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European Daily: EU—A Shift in European Trade Policy Towards China: Targeted Tariffs, Strategic Restraint

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- Chinese net exports have continued to surge through the energy shock, including to the EU. European policymakers are growing increasingly wary of the competitive pressure coming from Chinese industrial products. At its June meeting, the EU Council mandated the EU Commission with the task of proposing an appropriate response to China, marking a shift in European policy.
- We expect the EU to move from a largely accommodating stance towards China to a more assertive—but still targeted—trade policy response, as rising Chinese exports continue to widen the bilateral deficit and erode European market share in third markets. The pressure is most visible in manufactured goods, where China's cost advantage reflects lower labour and energy costs, subsidies, and currency undervaluation.
- Policy action is likely to focus first on sectors where the evidence of trade diversion and industrial drag is strongest—including steel, plug-in hybrid EVs (PHEVs), machinery, wind-turbine components, and basic chemicals. The Commission will tighten steel safeguards from July 2026 and enforce "melt and pour" rules, and we expect it to extend anti-subsidy duties beyond BEVs, and accelerate anti-dumping investigations into high-volume industrial inputs.
- A US-style blanket tariff regime remains unlikely, in our view, given China's leverage in critical inputs such as rare earths, the limited growth benefit from broad import barriers when the main drag comes from third-market competition, and Europe's continued interest in preserving export access to China while seeking gradual concessions on currency and market access, and improving supply-chain diversification.

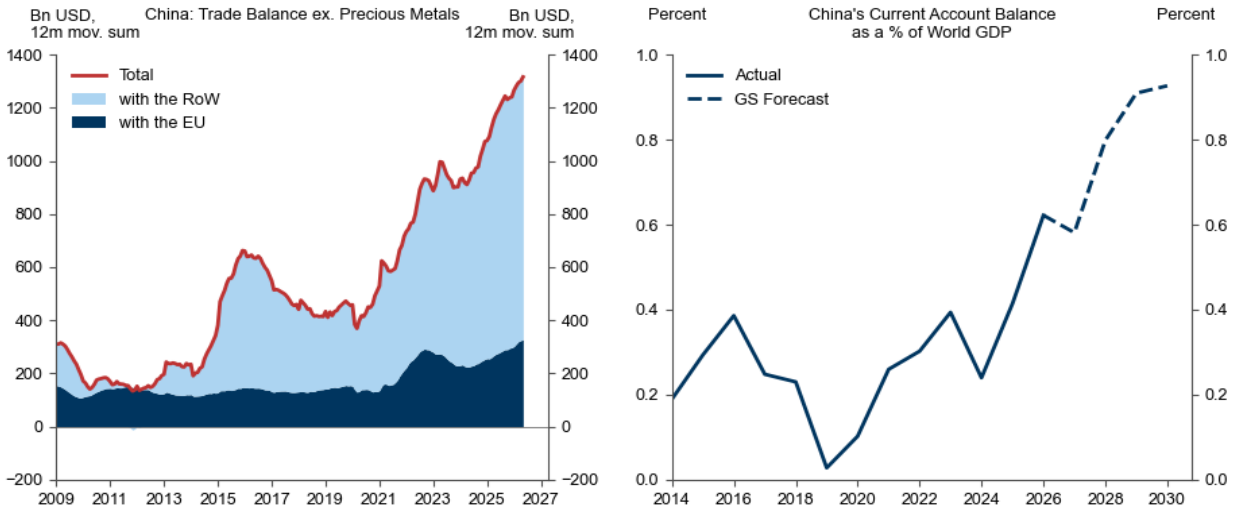
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EU—A Shift in European Trade Policy Towards China: Targeted Tariffs, Strategic Restraint

Chinese Competitive Pressure Continues to Build

Chinese exports have continued to rise despite US tariffs and the recent energy shock. We expect China's current account surplus to keep widening, settling just below 1% of global GDP by the end of the decade (Exhibit 1). In its June meeting, the EU Council shifted its approach mandating the EU Commission with the task of proposing an appropriate response to China's competitive pressure.

