



UNIVERSITY OF
OXFORD



Fighting Spirit

China, Europe, and the Embrace of Full-Scale Competition

Janka Oertel

Policy Paper
November 2025



About the Author

Dr Janka Oertel is the Director of the Asia Programme at the European Council on Foreign Relations. She previously worked as a Senior Fellow in the Asia Program at the German Marshall Fund (GMF) of the United States' Berlin office, where she focused on transatlantic China policy including on emerging technologies, Chinese foreign policy and security in East Asia.

When it comes to Europe's competitiveness, Mario Draghi has the answers. The former European Central Bank president wrote them down in a lengthy report over a year ago.¹ In a speech in August 2025, he reinforced his message with a strong warning to Europeans: 'Economic power is a necessary but not a sufficient condition for having geopolitical power.'² If Europe wants to stay relevant in a world that cares less about free markets and more about national power, Europeans had better get ready to fight for it.

Draghi's remarks were a call to arms, a call for confidence and urgency. His comments also revealed a deep sense of frustration that too little is happening too late to prepare Europe for an era of full-scale competition over who will set the rules, who will provide prosperity and security, and, maybe most importantly, who has a compelling vision for a desirable future.

Although daily headlines suggest that everything is about United States (US) President Donald Trump and the war in Ukraine, it is China that will be the determining factor for Europe in the years to come. The Chinese leadership is redefining which economic policy choices seem reasonable globally: resilience is taking precedence over traditional economic performance, and power over markets is constraining the power of markets. Economic prosperity is the foundation of Europe's political stability and its capacity to compete technologically and defend itself militarily. Beijing's narrative of success is challenging Europe's confidence in its ability to deliver growth and stability while remaining democratic, open, and market oriented.



But as Draghi also insists, Europe has the power to change its trajectory if it chooses. In redefining their dealings with China, Europeans can let fatalist instincts prevail and limit their ambition to as comfortable a position as possible in a China-dominated, less rules-based, more fragmented economic order; or they can embrace full-scale competition with the intent to win on their own terms. The former would not only curtail European power but also significantly impact the US's capacity to protect its interests. A fatalist Europe would be a challenge for the US, limiting its scaling potential, market opportunities, and ability to diversify its supply chains away from China. The latter course—embracing the fight—would require a radical readjustment of European policy and a fundamental psychological shift away from being on the back foot.

Europe is dwarfing its own potential while China's leadership is actively pretending to be strong and in control, even as its economic foundations are increasingly fragile. The Chinese leadership is struggling to keep up the façade amid a crumbling property sector, sky-high provincial debt levels, youth unemployment, and a lack of consumer and investor confidence. But Beijing benefits from the absence of a global collective defence of liberal market principles—and from the fact that everywhere else feels even worse.

China controls critical nodes in industrial supply chains, and in terms of future technologies, the scaling opportunities of a massive state-capitalist economy are considerable. The advances in China's economic, technological, and military capabilities are real, but it is Beijing's willingness to use the arsenal of coercive tools it has built over the past decade that has really closed the economic and political power gap of the past between China and Europe. Europeans now feel that China's global influence is growing, while their own is waning.³

The perceived power balance has shifted much further than the economic data suggest. At \$19.4 trillion, the gross domestic product (GDP) of the twenty-seven European Union (EU) member states is still bigger than China's \$18.7 trillion economy. Adding the United Kingdom's \$3.6 trillion economy tilts the balance even more in Europe's favour.⁴ The Chinese government continues to report growth figures of around 5 per cent, but inter-



national estimates in 2024 were more realistically in the realm of 2 per cent. That makes the EU's average growth rate in 2024 of 1 per cent look not terrible and real Spanish or Polish growth rates of around 3 per cent almost enviable from a Chinese perspective.⁵

Beijing has geared its economy towards delivering power to the Chinese Communist Party (CCP) and independence from outside supply, but the approach has come at a cost to economic performance. It rests on the assumption that everyone else will continue to buy Chinese products and rely on Chinese manufacturing. This is a gamble, and projecting confidence is key for the rest of the world to buy in to the bluff until it is real. The Chinese leadership has not yet achieved its desired level of autonomy or economic stability, and it is acutely aware of its vulnerabilities. Europe should be, too.

