JULY 10, 2026

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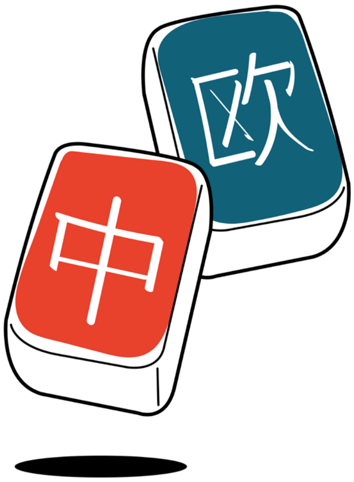

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ANALYSIS

Chinese experts claim Europe's own problems are causing China's export surge

By **Grzegorz Stec**

As the EU develops more cross-sectoral responses to Chinese competition and strategic dependencies, Beijing is not only preparing policy countermeasures but also promoting the narrative that China's flood of exports is more an issue of European competitiveness than a threat from Chinese overproduction.

At their June European Council summit, EU heads of state and government signaled agreement that Europe must respond to China's onslaught of exports resulting from its highly subsidized industrial overcapacity. Leaders are concerned that this is further eroding European manufacturing capacity in sectors central to the green and digital transitions. They point to a daily goods trade deficit with China of around EUR 1 billion and the loss of roughly 500 manufacturing jobs per day across the EU. Volkswagen, for example, recently announced cost-saving measures that could lead to 100,000 job cuts in Europe.

The central message emerging from Chinese experts is straightforward: Europe is misdiagnosing its own competitiveness crisis as a China problem and, by responding with restrictions, risks inflicting greater damage on itself than on China. This assessment appears to form the core of an emerging Chinese counter-narrative aimed at challenging the EU's diagnosis before it turns into a durable policy consensus and coordinated action.

Beijing's unease over the EU's China pushback

In recent months, the EU has been moving toward a more systemic approach to the challenges from China. The European Commission and European Council both held meetings dedicated to China topics in May and June.

Some of the key discussed actions include:

- adding "Buy European" clauses and conditions on foreign direct investments through the Industrial Accelerator Act, proposed in March;
- creating a pan-EU high-risk supplier list limiting access to the European single market through the update of the Cybersecurity Act, proposed in January;
- developing a diversification instrument that would impose limits on single-supplier dependence;
- developing a solidarity instrument that could help spread the costs of Beijing's retaliations and coercion across the member states.

If developed and implemented in an ambitious way, those measures could change the landscape of EU-China economic relations. They could also help Europe prepare for the next wave of Chinese industrial overcapacity, already heralded by the priority areas specified in China's next Five-Year Plan.

Chinese experts push back on Europe's China Shock 2.0 consensus

Selected quotes from Chinese experts on EU-China relations (May-June 2026)

"[Europe's industrial development's] defining features are that it harms others at its own expense, applies double standards, and says one thing while doing another. Since the outbreak of the Russia-Ukraine conflict, the EU has aggressively pushed to end its dependence on Russian energy, an approach tantamount to severing its own lifelines."

MAY 2026

Li Chao (李超)
Deputy Director of the European Studies Institute, CICIR

"Far from being the cause of Europe's current predicament, China-EU cooperation offers a powerful means of helping Europe overcome it. The EU appears to believe that taking a tougher stance toward China can reverse its industrial decline and preserve its global standing. But this is a profoundly costly strategic miscalculation, and ultimately it is the EU itself that will pay the price."

MAY 2026

Lü Yunmou (吕蕴谋)
Head of the European Integration Project, CICIR

"From China's perspective, China's surplus is not caused by subsidies or so-called "overcapacity," but rather stems from China's higher international competitiveness than Europe. It is also an objective result of natural differences in the international division of labor and industrial structure under globalization, without any artificial distortion or deliberate manipulation."

MAY 2026

Jian Junbo (简军波)
Deputy Director of the Center for China-EU Relations, Fudan University

"At a time of intensifying global industrial competition and mounting geopolitical risks, Europe continues to see itself as a traditional great power. It has failed to confront the relative decline of its position in the global political and economic order or to adjust its role accordingly. This not only makes it harder to resolve its deep-seated internal crises, but also leaves Europe in an increasingly disadvantageous strategic position."