Exhibit 1: An Ongoing Surge in Chinese Net Exports, Which We Expect to Continue



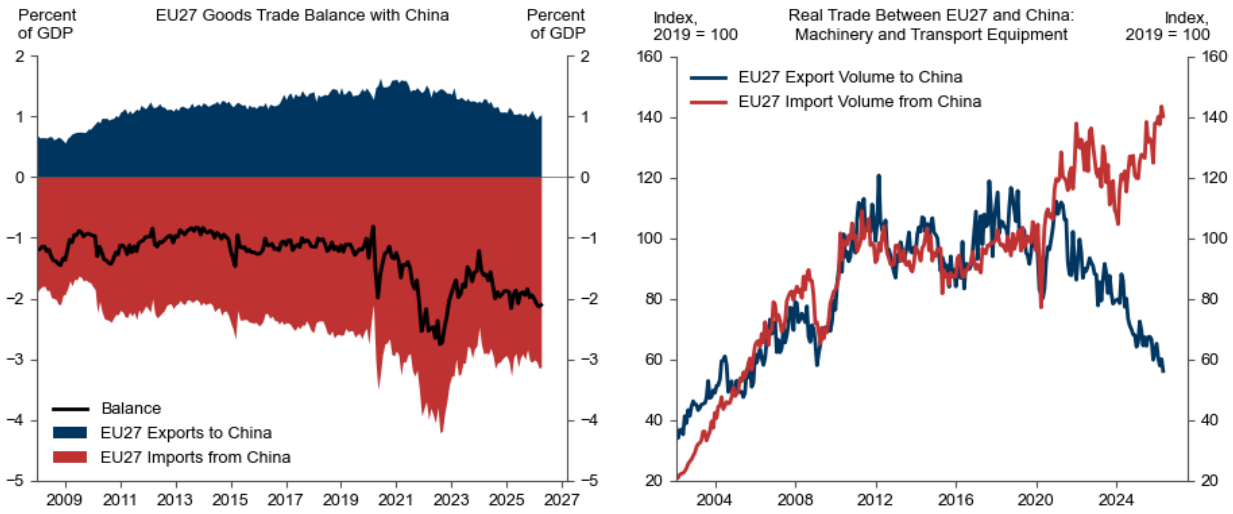
Source: Goldman Sachs Global Investment Research, Haver Analytics

This matters for Europe through two main channels.

First, China's exports to the EU rose by about 16% in the first five months of this year versus 2025, while EU exports to China increased by less than 10%, widening the bilateral deficit. The deterioration has been most visible in manufactured goods, especially transport equipment and industrial machinery (Exhibit 2).

Higher imports from China displace domestic production and imports from other partners, generating a modest GDP drag that is partly offset by cheaper intermediate and final goods.