A growing asymmetry of confidence

Europe's current pessimism about its global role stems partly from the way perceptions of relative strength have evolved.⁶ In the early 2000s, both Europe and China expressed optimism. China viewed Europe as a crucial partner for promoting multipolarity, economic cooperation, and global stability. Beijing sought Europe's recognition as a market economy and expected the EU to act more independently of the US, particularly in the context of the rifts over the Iraq War. At the same time, Europe saw China as a future opportunity and an open economy, and hoped its engagement would drive reforms with respect to liberal democratic norms—or at least with regard to the rule of law.

Throughout the 2000s, economic ties deepened. Europe provided capital, technology, investment, and market access, while China offered thriving export opportunities, particularly for German industry; scaling potential for industrial production; and investments in Europe, especially during the eurozone crisis, when confidence in peripheral European economies was low. However, as China's leadership acted with greater confidence and began asserting its own development model, frictions emerged. Beijing started to resist EU trade pressure and focused on national power, while Europeans tried to come to terms with their illusions about normative influence and innovation supremacy.



By the 2010s, China's global projects, like the Belt and Road Initiative and collaboration with Eastern Europe, signalled a rising ambition to shape the global environment. Chinese President Xi Jinping initially framed China and the EU as equal global actors and has continued to emphasise China's desire for greater European sovereignty. Meanwhile, Europeans were cautiously becoming more critical of the relationship. In 2019, the EU formally labelled China a 'partner, competitor, and systemic rival'.⁷

The COVID-19 pandemic and China's stance on Russia's war against Ukraine hardened European views, leading to an increased focus on de-risking. While Beijing continues to reject the 'systemic rival' label and blames Europe for politicising economic ties, it otherwise speaks openly about systemic competition and the superiority of China's economic and ideological approach globally.⁸ Despite rising tensions—on Taiwan, industrial competition, or geopolitical alignment with Russia—the Chinese leadership still values Europe as a vital market and technology partner.

Indeed, Europe is a crucial building block of China's new industrial dominance. If Europe suddenly became harder to sell to, this would be a serious problem for Beijing. In the first two quarters of 2025, Chinese exports to the US were down by more than 20 per cent, while exports to Europe were up by roughly 10 per cent and German exports to China fell by almost 15 per cent; Chinese goods have to go somewhere to keep the economy rolling, and Europe is a market of choice with good margins and low barriers.⁹ So far, Europeans have reacted only in slow motion to these trends. Beijing is thus largely unconcerned about serious EU retaliation and convinced of Europe's lack of collective will to counter Chinese actions forcefully.

Beijing's rising confidence is also fuelled by the deterioration of the global democratic environment and mounting political instability in democratic nations. Since the late 2010s, Europe increasingly appears to have lost agency in the eyes of the Chinese leadership and is often viewed merely as a subsidiary player and a dependent variable within broader dynamics dictated by the US. According to polling in 2023 by the European Council on Foreign Relations, two-thirds of Chinese respondents believed the EU would fall apart in the next twenty years.¹⁰



Despite a drastic worsening of European perceptions of China in recent years, Beijing has shown little initiative to counter this view of Europe or improve its position among Europeans.¹¹ This persistent disconnect implies a deepening asymmetry in the two regions' mutual perceptions and influence. During the first Trump administration, many European countries saw their relationship with China through a US lens. Now, they have come to terms with the fact that China's geoeconomic and geopolitical approach directly threatens European prosperity and security—and that US policy does not provide a consistent shield but rather, given its unpredictability, exacerbates the dynamics at play.