JUNE 2026

Su Qingyi (苏庆义) & Jiang Yang (姜炀)
Director of the International Trade Research Division at the Institute of World Economics and Politics (IWEP), CASS

"Many of Europe's concerns and demands regarding China are already reflected in the priorities of China's 15th Five-Year Plan and in its efforts to build a unified national market. The unified national market initiative emphasizes "five unifications and one opening-up," including reducing barriers to market access, promoting fair competition, and preventing improper subsidies. Are these not precisely the kinds of measures Europe has been calling for? "

JUNE 2026

Zhang Bin (张斌)
Deputy Director and Senior Fellow, IWEP, CASS

Source: MERICS

Beijing has clearly taken note. Chinese authorities have sent letters to the European Commission criticizing the proposed measures, intensified lobbying efforts in member-state capitals and, at the end of June, established a new EU-China Trade and Investment Consultations mechanism.

The clock is now ticking. The June European Council mandated intensified development of tools and instruments that the EU is expected to decide on at the October Council meeting.

China shock 2.0? Chinese experts argue Europe has itself to blame

Against this backdrop, Chinese experts have been scrutinizing Europe's assessment of the so-called China Shock 2.0 – the flood of exports to the European market due to overcapacity, similar to the first China Shock of low-cost consumer goods in the early 2000s. Looking at over 30 publications and commentaries issued by Chinese experts between mid-April and early July, four key strands of arguments emerge:

First, the experts reject Europe's overcapacity diagnosis – questioning whether unfair competition is really the source of both China's prowess and Europe's economic challenges. China's export strength, they argue, stems from more efficient supply chains and economies of scale – including intense domestic competition, and rapid implementation of technologies. The role of government and subsidies is dismissed and labelled as miscategorization, instead the experts aim to present China's performance as a result of its macroeconomic advantages.

The analysts attribute Europe's difficulties instead to long-term deindustrialization, offshoring, high energy costs linked to the loss of gas supply from Russia, and weaker innovation – describing EU restrictions as an attempt to treat an "internal illness" with an "external remedy." As Guo Mingxu, head of the European Economy Program at the China Institutes of Contemporary International Relations (CICIR) put it: "the EU is unwilling to admit its own decline in competitiveness, and even less willing to acknowledge that the decline stems from internal issues."

The trade-deficit argument is treated similarly. Many analysts point to the fact that the EU's EUR 1 billion-per-day trade deficit stems from the exchange of goods and omits trade in services, where the EU notes a surplus. But they do not address the fact that this surplus was EUR 21.3 billion in 2025 compared to a deficit of EUR 360.6 billion in goods. Some also point to how Chinese intermediate goods have lowered costs for European downstream industries. While that can be true for part of the exports, the experts do not acknowledge that the EU's trade imbalance with China is driven increasingly by Chinese exports targeting market segments higher on the value chain, creating less value for the European economies and competing directly with European industries.

Second, Chinese experts maintain that the EU's measures will be self-defeating. Reducing Chinese participation in European markets, they argue, will raise input costs for European companies, slow the green and digital transitions, reduce consumer welfare and hurt firms dependent on Chinese components.

This is paired with reminders of Europe's exposure to retaliation. Automobiles, machinery, luxury goods, agriculture, and companies with major China operations are identified as potential countermeasure targets. Protectionism, they say, may offer temporary shelter but cannot solve Europe's productivity, innovation, and energy-cost problems. But they also often misrepresent this as an "either-or" argument without acknowledging that the EU seeks to both protect the domestic market and increase investment in own competitiveness. One does not exclude the other.

Third, Chinese experts question whether Europe can sustain a common hard line. Their analysis distinguishes between more protectionist actors, export-oriented member states worried about retaliation, and countries seeking Chinese greenfield investment with national commercial interests. Ding Chun, Director of the Center for European Studies, Fudan University, has said that EU policy could become "strong at the top but weak at the bottom" with a "consistent direction but divergent implementation," suggesting that leaders may agree on a tougher direction while implementation remains uneven.

Fourth, they call for cooperative resolution of the issues via negotiation and dialogue. Yet, none of the articles notes that Europeans have been raising concerns of "overcapacity" at the highest levels for over half the decade and that China has shown no interest in addressing the issue. Recommendations for cooperation tend to lack specific prescriptions and overlook the urgency from Europe's perspective.

