



A podcast about the economics of trade & policy
with Chad P. Bown

Episode 214. Europe's trade war with China

[Episode webpage](#)

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Transcript

(lightly edited)



Chad Bown: Hi, *Trade Talks* listeners, Chad Bown here. When Soumaya Keynes and I were working on our book, the European Union turned out to be a fascinating character.

The EU has similar economic interests to the United States, but they are obviously not quite the same. Europe too is very worried about China, but in its own special way.

The big difference between the United States and Europe today is that because of President Trump, outside of Europe, no one is really talking about Europe.

That is why I am super excited about this week's show, which provides an update on Europe's own multi-front trade war with China. How Europe sees China is both fascinating and also critical for the future of international trade.

My new book, *How to Win a Trade War*, written with Soumaya Keynes of the *Financial Times*, is now available for pre-order and starts shipping next week. I am holding a copy in my hand that I just received from the warehouse. Please order *How to Win a Trade War* today.

With that, on to today's show.



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THE EPISODE

Chad Bown: You are listening to an episode of *Trade Talks*, a podcast about the economics of trade and policy. I'm your host, Chad Bown, the Reginald Jones Senior Fellow at the Peterson Institute for International Economics in Washington.

This episode is about Europe and its own massive problems with China. In Europe, imports from China are surging. Electric vehicles, batteries, and lots of other increasingly sophisticated Chinese goods are flooding the European market. At the same time, European exports to China are now suffering.

The European economy is struggling with little signs of economic growth. With energy costs rising due to the war in Iran, the policymakers who worried about European manufacturing competitiveness after the Draghi Report are only getting more concerned. And the continued wave of Chinese exports of EVs, chemicals, machine tools, and more is putting even more pressure on the struggling manufacturing industries in Germany, as well as other EU member states.

In this episode, we are going to talk about how the European Union is handling its own multi-front trade war with China. Like the United States, the EU is using tariffs, just tariffs of a different kind. Like the United States, Europe is using other instruments like product bans and industrial policy, but also some different tools like subsidy investigations. Europe is also contemplating some new rules to deal with its own China shock.

In Beijing's reaction to all this? Well, just like with the United States, with Europe, China is not backing down quietly. To tackle all this, I will be joined by a very special guest.

Finbarr Bermingham: Finbarr Bermingham, *South China Morning Post*.

Chad Bown: Finbarr Bermingham is a journalist at the *South China Morning Post*, covering the EU-China relationship from Brussels. I got to know Finbarr back in 2018-20, when we were both reporting on the first Trump administration's trade war with China, me from Washington, and Finbarr from Hong Kong, where he lived and worked for many, many years.

Chad Bown: Hi, Finbarr.

Finbarr Bermingham: Hey, Chad.



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THE EU'S INVESTIGATION INTO CHINESE BATTERY ELECTRIC VEHICLE SUBSIDIES

Chad Bown: Finbarr, let's go back to 2023, when the China Shock 2.0 in Europe really got started. What happened?

Finbarr Bermingham: 2023 is a good place to start, but for years, obviously, you had the EU complaining about the Chinese trade policies: dumping, subsidies, and the usual greatest hits: IP, tech transfer...

And earlier in 2023, Ursula von der Leyen had made this big announcement that she was going to de-risk from China. Things were starting to move from the spring of that year, unwind the dependencies and all of that. It really gathered momentum in September 2023, when von der Leyen announced an anti-subsidy probe into electric vehicles. Now, she said there was a flood of Chinese-made cars that were being kept artificially low in price by state subsidies.

More important than even the announcement was the symbolism of how it was announced. It was made during her annual State of the Union address. This is the top set piece speech in the calendar for any EU official.

This showed me that this had really graduated to the very top of European policymaking concerns. It set off a year-long saga, like a real dramatic saga, whereby there was a huge and thorough investigation. I think there was something like 250 mission days on the ground in China, 100 plus company visits, thousands of pages of evidence.

And ultimately, they found that the whole supply chain was subsidized, and that was in June 2024. They announced the tariff results and the recommendation. And then there was a six-month period between the announcement and the vote of the EU member states about whether to adopt the tariffs. And that's really when the drama actually started. You had this very public debate about whether this was a good idea. You had the member states agonizing over whether they wanted to go down this route.

And of course, you had the Chinese government lobbying furiously against capitals, who especially were sensitively exposed to China. There were many threats and retaliatory investigations into pork, brandy and dairy. Threats against the EU automotive sector, the aircraft sector, you name it.