The influence of the others: the US, Russia, and India

China-Europe relations are evolving in a drastically changing geopolitical environment, in which Beijing's ties with other global players are also in flux. Within the CITRUS pentagram of the Dahrendorf Programme's Europe in a Changing World project, which looks at China, India, Turkey, Russia, and the US, three relationships stand out: China's volatile, antagonistic relationship with the US; its ever-closer strategic, economic, and normative partnership with President Vladimir Putin's Russia; and its complex relationship with the other key Asian actor, India. China's relationship with Turkey is less relevant for China-Europe dynamics and will thus not be analysed in this paper.

The US: the biggest wild card

Trump has a highly conflicted position on China. His trade views, shaped in the 1980s, firmly advocate rebalancing the economic relationship, as he argues that the Chinese leadership has stolen jobs and revenue from the US. At the same time, Trump is open to cutting deals that might be advantageous to US firms, donors, or allies—or his own family—and is seemingly indifferent to both the values and the technological elements of competition with China. He also seems to have a broad admiration for Xi as a leader. Trump wanted a trade deal with China in his first administration, and it was Xi who walked away from an ambitious agreement.



However, the structural conditions for a real US-China trade deal are currently not in place. The two sides' demands are mutually exclusive. Since the escalation of the tariff war that began in April 2025 and the subsequent Chinese retaliation, it has become clear that the Trump administration is not ready to really engage in a full-scale trade war with Beijing and that Trump himself, who is hoping for a big summit meeting, is open to a strategic détente or pause despite the economic and strategic rivalry. A temporary and likely brittle truce was achieved during the first meeting between Xi and Trump on the sidelines of the Asia-Pacific Economic Cooperation (APEC) summit in South Korea in October 2025. The full details of the agreement are yet to emerge, but it is more a case of putting a floor under the relationship than of presenting a real, far-reaching step forward.

A broader rapprochement could lower the probability of a military confrontation but could also usher in a US retreat from the Indo-Pacific—including with regard to Taiwan. While the March 2025 statement of the Group of Seven (G7) foreign ministers included strong and extensive language on China's assertive behaviour in the region, Taiwan was not even discussed in the Trump-Xi meeting in October.¹² The G7 statement made a clear reference to 'stability across the Taiwan Strait' but lacked a previously obligatory nod to 'one China policies', which had been included, for example, in the foreign ministers' 2024 statement. The more recent declaration's inclusion of the former phrase and omission of the latter constitutes a contentious change from Beijing's perspective.¹³ US policy oscillates between hard rhetoric and escalation, economic offers, and non-China-related policy decisions that directly or indirectly benefit Beijing.

It is currently unclear what the US position on China will be in the years to come, which leaves members of both the liberal and illiberal strands of European politics on edge. As Europe is now exposed to dual coercion from the US and China, this new reality should force Europeans to undertake a deep interrogation of their future position on China. But it comes at a time when Europe's political attention is devoted mostly to the acute security challenges posed by Russia, the survival of Ukraine, and the trade relationship with the US.



In Beijing, there is no panic over the relatively weak state of the Chinese economy. The government still rates China's economic performance as good enough in relative terms and believes it can steer the country with resilience through the global geoeconomic turmoil that the Trump administration has exacerbated.

The Chinese government has been using the past eight years to strengthen its own position and self-reliance. The first Trump administration introduced a wide range of targeted measures that stayed in place under President Joe Biden—from tariffs to high-tech export controls and reshoring of industrial capacity back to the US. These measures strengthened the belief in Beijing that international interdependence would generate regime security only if it asymmetrically favoured China. The world has since become more dependent on Chinese goods and China less dependent on critical imports, particularly from single sources; the latter category is now reduced to a much smaller set of products, such as aircraft parts, semiconductors, and specialist optical or laser equipment.