A battle of diagnosis narratives

Taken together, these arguments fit a broader political purpose. China would like to frame Europe's response to the China Shock 2.0, which focuses measures on economic security and fair competition, as ill-informed and self-defeating protectionism. They do correctly point out that Europe's internal challenges are linked to an economic slowdown and insufficient stimulus to make Europe more competitive. Some, for instance, reference the Draghi Report, but they do so in an attempt to excuse Chinese subsidies, market barriers, or industrial policy from being a factor.

This counter-narrative is not merely rhetorical. Prolonging the status quo and delaying Europe's more assertive approach would help China: Broad market access to Europe and limited pressure for localization or reciprocal technology access are key for Beijing to offset its techno-industrial overproduction and overinvestment.

As the EU debates its response to the China Shock 2.0, it is crucial that European leaders avoid framing this as either the result of their own shortcomings or as distortions from China's economic model. It is both.

So that internal measures have time to strengthen European competitiveness, Europe needs to address the immediate pressures from China. China's unwillingness to acknowledge the problem and the fact that it benefits from the status quo mean Beijing is unlikely to offer meaningful solutions unless faced with sufficient pressure. This makes the upcoming October European Council discussion on China all the more consequential. The EU has no time to waste debating *whether* there is a need to confront China's economic distortions, it must focus on *how* to do so rapidly.

Sources:

- Quote 1: Li Chao (CICIR) - EU's new Industrial Accelerator Act: "Accelerating" or "Shackling"
- Quote 2: Lü Yunmou (CICIR) in China.com Commentary - The EU's provocation of economic and trade friction with China is a costly strategic misjudgment
- Quote 3: Jian Junbo (Fudan University) - Repeatedly making attacks, what is the underlying logic behind the EU's policy toward China?
- Quote 4: Su Qingyi & Jiang Yang (CASS) - The EU's trade war with China - blaming China is better than facing itself
- Quote 5: Zhang Bin (CASS) - Cognitive Divergence, Trade Imbalance, and China's Opportunities in China-EU Relations

UPDATE

Huawei's Tau Scaling Law: No real revolution, but a key messaging tool

Huawei's Tau Scaling Law – a new approach to semiconductor engineering – is more about dealing with trade restrictions that block China's access to semiconductor technology than a wholly new paradigm for the industry. Introduced in June at the International Symposium on Circuits and Systems of the international association IEEE, the new "semiconductor design frame" aims for faster, more efficient communication between chips – rather than the traditional focus on producing ever-smaller chips to achieve efficiency gains, known as "Moore's law."

However, instead of signifying that China no longer relies on EU products, this shows its persistent dependencies and how it is trying to reduce or work around them. Thus, EU policymakers now have even greater reason to reform export controls and strengthen measures like the Chips Act 2.0 to ensure Europe's continued relevance as a tech provider.

The new Tau Scaling "Law" is not groundbreaking. It merely reformulates technology that industry leaders have used extensively already. The fact that Huawei is marketing it as a law is more about messaging – it reflects both Huawei's fierce ambition to be seen as a leader in semiconductors and the admission that China will not have access to advanced lithography equipment (EUV systems made by Dutch ASML) by 2031, the end date for the described roadmap. The Law suggests that the company will try to circumvent advanced lithography. A key measure of chip performance until now has been transistor density, i.e. how many microscopic electronic switches you can pack on a chip.

Originally, transistors were printed onto a single layer of substrate (the semiconducting material), and gains in density – and thus speed – came from the size of each transistor. Moore's Law stated that the number of transistors on an integrated circuit would double roughly every 18 months, while computer prices would fall. But in recent years, this has reached physical limits – the chips just can't get any smaller. As a result, the industry has moved to stacking chips vertically to increase density, as well as connecting different chips together using advanced packaging.

Huawei's "Law" is thus just a different version of a paradigm in which companies are moving toward system-level improvements and 3D architectures already widely adopted by industry leaders like Taiwan's TSMC, rather than a substitute for Moore's Law. It is called "tau" because, according to Huawei, instead of "geometric scaling," i.e. optimizing size, Huawei will optimize "tau" – the time it takes signals to travel between different transistors.

The improvements Huawei suggests at least partially rely on its leading role in the Chinese ecosystem, as these changes must be implemented across the supply chain, for instance in design software, process, and protocol. Thus, this is an example of Chinese companies trying to circumvent export controls by designing around them, relying on the strength of China's tightly interconnected industrial base for system-level improvements where individual improvements might not be possible.