It was a blockbuster probe, and it really divided Europe in a way that we've seen is quite easy to do, through the first year of the Trump administration's second term. Also, Germany was against this. France was in favor. Everyone in the middle was kind of in play.



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The tariffs were eventually adopted in October of 2024, but it really was a hell of a bun fight now. I do think that moment of that one year was huge.

Chad Bown: The European Commission does end up putting import tariffs on those subsidized Chinese electric vehicles. Did that solve the problem of this incredible flood of Chinese electric vehicles coming into the European market?

Finbarr Bermingham: By most measures, I would say the tariffs haven't been a huge success. If the goal was to give European manufacturers the breathing space within which they could catch up with Chinese competitors. The Chinese are really good at the EVs.

They are market leaders. And if that was the aim, then I don't think that's been a success, because last December, they actually delayed the move to phase out the combustion engine, which was supposed to happen in 2035. It felt like the right hand wasn't talking to the left hand.

But even looking at the data, it's hard to argue that this was a success, or that the tariffs have had a major impact, because in the first quarter of this year, Chinese EV shipments to the EU rose by 82% compared to the first quarter of last year.

Plug-in hybrids, this is a really interesting one. The day the tariffs were announced, I was texting somebody from the Chinese automotive sector, and they said, "well, if there's going to be tariffs on EVs, I guess we're just going to have to ship plug-in hybrids instead," which have the sort of baseline 10% import tariff. They weren't subject to the EV investigation. Since the first quarter of 2024, if you compare that to the first quarter of 2026, there's been a rise of 1,443% of shipments of those particular vehicles.

When I speak to EU officials about this, there's the sense that the devaluation in the Chinese yuan last year played a big role in this. It virtually equalized the impact of the tariffs, which were very different to what happened in the United States. They weren't 100%. It was quite low, in reality. The likes of BYD were charged with a 17% tariff on top of their baseline 10%, 27% in total.

If you read about the situation for electric carmakers in China, there's a price war going on there. It's a bloodbath. And exporting to a rich market like the EU, with an extra 17% of an import duty, I'm not sure it significantly moved the needle. I think by those metrics, I'm not sure anybody would argue this has been a roaring success.



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Chad Bown: And by the 100% tariff US approach there, you're referring to the Biden administration in 2024. It had raised tariffs on imports of Chinese electric vehicles coming into the United States by 100%.

BROADER IMPORT CONCERNS

Chad Bown: We're going to come back to the issue of the European automobile sector momentarily.

But first I want to talk about other import restrictions that the European Commission has been contemplating with respect to this wave of Chinese imports, because autos aren't the only thing. And also what was super interesting about this particular case, as you mentioned, was it was the European Commission itself that initiated this investigation into the subsidized Chinese EVs, not the automobile industry itself. And that drove a wedge throughout Europe, as this is relatively rare.

In the period since then, what other sectors have since come forward and asked for similar types of tariffs because of dumped, subsidized, or surging imports from China?

Finbarr Bermingham: There's a fairly broad-based coalition, I would say, asking for some protection – from candle makers to crane makers and everything in between.

I find it instructive to speak every three to six months to the VDMA, which is the Association of Germany's Engineering Industry, a group that was really quite open and pro-engagement with China. They were making a hell of a lot of money in China until the pandemic ended, and then they realized that their erstwhile suppliers and suppliers had moved up the value chain and were now out competing them at home, in Germany, in China and in third markets. These are the Mittelstand companies, the machine makers, the hidden champions of the German economy, and they're really crying out for help, and that's really one that I watch quite closely.

The chemical sector – you have big EU chemicals companies like BASF, who are heavily invested in China, huge multi-billion dollar plants in Guangdong and so on. But the chemical sector itself is also now the biggest complainant, apparently accounting for about half of new trade defense cases, I saw reported in the *FT* this week.

Other sectors: wind turbines, heat pumps, rolling stock, rail carriages, and stuff like that. You do get a broad-based pushback, I would say. The sense is that officials believe that this whack-a-mole approach doesn't work when you compare to what they describe to be the systemic challenge posed by China's economic model.



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Chad Bown: Let's talk more than about that systemic challenge. One of the things that you said about the Commission's anti-subsidy investigation into the Chinese electric vehicle sector was this idea that it was just so work-intensive on behalf of these government officials to really get to the bottom of the Chinese subsidies and what was going on there. There's now so many of these cases across so many different sectors that the Commission is perhaps thinking about things differently.