The Chinese leadership has invested massively in mining and processing of rare-earth minerals as well as industrial manufacturing capabilities to increase supply-chain dependence on Chinese companies abroad. But Beijing has not used investments to strengthen social stability, household income, or sustainable consumption capacity. In the same vein, China has been strategically diversifying its trade and economic relations and established new trade partners to mitigate the impact of potential tariffs. Contrary to the de-risking rhetoric of EU member states, the union's import dependence has intensified over the past six years, and trade in certain areas, especially clean technologies, has grown. Europeans have been actively absorbing Chinese overcapacities and helping Chinese trade diversify away from the US.

The Trump administration has so far only minimally attempted to enlist its European allies in a collective positioning towards China. But as this could still happen, the Chinese leadership is pre-emptively readying itself for greater conflict with Europe. As also seen in its relations with Canada, Beijing is seeking points of weakness to test out new policy tools.¹⁴ In April 2025, China deployed the nuclear weapon of export restrictions on rare earths and permanent magnets at a moment of maximum European vulnerability, after



the US imposed massive new tariffs and looked likely to withdraw military assistance to Ukraine.¹⁵ Still, the worst-case scenario for the Chinese leadership remains a united transatlantic front that has the economic, technological, and military potential and scale to really challenge Chinese ambitions. The Trump administration has made the emergence of such a front much less likely.

Russia: the largest threat

The power dynamic between Europe and China has been not only influenced by the US-China relationship but also significantly reinforced by evolving China-Russia ties. China's leadership remained diplomatically cautious in 2014 when Russia illegally annexed Crimea—a step that China to this day has not officially recognised. But Beijing has been much less restrained in its support for Moscow's aggression against Ukraine since its February 2022 full-scale invasion. When Chinese Foreign Minister Wang Yi openly declared in a meeting in summer 2025 with EU foreign policy chief Kaja Kallas that China would not let Russia lose the war in Ukraine, the bluntness still surprised many.¹⁶ It has been a challenge for European policymakers to not just acknowledge but act on Beijing's new role in Europe's security order.

The assessment in various parts of Europe well into and sometimes beyond the first year of the war was that there was still a chance that China could be brought on board to help stop Moscow's illegal actions. While the Chinese leadership has remained nominally committed to a neutral position and a peaceful solution to the conflict, there was and is no empirical evidence for this position. On the contrary, Chinese leaders have supported Russia's stance on the future of the European security order, have emphasised that Kyiv will have to make compromises, and have not condemned Russia's war crimes or de facto annexations in eastern Ukraine.

While statements by the EU and the North Atlantic Treaty Organisation (NATO) have underscored the essential nature of Chinese support for Russia's war machinery, individual European leaders have been more cautious. In 2024, Denmark's Prime Minister Mette Fredriksen made news when she said that she did not think 'it would be possible for Russia to continue this full-scale war and at the same time work as [it is] doing in other areas of the



world without being helped by China'.¹⁷

Former German Chancellor Olaf Scholz chose different language, asking the Chinese leadership to pursue a 'more active role in seeking peace'.¹⁸ Speaking in August 2025, German Foreign Minister Johann Wadephul borrowed NATO's still very modest language about China providing Russia with 'essential support' for the war effort.¹⁹ Coming from a German foreign minister with close ties to the chancellor, these words carried more weight than those of previous German diplomats in Beijing and thus received a forceful rebuke from the Chinese government. A visit to China by Wadephul that was planned for late October 2025 had to be cancelled at short notice because the German foreign minister was not able to secure the kind of meetings with Chinese counterparts that would have made his trip worthwhile.

China's self-image of a peaceful giant that is unconcerned with changing the world according to its own interests and, at most, aims to dominate its own region had been deeply ingrained among European policymakers. That made it hard for Europeans to shift into a view of China as a military backer to Europe's fiercest antagonist. Beyond Chinese leaders' narrative of a peace-seeking policy, there is ample evidence that China has in the past supplied arms to war zones from Afghanistan to Sudan and provided extensive support to Pakistan in its quest to become a nuclear power.²⁰

In Ukraine, Europe can now see the enormous increase in Russia's combat capability that Chinese backing has enabled. Only after significant US intervention at the beginning of the invasion was China persuaded not to supply more support. Instead, intensive cooperation between the two states has helped Moscow to build sustainable defence capabilities and a significantly modernised military-industrial complex. The future of warfare in regions of relevance to Europe will involve adversaries with military capabilities produced or augmented by China, including drones, satellites, fighter jets, and missiles, as successfully demonstrated in Pakistan in its stand-off with India in May 2025. Broad European perceptions of China—and its policies—still have to catch up with this new dimension of the full-scale competition.



