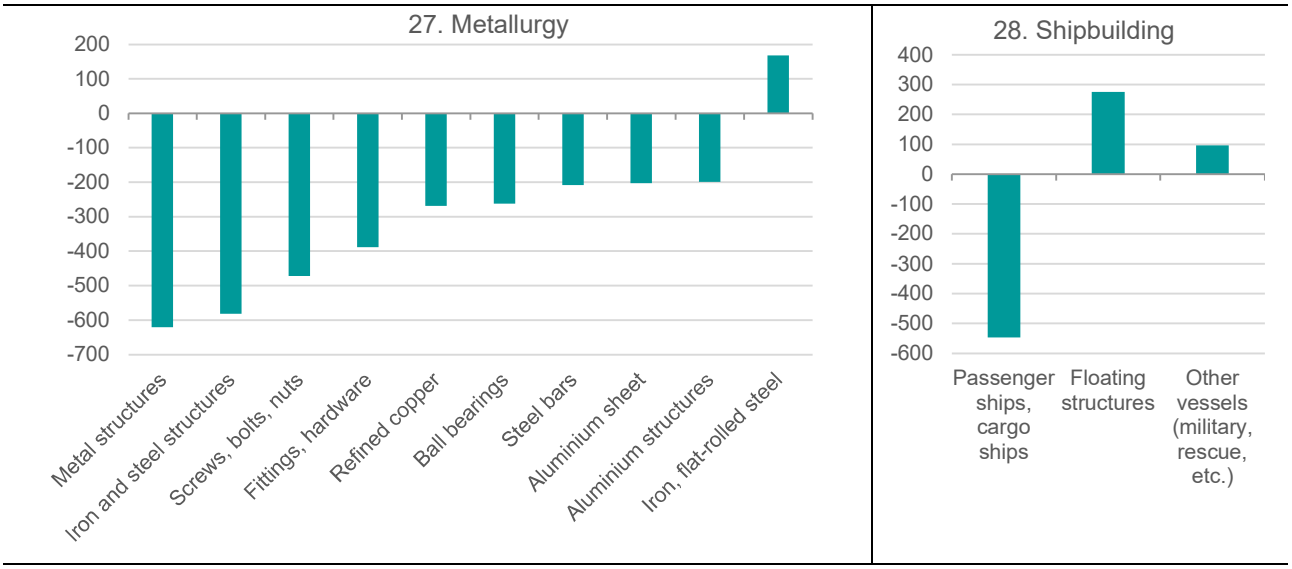
Several factors explain the decline in wheat exports of nearly 550 million, (an almost complete reduction in exports over the period September 2024-August 2025 compared to the previous year). Firstly, in the EU, only France and Hungary can export their wheat to China due to phytosanitary certifications. However, in 2024, the French wheat harvest fell by 22% compared to previous years[6] . Secondly, China reduced its wheat imports by two-thirds in 2024-2025, due to an increase in local production[7] , and the consumption of part of its stocks.

2.5. A deterioration in the bilateral trade balance also fuelled by several other sectors

Beyond the sectors mentioned above, the striking fact revealed by the analysis of the deterioration in the EU's trade balance with China is the diversity of the industrial sectors affected.

In the metallurgy sector, for example, the largest fluctuations in the trade balance by product are unfavourable, mainly affecting products for which Europe already has a structural deficit vis-à-vis China, such as metal structures (bridges, pylons, frames, doors and windows, etc.), iron and steel products, and small hardware items. These products are suffering from the double effect of falling European exports and rising Chinese imports, reflecting Europe's declining competitiveness.

Figures 27 and 28. Annual change in the EU-China trade balance, by product
(€ million, August 2025, 12-month rolling average)



Source: Eurostat

In the shipbuilding sector, for example, the decline in European imports of specific products such as floating structures and specialised vessels cannot compensate for the Old Continent's lack of competitiveness vis-à-vis China in the passenger ship/cargo ship sector. For the latter, EU imports continued to increase, reaching €2.3 billion over 12 months (+36%), while exports, which were much lower at €62 million over 12 months, fell by 26%.

2.6. Two sectors stand out for their improved trade performance with China: aeronautics and industrial equipment.

In the aeronautics and industrial equipment sectors, the trade balance with China is improving.