How to tackle this, what some have called the overcapacity problem of China and dealing with that through import restrictions. You have been reporting on this recently – i.e. about the Commission's thoughts here. Explain to us what you've heard.

Finbarr Bermingham: It's not a new thing.

I think, Chad, I remember me and you met in Brussels towards the end of 2024 at this, I don't know if you recall it was the European Commission in classic Euro jargon – High-Level Forum on Global Non-market Overcapacity.

Chad Bown: I do remember I was actually in government at the time and I was invited to speak in my official capacity at this thing. And yeah, overcapacity was the thing that everyone was talking about at the time.

Finbarr Bermingham: Yeah, and so we were convinced at that point that this was going to be a thing, that there would be a specific instrument to deal with what they describe to be the problem. And when I asked, what would this look like?

They would ask me, well, what do you think it should look like? I think they were really struggling to figure out what this should be.

We are expecting something to come before the summer, at least in some sort of form, maybe a proposal or inching towards a proposal.

It's been variously described as an overcapacity instrument or a diversification instrument, something that would encourage buyers or purchasers, importers, to move away from having too much concentration on single sources of supply in certain sectors. What does this look like? I still don't know for certain. It's a very closely guarded secret.

The expectation is that maybe it would be something akin to a China-specific safeguarding measure, maybe something more like what you have in the United States with Section 301. There's a hell of a lot of rumors in Brussels these days.



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We had a French government recommendation that there will be a 30 percent blanket tariff on all goods from China. This was laughed out of the place by some people, but others seemed to be quite interested in this. I don't think they'll go down that route, but the fact is that this is very much an inflection point. The whole relationship is in a state of flux and they feel like they really need to do something.

The challenge, as ever, and they still care deeply about this in Brussels, is how do they do this within the rules of the WTO? This is paramount to their thinking, and you've seen various signals that they're trying to propose different formats in the WTO. Maroš Šefčovič, the Trade Chief's op-ed in the FT, a couple of months ago, where he proposed a change to MFN rules, Most Favored Nations rules, so that they're more reciprocal.

And this was obviously at the heart of an EU proposal in Geneva as well. You can see that they're sort of nibbling around the edges of these things and where they land. We're all fascinated to see.

Chad Bown: On this point, one of the ideas that I've been thinking about recently is a potential new type of trade defense instrument that would deal with some of these underlying concerns that I think governments are increasingly having about the market dominance of certain countries that they then choose to weaponize, like we have seen China do over the last year or so, whether it's rare earths, permanent magnets, or low-end semiconductors.

And to prevent that market dominance by tying the triggering, the evidence needed to use a new trade defense instrument to how much market concentration there is on the production side. So suppose you're getting too much of your imports from this one big global supplier, then you impose some sort of import restriction to incentivize your buyers to work hard to find alternative sources, right?

In any case, despite my own probes with European officials, it's unclear exactly what they might have in mind. Maybe this is just a fact-finding mission on their own part, but I think it is worth thinking about how to deal with some of the challenges that China especially imposes in the trading system.

EXPORT CONTROLS AND INDUSTRIAL STRATEGY

Chad Bown: I want to move back to automobiles for a moment, and I want to talk about three other related issues that have been popping up in Europe in that sector. The first is China's export bans last year in 2025 on rare earth permanent magnets and semiconductors from Nexperia. These issues were massive in the United States. Numerous automobile companies



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had to temporarily shut down production and furlough some workers and jobs because they just ran short of these sorts of inputs. Ultimately, this concern is one of the driving reasons why the Trump administration lowered tariffs on China over the course of last year and paused on a lot of their other efforts they had in addressing concerns that the United States faces with China.

From Europe's perspective, were those Chinese export restrictions on things like rare earth permanent magnets and semiconductors a big deal?

Finbarr Bermingham: They were huge. Europe is in the same boat as America in terms of its dependency on China for minerals in particular.

Interestingly, at the start of last year, there was a lot of speculation that with Trump returning, that the EU and China will get closer together.

I think that those two things that you mentioned, the rare earth export controls and the Nexperia crisis, were the two of the many elements which ensured that didn't happen like it. Things actually got gradually worse over the course of 2025.

Like in America, there were parts of EU industry that were issuing warnings that they were close to closing down. Certain factories were either slowing down, maybe they were pausing production as well. That was even on the April 2025 controls.