Overall, China's support for Russia enhances the existing dynamic of liberal forces in Europe feeling under strain. By putting more pressure on China, including by limiting access to the European single market for key Chinese export sectors, the EU could help not only tilt the trade and investment relationship in general but also test Beijing's willingness to increase its backing for Moscow. Driving up the price of China's support could help establish whether the Chinese leadership has a pain threshold for its backing for Russia and its willingness to risk its exports to Europe.

India: a fickle opportunity

China-India relations have a less direct impact on the China-Europe relationship but are still increasingly relevant. This is partly because India is an alternative production hub to China for critical products in global diversification efforts and a large potential market. But even more, it is because a deterioration in China-India relations has presented the US and Europe with an unexpected opening. During skirmishes in the Himalaya in 2020, India lost control of disputed territory to China, and the provocation in the border region left almost two dozen Indian soldiers dead.²¹ The events led to a serious realignment of priorities in India's external relations and thus an unforeseen boost to the Westward turn of the government of Prime Minister Narendra Modi. The so-called Wuhan spirit, which had signalled a potential partnership between China and India after a summit between the two countries in 2018, had already faded.²²

The 2020 crisis fostered a leap in US-India defence and security relations, which had been improving over the past twenty years as Russia's growing dependence on China caused a headache for Indian defence planners. Meanwhile, changes in the overall geopolitical and geoeconomic context also brought about a serious revival of EU-India trade talks, which had long seemed stalled. While relations between Delhi and Beijing were at a low, with diplomatic contacts and direct flights suspended, India was wooed by the Americans and Europeans, leading to confidence among the Indian leadership that it could benefit from the geopolitical upheaval. Even earlier in 2025, when transatlantic relations were significantly strained, Indian officials were still boasting about their ability to work with the Trump administration.



Things have changed since then. Trump has launched a tariff attack on India, threatened additional tariffs if India purchases Russian oil, tried to force Delhi to accept the political conditions for a trade and economic relationship with the US, and claimed that he successfully mediated the India-Pakistan stand-off in May 2025. These positions have led to a massive backlash among India's foreign policy elite and introduced an opening for improved China-India relations.

The rapid downward spiral in the US-India relationship reverses decades of Washington's careful cultivation of relations with Delhi, at a time when India seemed ready to be brought into a closer partnership with the West. The Trump administration's policies have been sowing doubts about the future, leading to a shift in the Indian discourse on China and a careful readjustment of policy.

The Indian leadership was seeking to stabilise relations with Beijing even before Trump returned to office, but the current dynamic gives these efforts a boost. Diplomatic contacts have been re-established, calls for greater economic engagement have been renewed, exports to India of Chinese rare earths and permanent magnets have at least notionally resumed, and direct flights have started again.²³ Delhi is taking a wary approach, but an India fuelled by "anti-West" rhetoric that embraces greater economic engagement with China could make alignment with Europe more difficult. That will be the case particularly if Europe chooses to really push back against China's overcapacities, support for Russia, and predatory trade practices. This would leave Europe less able to diversify and de-risk its relationship with Beijing—and with more competition for the Indian market.

At the moment, the Chinese leadership has managed to tilt the power balance with the US slightly in its favour and can, at least momentarily, capitalise on Trump's impact on the world. By bringing Putin back in from the diplomatic cold and unsettling twenty years of coalition building with Delhi, Washington is strengthening Beijing's position and presenting options to improve China-India relations that just months ago were highly implausible. These dynamics



put even greater pressure on Europe by limiting its diplomatic and economic choices and actively undermining its security interests. That, in turn, contributes to a further widening of the perceived power gap between Europe and China.