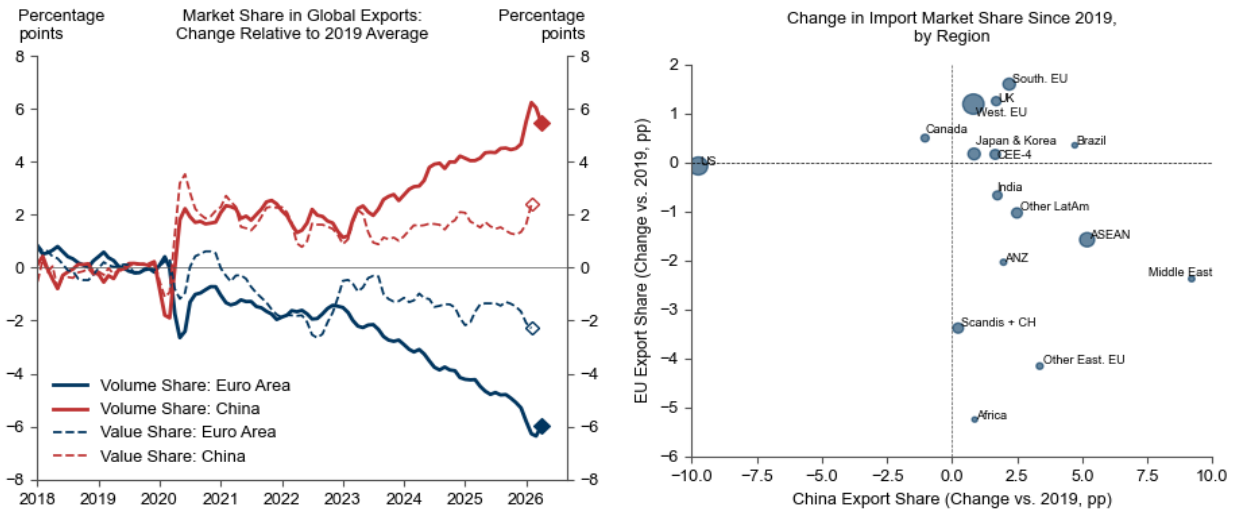
Exhibit 2: The Bilateral Trade Deficit with China is Widening, Especially in the Transport and Cap Good Sectors



Source: Goldman Sachs Global Investment Research, Haver Analytics

Second, China's manufacturing-led growth strategy continues to challenge European competitiveness in third markets. China has gained export share at Europe's expense, especially in APAC, Eastern Europe, and LatAm. We estimate that this third-market competition, rather than the bilateral deficit itself, accounts for most of the European growth drag from China's export-led model (Exhibit 3).

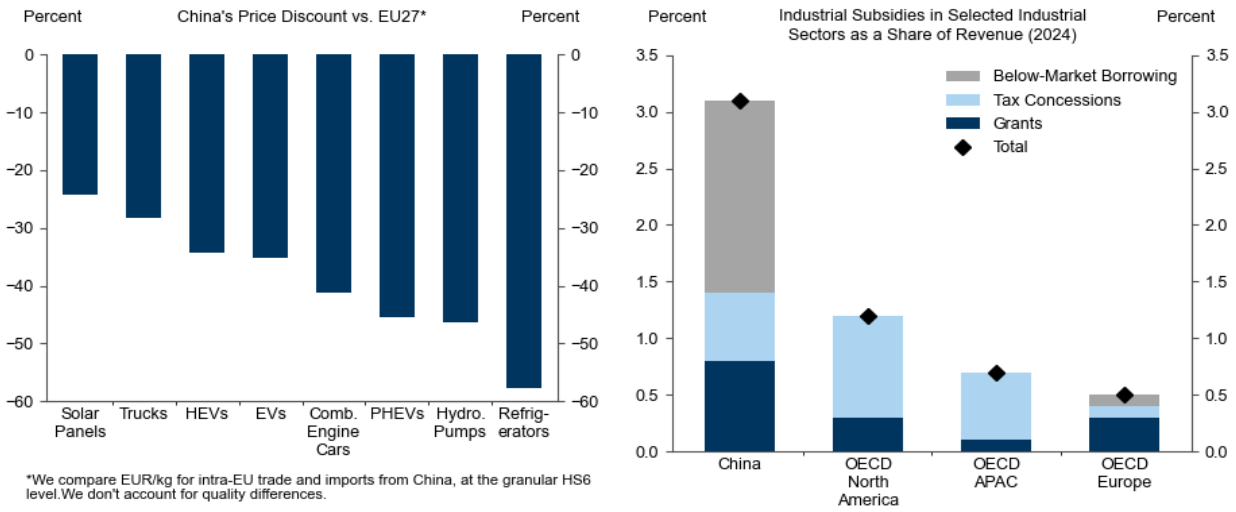
Exhibit 3: China Continues to Gain Market Shares, At the Expense of the EU



Source: Eurostat, Goldman Sachs Global Investment Research, Haver Analytics

China's cost advantage remains large, reflecting subsidies (both explicit and implicit), among other things. Moreover, our FX strategists estimate the CNY is more than 20% undervalued, adding to the competitive pressure on European manufacturers (Exhibit 4).