Then in October, whenever the Chinese government announced this more sweeping raft of export controls, that really was wow. I was in The Hague that day and was moderating a conference panel, and I was interviewing on my panel, the top China official in the EU.

We were all digesting this news about these export controls, which if you think about it, it was almost like they were going to be able to control where any good containing a trace of a Chinese rare earth would go, at a time when Europe was trying to rearm and at a time when the burden of funding in arming Ukraine was falling on Europe, this could have been a disaster.

I asked him on the panel, "Is this the lowest ebb in the relationship that you've observed in the five years in which you've been controlling it or managing it?" He said, "Absolutely, I can't disagree with that statement."

Those controls were huge. The ceasefire was welcome, like the Busan agreement where there was a pause on the October controls. They were definitely welcome, but I guess there was also the takeaway from that was this sense that Europe's industrial and military plans were still very much at the whim of the two superpowers and whatever they could agree with each other.



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This rare earth dynamic, like the fact that the Chinese had stood up to Trump and got him to back down with his tariffs, fed into, I believe, how China dealt with Europe through the course of last year as well. There was an element of swagger that entered into how China dealt with the rest of the world. Certainly in Europe, this was observed very strongly by officials.

This obviously ties in with your book that's coming out now, with the Chinese figuring that they knew how to win a trade war. You better not mess with us.

This sort of percolated through all of the dealings between the EU-China relationship last year. It made negotiations really challenging, and added to the definite sense that we still see today that Beijing is not in the mood to make any concessions to Europe. The rare earths controls themselves were huge, but the downstream impact of that as well were also significant.

Chad Bown: Thanks for the book plug. Everyone, that's *How to Win a Trade War* with Soumaya Keynes at the *Financial Times*. It'll be out next week, but you could pre-order it today. Finbarr has an early copy.

We're going to come back to this issue of how, specifically, China has been expanding its toolkit to respond in various ways that are impacting Europe. And we'll come back to that in a moment. But I want to press a little bit more on other things that are happening in the European auto sector.

And one is, at the time that the investigation for those battery electric vehicles subsidized from China was happening, there was talk in Europe publicly, even by the Commission, about changing the way that it deals with China and potentially encouraging Chinese firms to do more foreign investment in this sector in Europe. But not only that, to encourage the foreign direct investment of the BYDs of the world and these other major and incredibly impressive Chinese automakers in Europe, but they wanted to encourage the transfer of the technology. As you said, these Chinese companies are now often the global leaders in battery electric vehicles, whether it's the vehicles themselves or the batteries underlying them, and condition that foreign investment on the ability of these companies to provide jobs locally.

Plans were sort of floated, thrown around. What's the status of all of that? What are you hearing, is something like that still in the cart?

Finbarr Bermingham: Absolutely. This is the big enchilada of EU industrial policy in 2026. These things have been talked about and they were sort of dabbling in sort of subsidy for investment and so on, but they sort of crystallized it earlier this year in the proposal of the Industrial Accelerator Act. It's variously referred to as the "Made in Europe" or "Made with Europe"



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proposal. And it's really like the first EU effort to try and sort of wade into industrial policy on the investment piece. It's sort of a pay-to-play model.

If you want to build a factory here, if you want to have access to EU public tenders, to subsidies, to the sort of fast track permitting that will allow you to build your facility quickly, then there must be real value added to the economy.

They want to add layers of conditions for foreign companies who want to tap into that sort of thing. And this would definitely affect Chinese companies because it's concentrated in those sectors, the high tech sectors that Europe wants to obviously thrive in, like batteries, EVs, solar, wind, those ones that you mentioned already. And it's also heavily penalizing or targeting those sectors in which a single country has a 40% plus share of the market. Obviously China falls very much into that category across the board.

And in terms of what they have to do, there's like six big ticket conditions. And if you meet four of them, maybe then you're going to be okay. These may sound familiar to you, Chad.

Some of the conditions are that you must establish a joint venture with an EU entity. You must transfer technology. You must have 50% plus of local workforce; 1% of all global revenue must be reinvested in R&D in Europe.

When it was first floated, even before the proposal plan, you had some mischievous researchers in Paris called this the reverse Deng, referring to Deng Xiaoping, of course.

And this is the sort of thing that China has been getting Western companies to do for 30, 40 years. And now Europe wants a slice of that itself.