Two possible futures

For Europe, the phase of economic complementarity with China is over. Beijing is more assertive, not keen on compromise, and dedicated to dominating global supply chains. The trade and economic challenge that China poses is just as acute for Europe as it was before the November 2024 US presidential election, but the pressure from the US is accelerating the impact of the 'second China shock'.^[i] Beijing has not had to move or change its policies on important contested questions, and yet the circumstances have aligned in its interest.

China's policy towards Russia is unchanged, and the Trump administration's approach to Putin, including the two presidents' August 2025 summit in Alaska, has vindicated Beijing's stance. There has been no structural change in China's economic policy to limit the effect of overcapacities and predatory trade practices. Europe has received no offer to improve economic ties beyond limited foreign direct investment without technology transfer, which mostly pertains to final assembly to undercut tariff barriers. China's growth potential remains low, its market situation just as problematic for international companies, and its risk just as high because of the legal environment in the authoritarian country.

For European economies that are running out of time, money, and industrial sectors worth protecting, the China challenge is existential. Europe can decide whether it wants to fight or fold. Decisions that European policymakers are taking now—or not—will determine whether the current power shift from Europe to China can be halted or reversed, or whether the lingering fatalism in European policy circles and board rooms will prevail and boost China's global position.



Following the fatalist path

With illiberal trends growing in Europe, the US, and India, it is not unlikely that isolationist, anti-liberal, nationalist strands will gain the upper hand in upcoming local and national elections. That being so, the case against collaboration with China becomes harder to make.

A whole-hearted embrace of Beijing and deep integration into China's economic orbit could have some short-term advantages for certain European companies and some price advantages for European consumers. Industry players, particularly the bigger ones, do not need democratic governance or universal rules to thrive. They need access to power and capital, a favourable relationship with decision-makers, and limited guarantees of protection. It would take a significant shift in European identity to fully embrace Chinese dominance and close collaboration, but given a perceived lack of options, chief executives and certain policymakers may feel tempted to insinuate that there is little danger in trying.

This fatalist path would emerge from within Europe but could be enabled by external factors. It will be more likely to materialise if there is so-called peace on Russian terms in Ukraine and a complete US withdrawal from the European security order, which would leave Europeans even more exposed. A fatalist approach could also be spurred by an isolationist US and a comprehensive US-China trade and economic deal that improves market access specifically for US companies. While not likely, this would prompt a feeling among some in European industry of missing out, leading to strong lobbying on EU governments to get to the negotiating table in Beijing. And this path would certainly be reinforced by closer India-China relations, enhancing the notion of the inevitability of economic trends.

When the Chinese leadership portrays its role in global economic progress, it no longer does so with the narrative of a weak China that suffered a century of humiliation. When the CCP talks about the past, it draws a long historical arc from ancient Chinese wisdom to modernity, aiming to create a story of progress that is both positive and firmly nationalist. This narrative is part of efforts to build a strong and unique Chinese identity that can offer



leadership in areas such as economic development, the green transformation, and artificial intelligence (AI). Beijing's goal is to reshape the distribution of power and wealth in the world and, at the same time, redefine the meaning of success.²⁵

For Europe, a fatalist path could lead to closer collaboration with Chinese companies. That is not necessarily because Europeans would be brought into the Chinese notion of modernity, but because Europe would lack the political will to prevent this scenario and would fail to provide a credible, alternative vision of a desirable future.

There are promising areas for an embrace of deep collaboration, particularly clean tech and AI solutions—from hospital management and medical diagnostic tools to data storage and smart cities. Chinese AI powers automated driving features in electric vehicles (EVs) just as naturally as Chinese search engines and social media platforms adjust to European consumer tastes. If Europeans see US tech as equally close to national power and equally problematic from a data-protection perspective, and European solutions fail to gain market traction, it is imaginable that Europe could be slowly normalised into a competitive Chinese tech ecosystem.