Exhibit 4: Chinese Manufacturers Enjoy a Large Cost Advantage, Which Partly Reflects Policy and FX Valuations

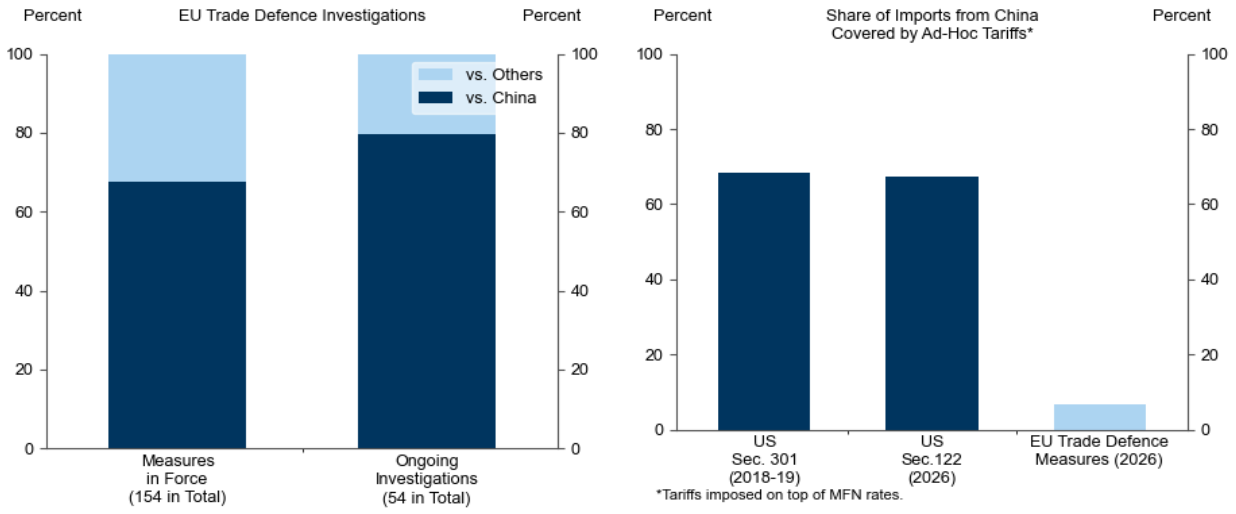


Source: Goldman Sachs Global Investment Research, Haver Analytics, Eurostat, OECD

EU Tariffs on Chinese Products Have So Far Been Targeted

The EU has so far taken a relatively cautious stance towards Chinese products. Although most EU trade-defence investigations have targeted China, less than 10% of Chinese imports into the EU currently face ad-hoc tariffs—a sharp contrast with the US approach (Exhibit 5).