If Huawei is successful, the company argues it could eliminate the need for advanced lithography machines (EUV) by moving to 1.4nm-class chips by at least 2031, which can drive improvements in AI as well as smartphone performance. TSMC is expecting to start 1.4nm production by 2028, showing that Huawei continues to lag industry leaders, even if it meets its very ambitious roadmap. However, experts question whether the timeline is realistic, given the complexities and far-reaching changes needed in some of the processes. Moreover, these improvements would be even better if Huawei had access to EUV, evidence that Western equipment is still far from irrelevant.

What you need to know:

- Huawei's Tau Scaling Law is not a groundbreaking new paradigm of semiconductor manufacturing because it just reformulates existing and widely used techniques
- It signals that Huawei believes it will not be able to access EUV machines – where currently Dutch ASML has a complete monopoly – until 2031
- Even in ideal circumstances, Huawei will still stay behind industry leaders

Quick take: For Europe, the message is that Huawei believes China will not have EUV until 2031 and that the ASML "chokepoint" will endure. At the same time, it also shows how Chinese companies are trying to design around dependencies, reducing their relevance in the future. China is still very dependent on Europe and the US but is making extreme efforts to break through or circumvent this.

Read more:

- AI Weekly: Huawei Tau Law targets 1.4nm chip density by 2031
- Tech News (CN): 談華為「韜定律」，黃仁勳：是突破非威脅、台積電領先十年

EUROPE-CHINA DIPLOMATIC TRACKER

China's top diplomatic engagement with European capitals slowed in Q2 of 2026

Exchanges between selected Chinese and European leaders (April 15, 2026-July 8, 2026)

Xi Jinping 习近平
General Secretary of the CCP, President of the PRC

- **05/25/2026** Receives Serbian President Vučić
- **06/29/2026** Receives Belarusian President Lukashenko

Li Qiang 李强
Premier of the PRC

- **05/25/2026** Receives Serbian President Vučić
- **06/23/2026** Meets Montenegrin PM Spajić on the sidelines of Summer Davos Forum in Dalian

Wang Yi 王毅
Director of the CCP's Foreign Affairs Commission Office and Minister of Foreign Affairs of the PRC

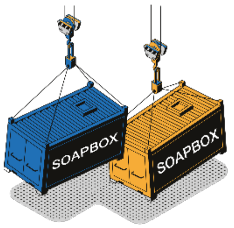
- **16/04/2026** Receives Italian Deputy PM and Foreign Minister Tajani
- **30/04/2026** Receives Belgian Deputy PM and Foreign Minister Prévot
- **05/21/2026** Receives Moldovan Deputy PM and Foreign Minister Popșoi
- **05/26/2026** Meets Czech Deputy PM and Foreign Minister Macinka at UN
- **05/27/2026** Meets Portuguese Minister of State and Foreign Affairs Rangel at UN
- **05/27/2026** Meets Serbian Foreign Minister Đurić at UN
- **06/02/2026** Receives British Foreign Secretary Cooper for the 11th China-UK Strategic Dialogue
- **06/25/2026** Receives Austrian Foreign Minister Meinl-Reisinger
- **07/02-03/2026** Visits Danish King Frederik and Foreign Minister Rasmussen
- **07/07/2026** Visits Swedish PM Kristersson and Foreign Minister Malmer Stenergard
- **07/07/2026** Visits Finnish President Stubb and Foreign Minister Valtonen
- **07/08/2026** Visits Norwegian PM Støre and Foreign Minister Eide