It's interesting to see the reaction to this. The Chinese government doesn't like it whatsoever. They have pledged to retaliate fiercely if the EU goes ahead with this. Vague but menacing threats have been made at every single level. They even brought in the journalists in Brussels for a briefing last week to make sure that we'd heard the threat as well.

Now, the challenge here is that the Commission must get member states to agree to this. There's already been a big debate behind the scenes. Before this was proposed, it was delayed seven times. Before it even got to the proposal stage, it had been through the wringer.

You have several EU members which have been welcoming Chinese investment in these sectors already: Hungary, Spain, and so on. So how do you put that genie back in the bottle? This is one of the challenges that they face.



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It's also as much as a manufacturing or an investment problem, it's like a philosophical debate. What does Europe want to be or what direction does Europe want to go in? How open?

It percolates through so many policy areas, but I think this is almost like the best representation of that. How open can you be when your trade partners are weaponizing what used to be just normal trade and how closed can you be when the economy is barely growing?

I think the Industrial Accelerator Act pulls together all of those questions, and it's going to be debated over fiercely. It would probably be watered down through the negotiations with the co-legislators in the EU.

But for me, it's a great story. It's very much of its time. Everybody's doing a little bit of this, and this is Europe's attempt to join the party.

Chad Bown: One of the ideas that Soumaya and I pursue in the book is how it is that countries are actually learning from each other as they're implementing these sorts of policies. I agree, this is clearly one place where if what Europe is trying to do is force the transfer of technology from the leading Chinese firms to local European firms in the battery electric vehicle space, they're obviously taking a page out of the Chinese playbook.

I think the big question though is, are they committed to this? As you noted, the Industrial Accelerator Act is still being debated. The proposal is out there. It's unclear to me at this stage whether Europe wants China to be a part of it in some of these sectors or if they want to design implementation with others in ways that might exclude China from being part of it. We'll see how that plays out.

But then the second would be, even if it wants China to be a part of it and it wants to encourage the transfer of technology like China has done successfully over the last 20-25 years, will Europe be able to pull it off?

NEW REGULATIONS AND RESPONSES

Chad Bown: Okay, so that's import restrictions and industrial policy, some of the potential subsidies, and how Europe is thinking about trying to transfer technology from Chinese companies to the local economy.

Now I want to talk about other tools that the Commission has developed to address the challenge being imposed by China. Let's start with this thing called the Foreign Subsidies Regulation.



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What is it and how is the Commission using it to address Chinese concerns and what's been the Chinese response?

Finbarr Bermingham: Foreign Subsidies Regulation is a really interesting one. As a trade reporter, it caught me by surprise because it's from the competition world, so it moves much more quickly than your average anti-subsidy probe.

And I think that's part of the idea. It's a competition tool that allows the Commission to investigate firms from third countries who are already in the EU market. They're not shipping in, they're maybe producing or bidding for tenders, or they have an active operational presence in the EU. It's a way of going after subsidies away from the sort of physical trade space.

If you're operating in Europe and they believe that you're, for example, bidding for contracts, be it in tenders for railway lines or whatever like that.

But if they believe that you're still not declaring that you have state subsidies that are allowing you to undercut the opposition, they can go after you in Europe. I think this is quite innovative. It's really interesting. And it's been very actively used against Chinese entities in Europe.

One recent example was the metro line that's going to be built in the Portuguese capital of Lisbon, where there was a big tender as a part of that bid, CRRC, the big Chinese rail conglomerate, was going to provide the carriages. The commission looked into this and they felt that the bid was too low, that it undercut the opposition. And they investigated it.

Now, ultimately, what happened is what we tend to see happen where Chinese companies are involved here. Rather than comply with the investigation, they exit because it would be so cumbersome for them to do so.

And they argue that it would actually put them in danger of breaching Chinese laws, because it requires them to hand over lots and lots of information from their headquarter in China about what sort of dealings they have with the government, what subsidies they have. And their argument is that we cannot comply with this European law while at the same time complying with data transfer laws in China.

Or if you're a state owned companies, maybe you worry that you're going to be in breach of like whatever the equivalent of the official State Secrets Act is.

You have this environment springing up where European companies in China are saying, well, we can't comply with your laws and Chinese companies in Europe are saying the same thing.



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Now, the interesting thing here is that it's so fast that these companies are given like days and weeks to hand over all of this information rather than the months and years that go into a traditional trade probe, that it's more dynamic.

And again, it means that these companies, rather than complying, they're just pulling out of bids. We've seen it in the rail sector. We've seen it in the wind sector, solar photovoltaic, airport scanners, even BYD's plant in Hungary has been subject to an early stage probe. It's something that's very active at the moment.

