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Opinion

Alicia Garcia-Herrero and Sebastian Contin Trillo-Figueroa

## Hardening US trade stance on China complicates EU's balancing act

- Punitive US tariffs are driving more Chinese goods into the EU, making its task of safeguarding competition and economic security harder when weighed against the geopolitical realities

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Illustration: Craig Stephens

The European Union's **targeting** of China's subsidies and industrial overcapacity, aimed at enhancing economic security and ensuring fair competition, may end up aligning more closely with America's confrontational stance. But the EU is acting not so much under US pressure as to address its loss of market share in both exports and domestic sales.

Earlier this month, the US announced higher tariffs on a range of Chinese goods after a trade investigation. The US, which imports only 2 per cent of its electric vehicles from China, is **quadrupling tariffs** to 100 per cent. More troubling is its **tripling of tariffs** on Chinese lithium-ion EV batteries, which will increase costs for manufacturers. Tariffs will also double on Chinese **solar panels**.

There are three important consequences. Firstly, these US measures could be mirrored by others, and this would have a negative impact on the renewable energy sector by restricting competition, reducing choices and driving up the prices of green goods, thereby hindering the global decarbonisation transition.

Secondly, driven largely by electoral concerns, the latest US moves suggest Washington is returning to **decoupling** from Beijing, rather than merely "de-risking". Such a strategy reveals a bipartisan consensus, with both parties vying to adopt the more rigorous stance.

Thirdly, it underscores a deliberate and heightened divergence in economic and trade relations between the two superpowers, amplifying the likelihood of economic and technological bifurcation.

The punitive US tariff increases are a wake-up call for Europe over China's trade practices and their potential impact. The more the US closes its market to Chinese products, the more China will need to redirect its massive output to the EU, which remains a top export market.



■ US proposes new round of tariffs on China in latest trade war escalation

During his recent European tour, President Xi Jinping offered no assurance of China cutting its manufacturing of green tech products despite [EU concerns about overcapacity](#).



The EU has launched a number of anti-subsidy investigations, using its economic security toolbox. Of paramount concern is the impact of Chinese green tech exports on Europe in the coming years, especially given the massive financial resources the Chinese government has devoted to developing the sector.

The EU aims to avoid the further loss of industrial competitiveness by levelling the playing field for European companies and combating what it sees as competitive disadvantages from China's overcapacity and forced technology transfers.

European Commission president Ursula von der Leyen has, however, [emphasised](#) that the EU's tailored approach diverges from the US' stance, despite US Treasury Secretary Janet Yellen's push for a more robust and [unified response](#) to Chinese overcapacity.

Such divergence, though, can be maintained only if the EU toolkit for economic security succeeds in slowing down China's exports of green tech and/or manages to keep the EU's advantage in other goods exported to China. Neither of the two seems likely.

To begin with, it is hard to obtain information from EV producers to accurately measure subsidies. China's decentralised subsidy policies, managed by multiple local and regional entities, further complicate data collection. Political sensitivity may also deter the disclosure of data that could reflect negatively on administrators. And any EU tariff measure requires the consensus of the majority. China could leverage its influence within the single market.

To be effective, the EU may need to introduce tariffs of as high as 50 per cent on Chinese EVs, from 10 per cent now, according to a Rhodium Group analysis. Von der Leyen has promised that [any EV duties levied](#) after the anti-subsidy investigation would correspond to the damage caused.

But it is uncertain if such high tariffs are feasible for the EU, which faces a [greater likelihood](#) of Chinese retaliation than the US. Beijing has launched anti-dumping investigations into [European brandy](#) and is reportedly considering higher tariffs on a range of imports including [cars](#).

The EU's moves against China's green tech are clearly a political test for EU policymakers grappling with economic imperatives, environmental obligations and geopolitical realities.

The EU is trying to balance industrial prowess, sustainable innovation and global trade dynamics; it would like to decarbonise while keeping its competitiveness and certainly not increasing its dependence on China.

But the EU has not gone as far as the US, which has announced massive tariffs on Chinese imports, as well as subsidies for America's green tech industry under the [Inflation Reduction Act](#). The EU also has bolder decarbonisation objectives than the US while being more dependent on China for them.

This combination makes the EU's case much harder to navigate than that of the US, especially because such dependence gives Beijing much leverage in counteracting any EU measure to protect its market. Beijing's leverage is multipronged. It may contest the validity of the EU's anti-subsidy investigation into Chinese EVs at the World Trade Organization. Alternatively, it might challenge the EU's substantial aid for its different sectors, such as agriculture. Or it can simply impose or raise tariffs on imports of EU goods.

The mounting pressure signals the prelude to a new trade war, with potential import tariffs and market restrictions between China and the EU. Time will tell if all of this is mere positioning or the start of an escalation that could widen to include a currency war, especially as Beijing tightly manages the yuan. What is clear is that EU-China relations are not set to improve any time soon – the best that can be expected is for tensions not to escalate further.

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- Alicia Garcia-Herrero**: Chief economist for Asia Pacific at French investment bank Natixis and adjunct professor at Hong Kong University of Science and Technology. She is also a senior research fellow at Bruegel.
- Sebastian Contin Trillo-Figueroa**: A geopolitics analyst with a specialisation in EU-Asia relations, who serves as a consultant for public- and private-sector organisations, in particular think tanks. His consultancy work spans a spectrum of geopolitical and policy areas, encompassing impact analysis and strategic advice. His expertise covers Sino-European relations, geopolitics, great power competition, and critical raw materials. Furthermore, Sebastian possesses extensive regional expertise in EU law and institutions. He is an AsiaGlobal Fellow at the University of Hong Kong.

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