Sources: MERICS on basis of the Ministry of Foreign Affairs of the PRC

- On June 29, EU Trade Commissioner Maroš Šefčovič met Chinese Commerce Minister Wang Wentao to launch a new trade and investment consultation framework. This includes four workstreams: trade and investment imbalances, export controls, intellectual property rights and WTO reform. Europeans expect the workstreams to deliver by October with the two leaders expected to meet again in the fall.
- A 12-member delegation of the European Parliament visited Beijing and Wuhan from May 27 to 29, the first trip to China by the EP's delegation since 2018. The visit marked another step in normalizing ties, following the resumption of parliamentary exchanges in October 2025 after parliament said Beijing had lifted sanctions on sitting MEPs and parliamentary committees.
- While Germany backed stronger EU economic defense tools at the June European Council, its Economy Minister Katherina Reiche has been pursuing deeper economic dialogue with Beijing. During her late-May visit to Beijing, Reiche met NDRC Vice Minister Zhou Haibing, promoting "resilient" economic relations and calling for further Chinese investment in Germany. In Brussels on June 28, Reiche and Commerce Minister Wang Wentao agreed to relaunch the China–Germany Joint Economic Committee, establish working groups on trade, investment and industrial cooperation, and aim for a ministerial meeting in early 2027.
- Lithuania and Czechia are exploring normalization of ties with Beijing after prolonged tensions linked to their intensified engagements with Taiwan. Vilnius has paused talks with Taiwan on an economic cooperation plan and signaled willingness to restore a Chinese chargé d'affaires, though Beijing is conditioning full normalization on the renaming of the "Taiwan" Representative Office in Vilnius to "Taipei." The Czech government is likewise exploring a reset, as Foreign Minister Petr Macinka discussed with Chinese foreign Minister Wang Yi on the sidelines of their UN visits in New York in May to pursue "pragmatic cooperation" in trade and tourism. However, the Czech opposition and civil society continue to engage with Taiwan. In May, Senate President Miloš Vystrčil visited Taiwan and Taiwan's Foreign Minister Lin Chia-lung spoke at a high-profile forum in Prague.
- The first visit by a Chinese foreign minister in 22 years, Wang Yi's July 2-8 tour of Northern Europe, – Denmark, Sweden, Finland and Norway – focused on reinvigorating political ties, including further normalization of relations with Sweden. Beijing may have also wanted to gauge whether the traditionally free-trading Nordic countries could be receptive to its arguments against EU trade measures, which China describes as protectionist.

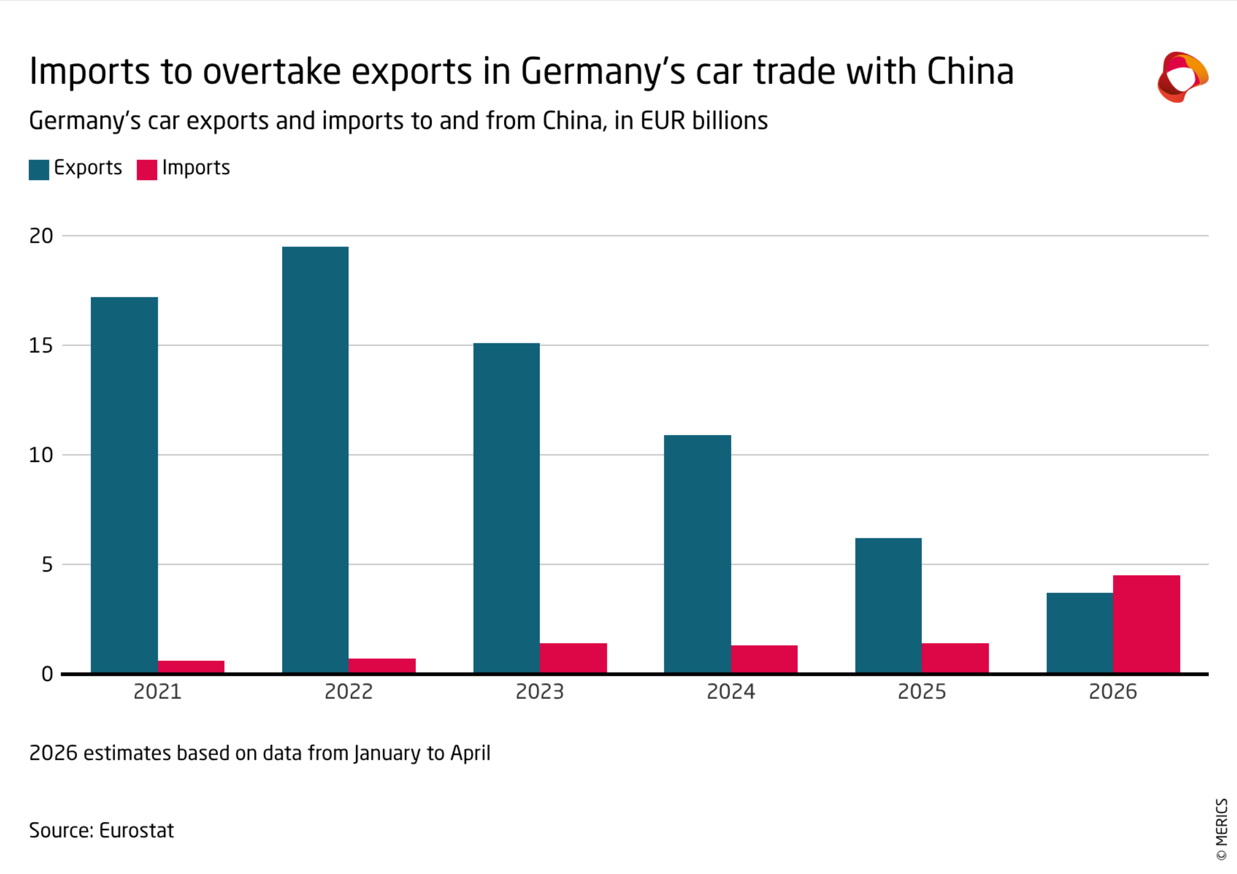
SOAPBOX MERICS DATA HIGHLIGHT: SINO-GERMAN TRADE