Chad Bown: Now let's turn to cybersecurity and the European power grid, and something called inverters. And you've been reporting on this recently as well. What's Europe's concern with China there?

Finbarr Bermingham: Yes, inverters. They're basically the electronic devices that control how much energy goes from the point of generation into the grid. They're used extensively, obviously, in things like solar farms, wind farms, battery systems, anything that would be pumping energy from generation into the grid.

Not surprisingly, probably, China is the dominant player in this space. It dominates 80 percent of the global supply, and the EU reckons that that 80 percent is probably accurate in terms of China's supply of the EU market for inverters as well.

Last month, they decided that they would stop funding projects that use Chinese inverters. No more EU money can go towards projects that would use an inverter that's made in China.

The companies involved in this space are the likes of Huawei, another company called Sungrow. These are the big players. And why would they do that?

There's two fears and they're kind of linked.

The dependency piece, it's sort of the time-worn tale of if you're too dependent on a single source of supply, everything that the lessons that have been learned, or at least that they say they've learned from the Russian invasion of Ukraine, the COVID-19 pandemic, it's probably not too good an idea to have too concentrated supply in something that's so critical.

The second is, as you mentioned, cybersecurity or just general security, energy security, national security, that big blob of security that we're all trying to navigate at the moment. What happens if things go really badly south and they decide to cut the power to the grid?



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It's the combination of the dependency and the security aspect here. This is what officials are worried about. They're phasing out that funding by November. And it's part of a piece. There's a Cybersecurity Act that's recently been proposed and upgraded rather than an existing Cybersecurity Act, whereby they want to also make it mandatory to do things that have previously only been recommended.

For example, Huawei and ZTE, still quite widely used in Europe's telecoms network, they want to make it mandatory for member states to stop using that. And that's a cybersecurity risk. They fear about hacks. They fear about disabling the network, etc. Of course, this has drawn, as you would expect, a furious response from the Chinese government.

Obviously, China denies that there should be any concerns about cybersecurity and says that this is just sort of like a discrimination and unfair treatment.

Again, they submitted a 30-page document to the Commission in their response for feedback, the very naked threat that the EU companies would be in the firing line if they follow through with this.

It's another tenet to this sort of growing sense that these systems are increasingly in opposition.

Chad Bown: There have been similar concerns for other products in the United States and around the world as well. Whether it is, as you mentioned, Huawei's telecommunications equipment for 5G and the vulnerability concerns there, connected vehicles in the United States, there's now regulations in place saying that any vehicles can't have Chinese software in them, because the American government is worried about things like surveillance, the ability to turn things off remotely and create crises. I guess when it comes to these inverters, that's what the worry might be as well, that these could be hijacked and shut down the power grid.

NEW CHINESE REGULATIONS INTO SUPPLY CHAIN SECURITY

Chad Bown: You talked earlier about Chinese companies in Europe having to go through these investigations, whether it's trade defense investigations, anti-subsidy stuff, or maybe the foreign subsidies regulations.

And they're worried about, if they just comply with European laws, are they breaking Chinese laws? And China, over the last couple of years, and especially over the last couple of months, has really been ramping up its efforts to make this even more complicated for companies that are trying to operate and comply with multiple legal jurisdictions.



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Most recently, the Chinese government has issued new orders called 834 and 835 on Chinese supply chain security. From the perspective of European companies, when they see these kinds of Chinese regulations, what are they most worried about?

Finbarr Bermingham: these are big concerns, particularly among European industry.

The first one you mentioned, the 834, is a regulation on supply chain security. It gives officials the power to punish anyone, entities, businesses, people who are deemed to have threatened China's access to vital resources, the free flow of goods. It's very broad and very vague.

If you're a business person in China and you are deemed to be jeopardizing China's supply chain security, you could be served with an exit ban, to give probably the most worrying example in there from the perspective of EU businesses.

The second one, which is the regulation 835, this is the regulation on countering unjustified extraterritorial application of foreign legislation. Basically, "Do not comply with foreign sanctions that we disagree with."

The problem for businesses is that this is so vague. They don't really know where the lines are anymore. If you're, for example, trying to comply with the European regulation on supply chain sustainability, that will eventually make businesses have to do thorough audits of their second, third tier suppliers in China.

How do you do that while also complying with China's supply chain security law? It's really complicated and this is not necessarily a new dynamic. It's been going on for several years.

