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# EU-China relations
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# Restoring balance in a strategic economic relationship

## 1. A relationship of growing economic asymmetries

China is an important market for European companies and a significant supplier of raw materials, components and intermediate goods. Cooperation with China also contributes to industrial innovation and competitiveness. Maintaining access to this market is therefore important for European industry.

However, the relationship is increasingly characterised by imbalances. State subsidies, dumping, structural industrial overcapacity, restrictions on access to the Chinese market and an uneven playing field are placing growing pressure on European companies, both in the EU and in third-country markets. The lack of consistent enforcement of EU product requirements, including effective verification that imported products comply with these requirements, further exacerbates these competitive distortions.

Chinese overcapacity can also displace production and trade flows in third countries. This may redirect additional volumes towards the European market, an effect that needs to be considered when assessing the impact on European industry.

Separately, supply shortages and export restrictions affecting certain Chinese raw materials and technologies highlight the risks associated with excessive economic dependencies. These can disrupt supply chains, constrain the availability of critical inputs and create significant price disparities between Chinese and European markets, affecting the competitiveness of companies across the value chain, from raw materials to finished products.

FEDIL's objective is to ensure fair competition and preserve the ability of European industry to invest, innovate and produce, not to call trade with China into question or to penalise its economic success. The EU should respond decisively to unfair practices and genuine vulnerabilities while keeping its market open to economically beneficial trade and cooperation with China. This requires, among other things, action to address market distortions that threaten Europe's industrial capacity and affect entire value chains, including downstream industries.

## 2. A common, targeted and proportionate EU response

Trade policy towards China must remain a European competence and responsibility. A coordinated EU-level approach is essential to prevent fragmentation of the internal market and ensure that measures are consistent, effective and predictable.

### *2.1. Deciding when and how to act*

FEDIL supports targeted action against unfair trade practices, distortions of competition and genuine security risks. The EU should first make full and effective use of existing instruments. Where these prove insufficient to address clearly identified market distortions, it should remain open to considering additional measures, based on sound evidence and a careful assessment of their economic impact.

The effectiveness and speed of existing trade defence instruments should be improved where necessary. Any measures adopted must be based on objective evidence, comply with applicable international rules and be proportionate to the problem identified. Their impact must be assessed across the entire European value chain, including the wider consequences for downstream industries. For example, a measure protecting a European producer may increase costs for other European companies that use the product concerned as a raw material or component. The assessment must also consider the risk of production capacity being progressively lost across interconnected sectors.

The costs of inaction must also be considered, including the risk of further dependencies and the erosion of Europe's industrial capacity. The EU must weigh the risks and unintended consequences of intervention against the longer-term costs of failing to address market distortions.

FEDIL therefore advocates a systematic assessment of the economic consequences of proposed measures, particularly their impact on production costs, the competitiveness of downstream companies, European exports and the risk of retaliation. Ultimately, addressing trade distortions must not trigger an escalation of trade tensions, as the wider costs of a trade war could far outweigh the benefits of individual measures.

### *2.2. Implementing measures predictably and proportionately*

The European Union already has a broad range of trade defence and economic security instruments at its disposal. The priority should be to ensure their consistent, effective and timely implementation.

Implementation must be predictable and take account of the effects on businesses, consumers and trading partners, as well as the risk of Chinese retaliation. The costs of a European response should not fall disproportionately on particular companies or sectors.

Finally, decisions on economic security should, wherever possible, be taken at European level. Fragmented national approaches would weaken the internal market and the EU's ability to defend its interests.

## 3. Reducing strategic dependencies without decoupling

Reducing excessive dependencies on China is necessary where critical supplies are at stake or where dependencies could be exploited for economic or political pressure. This requires a precise assessment of the risks and of the alternatives genuinely available.

The response should depend on the nature of the risk: vulnerabilities affecting essential supplies, sensitive technologies or critical infrastructure may justify targeted security measures, while barriers to market access and distortions of competition should primarily be addressed through trade policy instruments and economic dialogue.

Foreign direct investment (FDI) screening should focus on genuine risks to national security and public order, including those relating to critical technologies, industrial capabilities and strategic assets. Screening mechanisms must remain targeted, proportionate and predictable, avoiding unnecessary constraints on companies' ability to attract capital, invest, innovate and compete internationally. New requirements should not create overlapping screening procedures or additional administrative burdens. For a small, open economy such as Luxembourg, economic resilience depends both on protecting strategic assets and on maintaining an attractive environment for responsible long-term investment.

FEDIL therefore supports a policy of de-risking, rather than decoupling. The appropriate supply-chain resilience response will depend on the criticality of the input, the feasibility of substitution and the cost of securing alternative supplies. Because these conditions differ between companies, supply-chain resilience cannot be achieved by imposing identical sourcing requirements on every company.

FEDIL is particularly cautious about mechanisms that would impose uniform supplier diversification obligations on companies without taking account of technical constraints, costs or the absence of credible alternatives. Resilience measures must reflect actual risks and be proportionate to the objectives pursued, while allowing companies to choose the solutions best suited to their circumstances.

Any new measure to reduce dependencies should be assessed in terms of its effectiveness, cost and consequences for businesses. Consultation with industry must be an integral part of this process. At the same time, the EU must strengthen its own industrial capabilities where economically viable and work with like-minded partners to coordinate responses to unfair trade practices and economic coercion.

Bringing the EU trade agreements with India, Indonesia and Australia into force, and implementing the EU-Mercosur trade agreement, can help European companies diversify their export markets and, where commercially viable, their sources of supply. The EU should also pursue opportunities to deepen and modernise existing trade agreements and strengthen economic relations with a broader range of international partners.

## 4. Dialogue and European competitiveness

### *4.1. Maintaining constructive dialogue*

A firm policy towards China should leave room for constructive engagement wherever possible. That engagement serves two purposes. Economic and political dialogue remains essential to addressing disputes, preventing escalation and seeking negotiated solutions. Cooperation should continue where common interests exist, particularly in reforming the

multilateral trading system, advancing decarbonisation and developing international standards.

FEDIL supports coordinated European dialogue with the Chinese authorities, with businesses closely involved so that the practical difficulties they encounter on the ground can be brought to the attention of policymakers.

### *4.2. Strengthening Europe's competitive base*

Europe's ability to compete with China depends on addressing the structural disadvantages faced by European industry. This requires competitive energy costs, a fully functioning Single Market, a more predictable and less burdensome regulatory environment, and conditions that support long-term industrial investment and innovation.

## Conclusion

FEDIL advocates a common European policy towards China that combines openness to trade with firmness in addressing unfair practices, market distortions and excessive dependencies.

The EU must respond decisively to these challenges, using appropriate and proportionate measures based on sound evidence and a careful assessment of their economic consequences, particularly for Europe's industrial capacity and value chains.

Europe must combine a stronger competitive base with a common voice in defending its industrial interests. Strengthening its own competitiveness and acting together are essential to enable European industry to compete on fair terms while preserving the benefits of economic engagement with China.

## *About FEDIL*

*Founded in 1918, FEDIL – The Voice of Luxembourg's Industry is a multisectoral business federation that represents over 750 companies across industry, services, and construction.*

*As a founding member of BusinessEurope, the European employers' association, FEDIL maintains a dedicated representative office in Brussels to advocate on behalf of its members at the European level.*

*The federation is also registered in the Luxembourg Chamber of Deputies' transparency register and the EU Transparency Register (number 286194516022-33), underscoring its commitment to transparent and ethical advocacy.*

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