*The Soapbox-MERICS Data Highlight offers data visualizations of EU-China economic relations. We have partnered with trade specialist **Rafael Jimenez Buendía**, MERICS Senior Associate Fellow and co-founder of "Soapbox," a free weekly newsletter focused on China trade. In this edition, Rafael zooms in on Sino-German trade relations.*

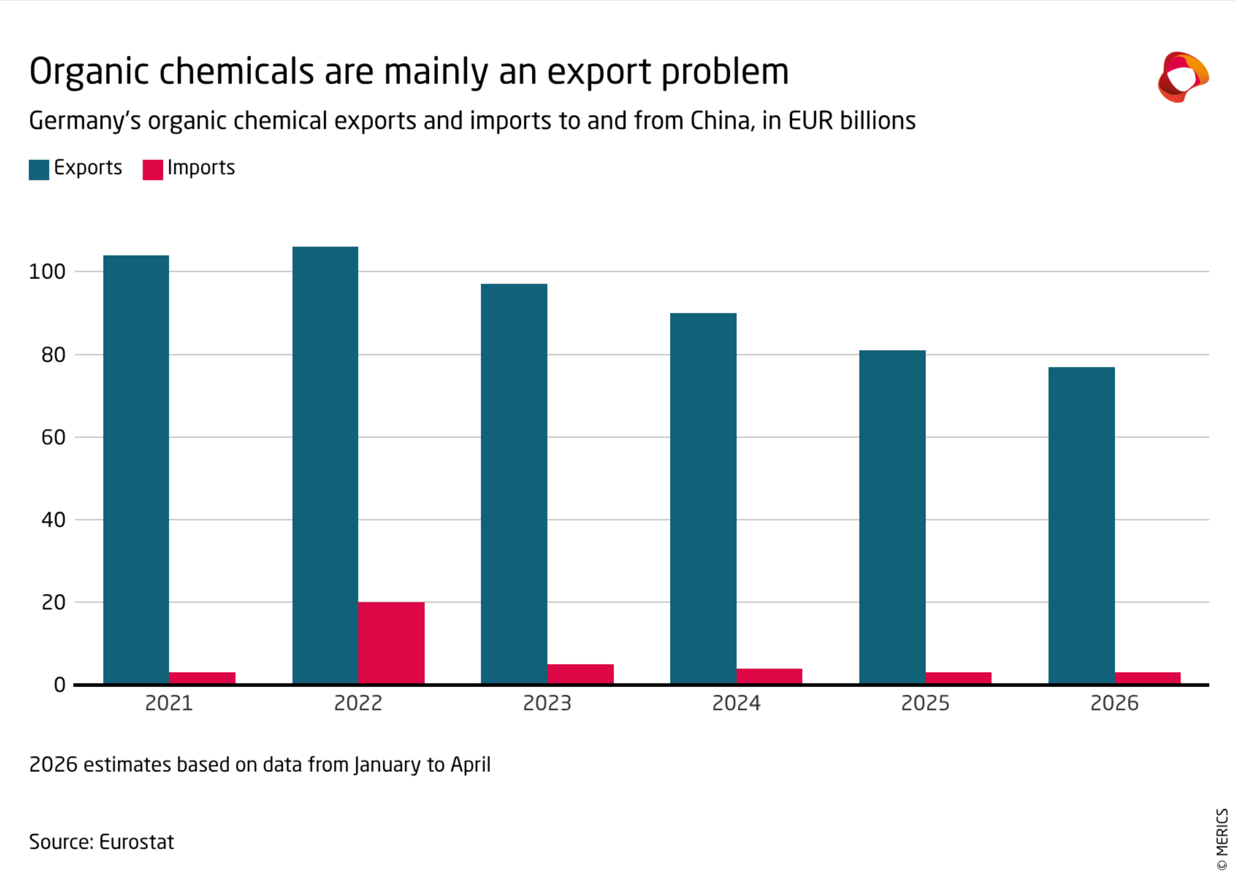


Germany's weaker trade position with China is concentrated in two sectors. And not just any sectors – two jewels of German industry: automobiles and chemicals.

Since 2022, German **car exports** to China have collapsed to less than EUR 4 billion from almost EUR 20 billion, while organic chemicals have fallen to only a few billion from around EUR 20 billion. German industry seems to have been caught unawares by the speed of change in China's car market, especially the rise of domestic electric-vehicle and plug-in hybrid producers.



Organic chemicals are different. What looked in 2023 like a possible temporary dip now looks like a serious downward trend, even if the sector-level data do not tell us which specific products are driving the fall. Organic chemicals are mostly an export problem. Germany is selling far less to China, while imports from China remain small.



Autos are more damaging because the shift runs both ways. Germany is exporting fewer cars and car parts to China, while importing more vehicles and components from China.

More on the topic: To learn more about trade relations between Germany and China, read the Germany chapter of the 2026 report by the European Think-tank Network on China:

- Germany: From mutual benefit to existential competition with China, by **Claudia Wessling** and **Bernhard Bartsch**

SHORT TAKES

France dismantles nine unauthorized Chinese "police stations"

The stations, which operated under the indirect guidance of China's Ministry of Public Security, allegedly monitored and targeted dissidents and gathered intelligence to recruit informants. China's embassy did not deny their existence but presented them as centers assisting expatriates on administrative matters. The human-rights investigative NGO Safeguard Defenders has identified similar outposts in at least 16 European countries.

- Le Monde: France shuts down clandestine Chinese 'police stations' operating on its territory