When the first anti-sanctions law from China came out in 2021, and the EU was at the same time putting together its forced labor ban, businesses were wondering, "Well, how do we thread that needle? We can't do both those things at the same time."

As we've seen with things like export controls, it seems to be systematizing some of these things that were already being done at the same time that Europe is also adding layers and layers to its own regulatory pile.

The EU considers its relationship with China to be, they call it the Triptych: it's a partner, a competitor and a systemic rival.

I feel like all of these new rules on each side, the two jurisdictions, are adding to that sense of systemic rivalry. The legal systems are increasingly in contradiction to each other. But no, it certainly adds another layer of cloud to the already gloomy relationship, I think.



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THE FUTURE OF EU-CHINA RELATIONS

Chad Bown: There was supposed to be a European policymaker big debate in April, something called “China Week,” to discuss Europe's future relationship with China.

With the war in Iran suddenly breaking out, that debate was postponed and rescheduled until the end of May. What are you looking out for in that debate?

Finbarr Bermingham: This is like an orientation debate among the 27 commissioners, that includes Ursula von der Leyen, the president of the commission and everybody from her senior team. And the idea was to chart a new course forward on China. And it's the first ever time that it would be meeting under the banner of the Security College.

What are we looking for? We discussed earlier this overcapacity instrument or diversification instrument.

I know that officials were disappointed when it was postponed initially because they really do want some senior level political blessing for doing things a little bit differently. There is a sense that what they're doing on China isn't working, that it's not enough, and that they need to think creatively. And they have been doing so behind the scenes.

But there's only so far that the civil servants can go without the political leadership really giving it their blessing.

Whatever you think, whether you're somebody who wants the EU to be softer or harder on China, I think it's a good idea to have a big strategic discussion about this. And they really have been very distracted by Iran and everything that's going on with Trump, they haven't really had the bandwidth to do much on China. It's been kicked down the road. I think having a debate is probably a good idea.

Chad Bown: What are some of the key differences that you're seeing between the member states on China?

Finbarr Bermingham: The member state dynamics are quite fluid at the moment.

Some of the countries in the EU that were traditionally seen as reliably, the hawks in the dynamic, have sort of changed their tack. Lithuania obviously was considered closest to the United States on China policy. And with the new Social Democrat government there, they're changing a little bit.



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The Czech Republic also, they have a new populist prime minister, and his government is seemingly being less pro-Taiwan, a little bit more amenable to patching things up with China. it's all up in the air.

But nothing will change without the backing of the big players. France has come down, along with strangely Belgium, as possibly the two member states who are now backing a more assertive trade approach against China.

Germany is really quite a strange one at the moment. Friedrich Merz, the Chancellor, has flip-flopped a lot. He's made some quite strong words, and then he went to China and was seemingly transformed into prime-era Angela Merkel and came back after seeing the dancing humanoid robots in Hangzhou and decided that it was a good idea to have a free trade agreement with Beijing. we will see where Germany ends up.

My sense is that because it's by far the biggest trade and investment partner of China, the most exposed, nothing will meaningfully change in policy unless Germany throws its weight behind it.

It's up in the air, but I think this next six weeks could be really meaningful in the long term.

TRUMP AND THE EU-CHINA RELATIONSHIP

Chad Bown: You mentioned President Trump. Now I want to bring in the United States. How have the Trump administration's actions beginning in 2025 impacted the approach that the EU is taking toward China right now?

Finbarr Bermingham: I think the first thing to say is that it's absorbed almost all of the oxygen. there's been very little time to devote to China. It's really fallen down the pecking order. It's taken a backseat to everything else.

The Turnberry deal last year, the endless threats, the constant distraction has really hampered Europe's ability to do anything else, not just on China. It's really been quite damaging to the agenda. And I think that's been amplified with the war in Iran and everything.

We mentioned that the debate that was supposed to be happening last month was postponed because the leaders wanted to come up with an EU response to the energy shock in Iran, which is fair enough. I do think that the deterioration in transatlantic relations has made it the case that leaders are probably more reluctant to confront China. We often hear that they don't want to fight two trade wars at the same time with both of the superpowers.



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We've seen a stream of leaders going to China to try and tone things down a bit. None of them are really coming back with too much. I push back against the idea that this is a pivot to China.

I think it's more a damage limitation sort of thing. But you do get the sense that leaders want to tone things down. It's understandable, giving how much chaos there is elsewhere in the world.