Exports of aircrafts and helicopters are up compared to the previous year. **For this product, the European trade surplus (Figure 30) appears to be relatively cyclical, with its current level in line with the average for the last five years**. This trend reflects the sustained growth of the Chinese aviation sector and the

[6] Agreste, French Ministry of Agriculture, https://agreste.agriculture.gouv.fr/agreste-web/disaron/IraGcu24113/detail/#:~:text=In%202024%2C%20production%20of%20barley%20will%20reach%2010%2C0%20Mt.
[7] USDA report, Grain and Feed Update, China, 2 July 2025

numerous orders placed in recent years with the European aircraft manufacturer Airbus, which is often preferred to the American manufacturer Boeing in the context of Sino-American trade tensions. The latter has not recorded any significant orders from China since 2017.

Figure 29. Annual change in the EU-China trade balance, by product (€ million, August 2025, 12-month rolling average)

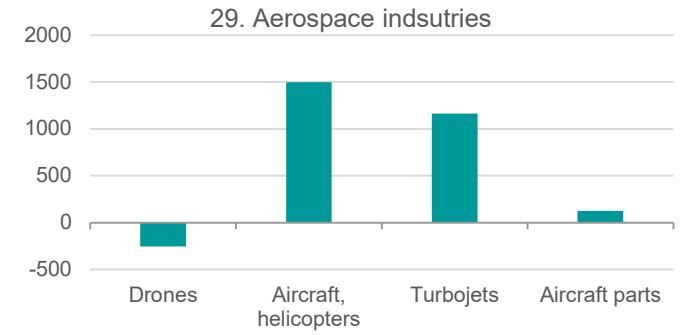
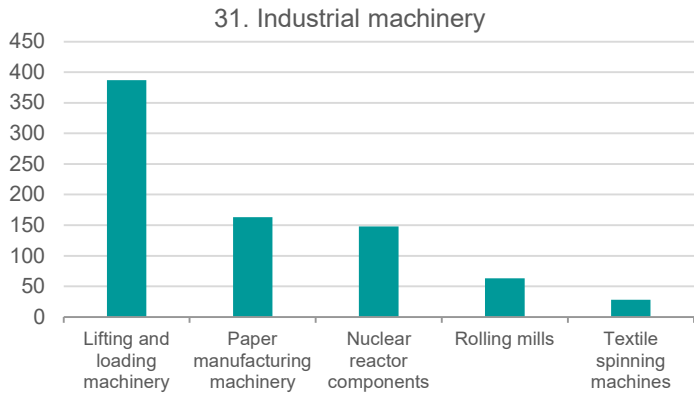


Figure 30. EU-China bilateral trade balance (€bn, 12-month rolling average)

Source: Eurostat

In the industrial machinery sector, several products are performing well in terms of exports to China.

Figure 31. Annual change in EU-China trade balance, by product (€ million, August 2025, 12-month rolling average)



Source: Eurostat

The European Union has a trade surplus with China for most of the products shown opposite (except for lifting machinery).

Despite modest export values (between €70 million and €500 million per year, depending on the products listed opposite), **the improvement in the trade balance is due to progress in European exports** and demonstrates Europe's strong competitiveness in the Chinese market.

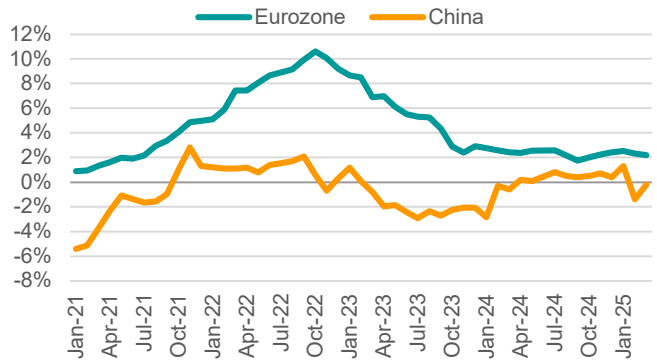
However, they may also reflect a dynamic of equipment and productive investment in China, heralding an increase in manufacturing output.