- Safeguard Defenders: 110 OVERSEAS Chinese Transnational Policing Gone Wild

China overtakes Germany as Spain's largest supplier

China became Spain's largest supplier of goods in the first quarter of 2026, accounting for 11.6 percent of imports, compared with Germany's 11.4 percent. The trade relationship remains heavily unbalanced as Spain reported an annual deficit with China of more than EUR 42 billion last year.

- El Pais: China desbanca a Alemania como el principal proveedor de España

Poland works with Taiwan's Foxconn on EV production

Poland's state-backed ElectroMobility Poland selected Taiwan's Foxconn and Foxtron as strategic partners for a major EV production and R&D hub in Jaworzno. The project envisages three locally branded models, battery and drivetrain assembly, technology transfer and production from 2029. Binding agreements are targeted for late 2026, with Polish financing support exceeding EUR 1 billion.

- Reuters: Poland's EMP teams up with Foxconn to build EV manufacturing hub
- [PL] Ministry of State Assets: ElectroMobility Poland establishes partnership with Foxconn

EU imposes new small-package fees and steel import restrictions

The new measures include a EUR 3 customs duty on low-value e-commerce parcels and tighter steel import quotas, with a 50 percent tariff applied to imports over those limits. The measures target the surge in small parcels shipped directly to European consumers and seek to curb steel imports linked to global overcapacity.

- AP: EU issues new steel and e-commerce regulations to reduce trade imbalance with China
- European Commission: Ensuring fairness and safety: €3 customs duty for low-value parcels
- European Commission: New rules to protect EU steel industry from damaging impacts of global overcapacity enter into application

EU prepares tariffs on Chinese plug-in hybrids

The European Commission is said to be preparing countervailing duties on plug-in hybrid vehicles from Chinese manufacturers including BYD, Chery, and SAIC. The tariffs could be imposed once a majority of EU member states gives approval and would extend the bloc's trade restrictions beyond battery-electric vehicles, which have faced EU duties since 2024.

- Reuters: EU prepares tariffs on Chinese plug-in hybrids, Handelsblatt reports

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