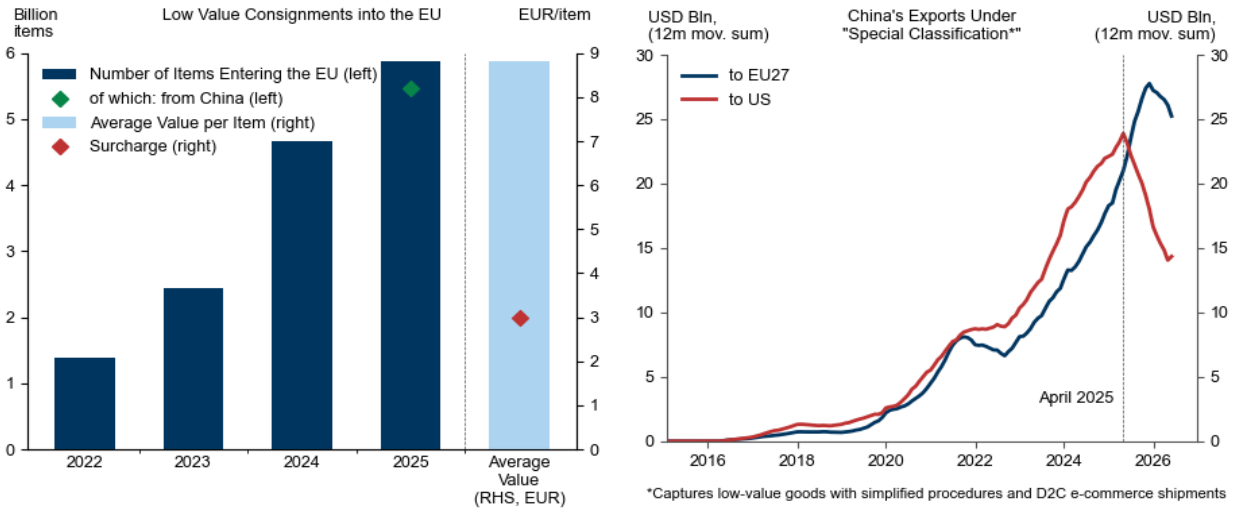
Exhibit 5: EU Investigations Have Focused on China; Measures Have Been Very Targeted So Far



Source: Goldman Sachs Global Investment Research, Haver Analytics, European Commission

The main exceptions have been tariffs on battery electric vehicles (BEVs), introduced in October 2024, and the abolition of the EUR 150 customs-duty exemption (*de minimis*) for small parcels from July 2026 (Exhibit 6).

Exhibit 6: The New Surcharge Aims to Tackle the Sharp Rise in Small Direct-to-Consumer Shipments into the EU



Source: Goldman Sachs Global Investment Research, Haver Analytics, Eurostat, European Commission

Shifts Towards a More Assertive Commercial Policy

BEV tariffs have already triggered a response from producers. Chinese manufacturers have pivoted towards plug-in hybrids, which are exempt from the steeper BEV duties and face only the standard 10% tariff. EU imports of Chinese PHEVs rose by about 150% over the past year, reinforcing the case for a more assertive policy response (Exhibit 7).

Exhibit 7: EU Policy Response: State of Affairs and Options Ahead

	EU Policy	Status	Policy Details
Policies Already Implemented	Tariffs on Battery Electric Vehicles (BEVs)	Introduced in October 2024	10% import duty plus manufacturer-specific countervailing duties: • BYD: 17% (27% total) • Geely: 18.8% (28.8% total) • SAIC: 35.3% (45.3% total)
	Abolition of EUR150 Customs Duty Exemption (*de minimis*)	Introduced in July 2026	Eliminates the duty-free *de minimis* threshold for low-value (up to EUR150) imports. Introduces temporary flat customs duty of €3 per item/tariff line applies to B2C shipments.
Policies Under Discussion	Tariffs on Plug-In Hybrid Vehicles (PHEVs)	Proposed / Awaiting Member State Approval	Designed to address the shift by Chinese automakers toward exporting PHEVs to bypass BEV tariffs. EU Commission has prepared countervailing duties between 17% and 38%, ready to roll out once approved by a majority of EU member states.
	Industrial Accelerator Act (IAA)	Proposed Legislation	Ambitious EU industrial policy proposal, faces heavy lobbying from Beijing, with key features: (a) "Buy European" Procurement, (b) FDI prior approval for investments over EUR 100 million in strategic sectors where the origination country controls >40% of global capacity.
	Revisions to the EU Cybersecurity Act	Under discussion	Restrict market access for Chinese high-risk technology companies in critical digital infrastructure. It includes blocking public funding for projects utilizing Chinese-made components, e.g. solar inverters.
	"Anti-Dependency" Instrument	Under discussion	Legal framework mandating EU companies to diversify supply chains and reduce excessive reliance on single-source foreign suppliers for critical raw materials.