3. A loss of competitiveness in Europe vis-à-vis China that European industrial policy is struggling to stem

3.1. An inflation differential that has led to a sharp appreciation of the euro against the yuan in real terms

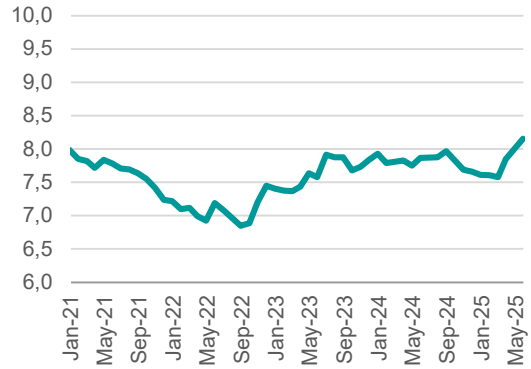
The competitiveness of the eurozone vis-à-vis China has been penalised by the period of inflation that Europe has experienced since 2021. As the inflation differential with China widened, the nominal exchange rate of the euro appreciated against the yuan (+12.3% since 2023), leading to a loss of relative price competitiveness for the eurozone compared to Chinese products. **This trend continues today,** with inflation in the euro area returning to a level close to the 2% target, but still structurally above the level of inflation in China.

Figure 32. Inflation in the eurozone and China
(monthly data, annual change)



Source: Eurostat, National Bureau of Statistics of China

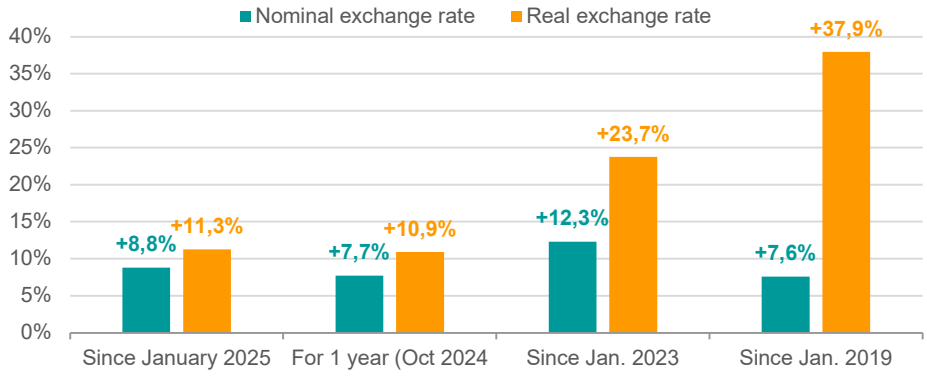
Figure 33. Nominal EUR/CNY exchange rate



Source: LSEG datastream

As a result, the real exchange rate of the euro has appreciated significantly. Over one year, a 7.7% appreciation of the euro in nominal terms against the yuan translates into a 10.9% appreciation in real terms. **Since January 2023, the euro has appreciated by 23.7% in real terms against the yuan.**