In the automotive industry, traditional European suppliers that used to work with European partners at Volkswagen, Audi, or Mercedes are already keen to gain access to the supply chains of Chinese EV giants, deeply embedding themselves into a Chinese tech ecosystem.²⁶ TikTok is already just one of many actors in the field, and Alibaba Cloud could become just another option to store photographs and company data. Like Spain, other countries might even choose telecommunications and technology vendors such as Huawei not only for all their next-generation telecommunication infrastructure and data networks but also for their critical national-security applications.²⁷ Chinese strides in the development of operating systems and software would make Europe an interesting test bed for alternatives to Apple iOS/macOS, Google, and Microsoft.



Chinese products from phones and smart household devices to cars and high-end industrial machine tools compete on price, adaptability, and length of innovation cycle. European competitors in the telecommunications, machinery, auto, and pharmaceutical industries would consolidate and enter into joint ventures or be taken over by Chinese players. With national-security concerns pushed aside, the case for faster decarbonisation and digitisation with the help of Chinese tech could become more convincing and develop a self-perpetuating dynamic.

For achieving climate goals and the green transition, this embrace could deliver—at least in the short run. Even if Chinese companies control prices once most international competition has been eliminated, the massive scaling opportunities and the continued competition between Chinese players would drive down the cost of building solar and wind farms across Europe. China's production capacity and experience in service provision help meet Europe's increasing demand for affordable energy amid the exponential rise in data centres and AI-powered growth. That demand, in turn, could significantly enhance Europe's transition to renewable energy, electrification, and digitisation.

Europe could become a massive test bed for the global infrastructure dreams of the State Grid Corporation of China.²⁸ And it would become a spectator to US-China competition in the provision of space and satellite services. European companies such as Nokia, Ericsson, or Eutelsat would be taken over by either US or Chinese conglomerates; their research and development centres would remain as small units in Europe, while their manufacturing and management would move entirely to the US or the Indo-Pacific.

If fatalism were to prevail, it would reduce EU power significantly and strengthen those in favour of loosely connected member states that do not challenge the Chinese leadership's ambitions. There would be room for European entrepreneurs who align with the principles of the Chinese government, while privacy by design could be replaced by control by default, and consumer protection and labour standards would be gradually rolled back. Jobs would



be at risk, and European working culture and the entire political economy would shift. The role reversal between China and Europe would be almost complete: Europe would become a rule taker, a norm follower, and a technology consumer.

In such a scenario, Brussels would be disempowered, and EU member states would fend for themselves by trying to save what is left of their global growth potential in small niches. Fatalism would strengthen anti-liberal forces across Europe, with a greater embrace of nationalist techno-authoritarianism under the umbrella of Chinese economic and normative hegemony. Xi has proudly proclaimed that his country has 'a solid material foundation for embarking on a new journey toward an even higher goal'.²⁹ Europeans would stumble along for the ride.

Embracing full-scale competition

On the alternative, much more attractive path, European leaders would decide to tackle the relationship as a matter of urgency and use the developments of the past few months to make the case for an immediate readjustment. At play is Europe's future as an industrial powerhouse, a norm-setter, and the world's second-largest economy, and with it—as Draghi has pointed out—the basis for Europe's ability to project power, have influence, compete on technology, and invest in military capabilities.

This sense of urgency could come about given the Chinese leadership's imposition of export restrictions on rare earths and magnets in the wake of the US tariff escalation.[i] Europe's dependence on China in this area is enormous. The restricted goods are used in the defence industry, auto manufacturing, and the energy sector. European companies now have to go through a licensing process that heavily impacts on production and adds costs. It is a sharp sword that the Chinese leadership can wield, not only because it can make factories in Europe and elsewhere come to a halt, but also because it creates a formidable basis for Beijing to gather a comprehensive database of economic intelligence about choke points, supply chains and networks, consumer structure, and intellectual property.