Source: Goldman Sachs Global Investment Research, Haver Analytics, European Commission

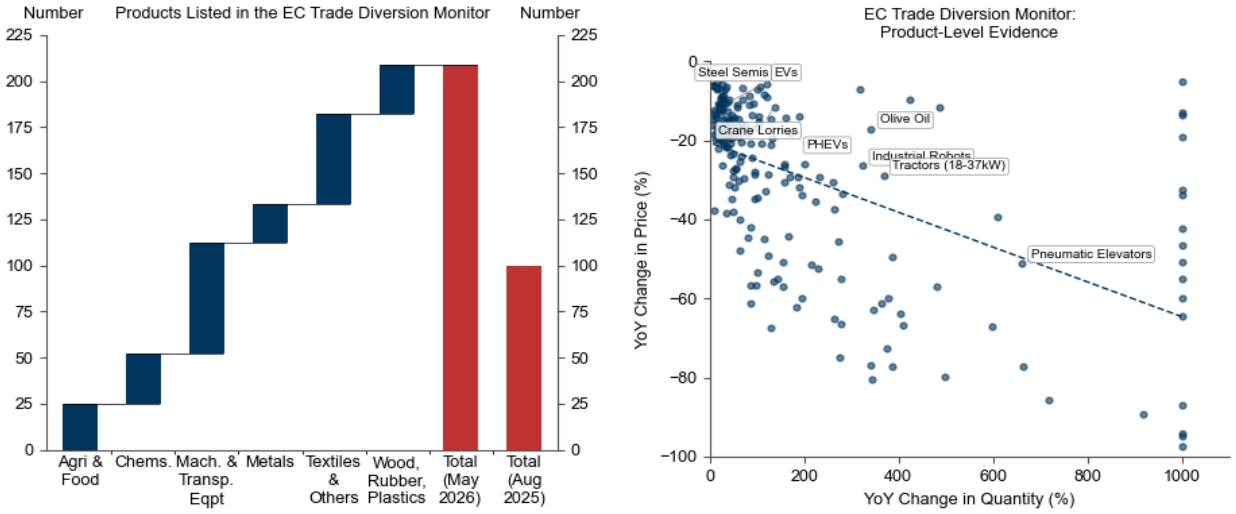
We expect the Commission to continue to raise trade barriers, but in a t
consistent with the new trade-diversion monitoring framework.

Near-term measures are likely to focus on sectors where evidence of di
is strongest. The EU will tighten steel safeguards from July 2026 and ent
pour" rules to prevent Chinese steel from being rerouted through third

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also expect anti-subsidy duties to be extended to PHEVs and hybrid vehicles, alongside faster anti-dumping investigations into machinery, wind-turbine components, and basic chemicals (Exhibit 8).

Exhibit 8: The EU Commission Monitor Continues to Flag Evidence of Potentially Harmful Increases in Exports into the EU



Source: Goldman Sachs Global Investment Research, Haver Analytics, European Commission

The EU is also discussing broader and more aggressive trade barriers by forcing procurement of "made in Europe" goods and limiting foreign direct investment in strategic sectors (Industrial Accelerator Act), restricting access to the European market for Chinese technologies (Cybersecurity Act), and forcing European companies to diversify their supplies ("Anti-Dependency" instrument). This structural shift under discussion could allow the EU Commission to impose sweeping tariffs and import quotas on sectors deemed critical to the bloc's "economic security". Benefiting from the WTO national security exceptions, the EU could target advanced manufacturing sectors—such as semiconductors, batteries, and robotics—where Chinese state subsidies are challenging the survival of Europe's industrial base.