Figure 34. Change in the EUR/CNY exchange rate, nominal and real

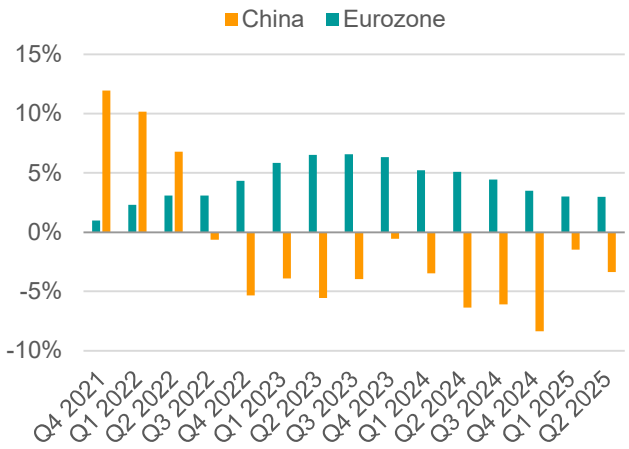


Note 1: A positive (+) change reflects an appreciation of the euro
Source: GSA

3.2. Labour cost indices also unfavourable to Europe

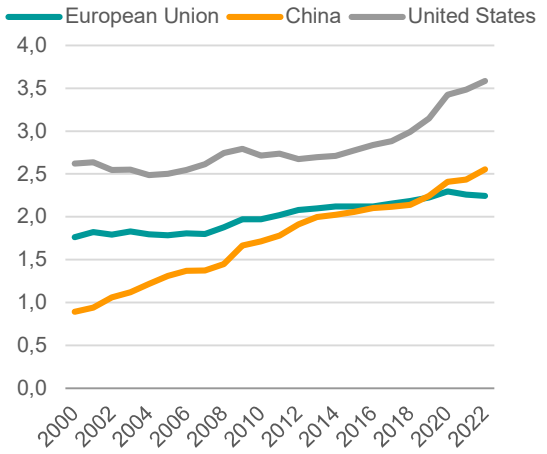
This deterioration in European price competitiveness is confirmed by changes in labour costs. Since 2022, unit labour costs in the eurozone have risen by around 4.4% per year, mainly due to inflation. At the same time, unit labour costs in China have fallen by an average of 2.3% per year.

Figure 35. Change in unit labour costs[1] (annual change, in %)



Source: ECB, Oxford Economics

Figure 36. R&D expenditure (public and private, as a percentage of GDP)



Source: World Bank

Note 1: Real unit labour costs allow for international comparisons between economies by taking into account differences in labour productivity and price levels. They are calculated by dividing real labour costs (adjusted for price changes) by the quantity produced. The result represents the cost of labour per unit of output.

Research and development expenditure could also explain, in the medium and long term, an increase in China's productivity and competitiveness compared to Europe. World Bank data indicate that since 2019 in particular, research and development expenditure in China has exceeded that of the European Union as a percentage of GDP.

3.3. Numerous investment programmes launched in Europe, but their effectiveness remains uncertain

3.3.1 A succession of investment plans

Faced with this slowdown, **the European Commission has undertaken major plans to support industry, but their effects are difficult to measure in the short term**.

The European Commission's report, known as the "Draghi report", published in September 2024, identified three key areas in which Europe needed to work to improve its competitiveness:

1. Catching up with China and the United States in terms of innovation.
2. Rolling out a comprehensive plan for decarbonisation and competitiveness in Europe, in a context of high energy costs for businesses.
3. Improving security by reducing dependencies, particularly in terms of trade, for critical raw materials and technological equipment. Better coordinating investment in defence industries.

The European Commission has translated some of the recommendations into action and presents this report as a roadmap for its strategy. At this stage, a tally carried out by the *Joint European Disruptive Initiative,* an agency dedicated to the emergence of disruptive technologies in Europe, estimates that one year after the report's publication, 15% of the recommendations are in the process of being adopted or discussed, and a further 15% are under discussion but with insufficient ambition and pace compared to the recommendations.

Several massive investment plans have been announced by the European Commission, such as:

- **The *Next Generation EU* programme** (2021-2026), a programme to finance economic recovery in Europe, which is expected to mobilise €806.9 billion, including through joint debt issuance in Europe.
- **The *InvestEU* programme** *(*2021-2027), to mobilise investment in key growth sectors such as green industries, digital, innovation and human capital. The European Union is offering a guarantee on €26.3 billion of investment and is expected to mobilise a total of €372 billion.
- ***The Innovation Fund***, which supports the deployment of green technologies in industry and energy, financed by carbon credit emissions, estimated at €40 billion.
- **The IPCEI programme** (since 2018, *Important Projects of Common European Interest*), an investment programme for transnational projects. A total of €37.6 billion in public aid has been disbursed, with private investment expected to reach €66.8 billion.
- **The *Horizon Europe* programme**, focused on R&D, with €175 billion in funding.

However, these high investment amounts mostly cover past or future "mobilised" funding and do not reflect direct budgetary expenditure, which is limited by the restricted budgetary margins of EU countries.

Defensive measures against Chinese competition have also been taken. **In particular, a surcharge on electric vehicles was adopted from October 2024** on imports of electric vehicles, after a European Commission investigation concluded that Chinese subsidies to car manufacturers were distorting competition. The European Commission has also proposed import quotas and higher customs duties on Chinese steel, with **the risk, however, of increasing production costs in other European industries** that use these intermediate products. Retaliatory measures are also being discussed in response to restrictions on exports of rare earths and semiconductors that China has threatened to apply in October 2025.

3.3.2 Since 2025, a merger of several investment plans, but with a still unclear focus

The *Competitiveness Fund*, proposed in 2025, is to be created by merging a dozen existing programmes[8] into a single €410 billion envelope to support the competitiveness of European industries in the face of global competition. This and the *Horizon Europe* plan, focused on innovation, are the two main industrial investment programmes in Europe.