In Brussels, it's slightly different. I think, yes, they are distracted. But I think in recent months, we've certainly seen the foot is back on the gas, vis-a-vis the de-risking agenda, all these tools and regulations that we've already discussed.

But again, that sense of not wanting to pick a fight is very prominent. You get this mantra that is percolating through the commission and elsewhere now, "Do more, say less."

Do what you have to do, but there's no need for the sort of grandstanding speeches that you would have had during von der Leyen's first term in office, that the quiet work goes on in the background, but let's not draw too much attention to it.

Only time will tell how successful that is, because obviously, there's still the likes of myself publishing everything that happens, and the Chinese government is paying close attention. But the fact that they're trying to not be outwardly antagonistic, at the same time as doing what they see to be their necessary homework, I think that is probably connected to what's been going on in the US-China relationship as well.

As you know, they were in lockstep with the Biden administration on many of this stuff, and they would have been announcing things left, right and center. That's not happening anymore.

There are several threads on which they're still, I suppose, hoping maybe they can do stuff with the US, but expectations are very well managed on that front.

Chad Bown: One of those possibilities might be critical minerals. Recently, the US administration has started signaling it wants to work with Europe on some common challenges with China, like finding new sources of rare earths and other critical minerals. Both the US and Europe are massively dependent on China for these, and China has now shown obviously its willingness to weaponize them.

Is it possible for Europe to work together on common issues like critical minerals cooperatively with the United States while at the same time being under constant threat of US tariffs?

Finbarr Bermingham: What a question. The question of our time, it's bonkers really.



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Look, there's acknowledgement in Europe that they feel that they can't do the rare earth thing alone. If there's anything that they can work together with the Trump administration on, this will be the one that they have chosen. And there's a lot of work going on at the G7 level.

But politically, it's very difficult. Every day comes with a new threat. Public opinion on the United States is incredibly low in Europe at the moment. There are many parts of Europe in which the United States is more unpopular than China now.

But at the same time, this critical mineral issue is so crucial that I think if they can hold their noses and do a deal on it, they'll do it. The challenge then comes in, what does that actually look like and how does it work in reality? Can you trust, if you do a deal on joint stockpiling, that you will get your fair share?

This is the sort of questions that would have been absurd several years ago but are really pertinent at the moment. But I do think in general, this really is the one remaining element of cooperative agenda vis-a-vis China at least anyway.

Chad Bown: Finbarr, as my last question, this week we have American President Donald Trump traveling to Beijing for his long-awaited meeting with Chinese President Xi Jinping.

When it comes to that meeting, what is Europe on the lookout for?

Finbarr Bermingham: I think there's two things. One is, and I suppose you could say it's a mixture of hope and fear.

On the one hand, a rollover of the Busan deal would suit Europe in the short to medium term. The export controls that have been paused from Beijing, they're in big trouble if that collapses. If those October 2025 export controls on rare earths come in, then that's going to be terrible for Europe. Obviously, they're hoping and expecting that that is rolled over.

The second, though, and this is something you hear from the more strategic thinkers and the analyst community is, if there is a deepening, I don't think it's anybody's expectation, but if there is a more expansive US-China deal, that may not be in Europe's favor.

We've already discussed this sense of swagger that Beijing has taken upon itself since forcing Trump to back down with its rare earth controls. The sense is that if the Chinese government is able to get an even better deal with the United States, then why would it make any concessions to Europe?



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There's a sense that if the big superpowers are carving things up among themselves, then what's left for Europe? So twofold.

But in general, I've been surprised by how little attention has been devoted to, or in my discussions with folks, the summit next week hasn't been a huge topic. And I think that the expectation that this deal from Busan will be rolled over is already baked in as their baseline. Let's hope that's the case.

Chad Bown: Finbarr, thank you very much.

Finbarr Bermingham: Thanks to you, Chad.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*. A huge thanks to Finbarr Bermingham at the South China Morning Post in Brussels. Do check out Finbarr's ongoing coverage of the EU-China trade war, something that I look forward to reading every week.

A big thanks as well to Isabel Robertson, our audio producer, thanks to Melina Kalb, our supervising producer, and thanks to Sam Elbouez and Sarah Allen on digital.

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And please also order a copy of my new book with Soumaya Keynes titled *How to Win a Trade War*. It's out this month, but you can pre-order it today, anywhere that you buy books, that is *How to Win a Trade War*.

See you next week, everybody.