France has been the primary supporter of a tougher EU stance. French President Emmanuel Macron has warned that Europe may be forced to "decouple" in strategic sectors if bilateral imbalances persist, allowing Brussels to bypass lengthy WTO-compliant investigations and directly impose duties on national security grounds. While historically more cautious, Germany's economic stagnation and China's increasing market share in industrial machinery, chemicals, and automotive sectors have convinced Chancellor Merz to shift towards a less cooperative stance, and he has publicly noted that the Chinese Renminbi is undervalued, giving Chinese exporters an unfair advantage. Other countries, for example Spain, remain wary of aggressive tariffs.

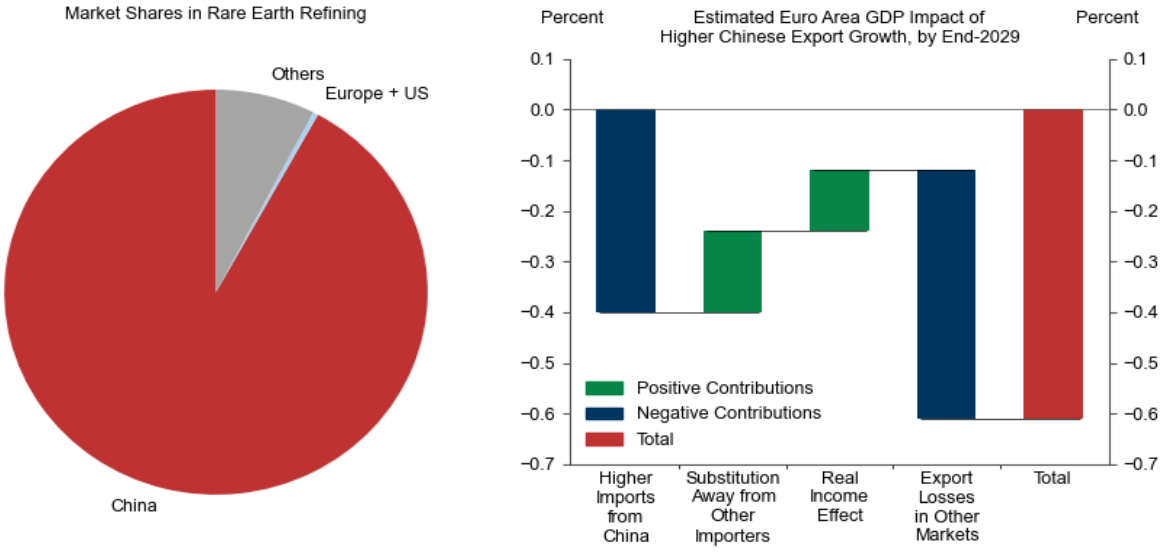
The EU Commission's Balancing Act and China's Leverage

Even as trade measures increase, we expect the Commission to avoid US-style blanket tariffs for four reasons.

First, China retains leverage as a key direct and indirect supplier of refined rare earths. Export controls during the US-China trade war exposed Europe's dependence on Chinese inputs and highlighted the risks of escalation.

Second, broad tariffs would do little to address the main source of the growth drag, which comes from lost market share in third countries rather than the bilateral deficit. They would also reduce the benefits from cheaper imports for consumers and firms.

Exhibit 9: China's Leverage



Source: Goldman Sachs Global Investment Research, European Commission, Haver Analytics

Third, China still accounts for around 8% of total EU goods exports and 12% of German extra-EU exports. With US tariffs still elevated, European policymakers have an incentive to preserve access to China while negotiating concessions on currency and market access. Material European FDI assets in China also point to a cautious trade-policy approach that avoids escalation.

Fourth, China's cost advantage is sufficiently large that tariffs may not materially close price gaps in some sectors. Quotas and diversification requirements may therefore be more effective than tariffs in reducing strategic dependence.

We therefore expect the EU to adopt a gradual dual-track strategy: a diversification instrument to reduce European reliance on Chinese components, and protective policies to raise targeted tariffs and lower quotas after due process and sector-specific investigations.

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