At this stage**, the sectors targeted by the Competitiveness Fund are broad** and will allow Member States to include a wide variety of projects in the areas of (i) clean transition and decarbonisation, (ii) digital transition, (iii) health, biotechnology, agriculture and the bioeconomy, and (iv) defence and space.

Furthermore, the geographical distribution of the Competitiveness Fund among members is a subject of debate between the major industrial countries, which favour support focused on the industries that are most competitive in the global marketplace, and the peripheral countries, which advocate investment in rebalancing within the EU[9] .

3.4. China: economic policy guidelines still awaited in favour of innovation and industrial competitiveness

3.4.1 A new Chinese five-year plan is set to define new economic policy guidelines

In China, the macroeconomic environment is marked by several adverse trends. **On the one hand, the deflationary environment and production overcapacity are encouraging China to export, but this is offset by** rising customs duties around the world, following in the footsteps of the United States. On the other hand, **China is penalised by underlying trends such as an ageing population, a property crisis and high**

[8] The LIFE Programme for the Environment and Climate Action (LIFE), The Digital Europe Programme, The European Defence Fund (EDF), The Act in Support of Ammunition Production (ASAP), The European Defence Industry Reinforcement through common Procurement Act (EDIRPA), The European Defence Industry Programme, EU4Health, The EU Space Programme, The IRIS² Satellite Constellation, InvestEU, Competitiveness of Enterprises and SMEs (COSME)
[9] France and Germany on the defensive over access to future competitiveness fund | Euractiv FR, Euractiv FR, 29/09/2025

savings linked to the lack of social protection, which are having a lasting negative impact on consumption and domestic demand in general.

The five-year plan prepared in conclave by 315 Chinese Communist Party officials from 20 to 23 October 2025 will be unveiled in March 2026. It is expected to set out the main principles of the strategy in all political, economic, military and diplomatic areas.

According to statements made after the conclave, the plan is expected to include a number of economic guidelines. **First, China wants to accelerate its move towards greater self-sufficiency**. **In the new technologies and artificial intelligence sector, China wants to be independent from the United States** and the rest of the world, particularly in terms of computing power. **China's future economic policy, focused on innovation and its applications in various industries, should therefore continue to provide massive support for supply.** Self-sufficiency does not therefore imply a decline in the country's economic and commercial openness.

The five-year plan's guidelines do not therefore point to an imminent shift towards a policy of supporting demand. This year, despite a $42 billion subsidy plan for households announced in 2025, covering purchases of technological products, capital goods, and services for children, the elderly and the unemployed, the resources allocated to supporting supply continued to dominate. In the 2025 budget, nearly US$2 trillion is earmarked for the development of the industrial complex (+14.5% compared to 2024) or to support companies affected by customs tariffs.

3.4.2 New areas of innovation already identified in China

The sectors in which China currently has a comparative advantage were identified as priorities in China's economic strategy several years ago. For example, China launched its electric car manufacturing plan in 2009, enabling cities such as Hefei and Xi'An to become major industrial centres for the electric vehicle industry. Today, China has become a leading exporter in this sector, and its value chain and local market appear to be mature. Electric vehicles are therefore no longer included in the list of strategic industries in the next five-year plan (although they were included in the last three five-year plans).

The strategy is already focused on new sectors with a promising future:

- **Quantum technologies**, which encompass materials and applications based on the principles of quantum physics. Quantum computing should make it possible to increase the computing power of computers compared to traditional computers and find applications in *machine learning* or system optimisation in fields as varied as chemistry and finance.
- **Bio-production and bio-manufacturing,** which refers to the industry that uses biological systems to manufacture by-products (molecules, biomaterials, etc.) useful for industrial applications in the health and food sectors.
- **Hydrogen energy**. This involves using hydrogen to store and transport energy, particularly from renewable sources. This energy can be used in transport (automotive, aviation, etc.), industry (heavy industry, chemicals), electricity and heating.
- **Nuclear fusion**. The challenge in this field is to produce energy from the fusion of two hydrogen isotopes (*deuterium* and *tritium*) through a reaction that has the advantage of using only widely available resources and producing no radioactive waste (unlike nuclear fission).

In these sectors, Chinese investment could give the country a competitive technological edge over the rest of the world, so the potential impact on competitiveness and trade balances with Europe will need to be monitored in the coming years.