Europeans were aware of this dependence but regarded it more as a theoretical threat than as a reality. Yet, Europe could turn the fact that China has used the tool so bluntly into an opportunity. European Commission President Ursula von der Leyen's statement at the 2025 G7 summit that the Chinese leadership is pursuing a strategy of 'dominance, dependency and blackmail' could be the rallying cry for coalition and resilience building.³¹

China's strategy has certainly rattled the US, particularly as it was the rare-earth export restrictions that forced Washington to de-escalate its tariff war. But it should also have consequences for economic security thinking in Europe. A nascent understanding to collaborate on China's market-distorting practices is embedded in the 2025 EU-US framework agreement, which opens the door to a more coordinated, if not collective, transatlantic agenda on China.³² The fact that the US and the EU managed to reach a truce in their trade dispute and that European tariff levels remain significantly below China's is a basis on which to work: the agreement eliminates a key battleground that had absorbed European leaders' political time and attention, which could now be released to address Europe-China relations and a willingness to actually compete.

European leaders would need not only to speak about systemic rivalry but to embrace full-scale competition with all its consequences and focus on Europe's strengths instead of weaknesses, particularly relative to other global players. Europe still has a serious industrial backbone and does not need to re-industrialise; it just needs to stop de-industrialising. The continent has an enormous pool of innovative talent and has become even more attractive to researchers around the world in recent months. Europe is awash with cash that seeks stable investment opportunities, and even the most frugal countries see the need to step up their spending; Germany's amendment of its borrowing rules in March 2025, leading to the de facto death of the so-called debt brake, is a case in point. And Europe has partners in the rest of the world that are eager to see more options on the geopolitical menu.³³ Europe has the potential to be an attractive choice to hedge growing risk—which could be turned into significant political heft.



The embrace of full-scale competition would have to emerge first and foremost within Europe, but external conditions would enable this development. This shift will be more likely if the US continues to support Ukraine and sanction Moscow, if US-China relations deteriorate further, and if the US adopts a clear policy on China led by those in the US administration who see Beijing's strategic challenge as profound and existential.³⁴

Despite continued transatlantic divergences, there is a significant convergence on the challenge China poses to Western economic and normative competitiveness. This alignment could bring the US and Europe together on policy even if the two sides' political motivations for doing so differ. It would help if India remained more distant from Beijing and did not embrace a more anti-Western stance. If Delhi and Brussels could finalise at least a sectoral trade deal by early 2026, it would provide a huge boost to the relationship. An EU-India trade accord would give Europe a massive credibility—and confidence—boost on its trade agenda with middle powers and create a desire for similar arrangements with more places around the world.

In concrete terms, this would mean that the Europeans would continue their existing defensive agenda; but they would add offensive capabilities by safeguarding their industries and preventing leakage to China of critical advanced technology that Beijing can use to enhance its economic performance and military capabilities. The latter have heightened the direct relevance of the China challenge for Europeans because of the close military-industrial collaboration between Beijing and Moscow.

Taking the existential nature of the challenge seriously would require export restrictions on advanced tech and a deeper interrogation of EU-China research collaboration. The EU would need to fully exclude Chinese companies from key areas in which Europe still has and wants competitive industries, including wind energy; grid technology; EVs; selected machinery goods, particularly in battery manufacturing; telecommunications equipment; and certain medical devices. This would boost demand for the products and services of European firms that are at high risk of Chinese unfair competition.



For the green transition of European energy infrastructure, the same principles of embracing full-scale competition would apply.³⁵ Massive demand for investment in fast electrification and offtake is there and has the potential to bolster the European economy. The EU would need to limit the participation of non-market actors for the benefits to be harvested by non-Chinese players. Countries such as Germany that have pledged large infrastructure investments and have the fiscal space to do so could, for example, replace their fifth-generation (5G) technology and provide tax incentives to switch out their grid-connected solar inverters. If there is the will to do so, Europeans could extend their superiority in areas such as optical lenses and lasers for as long as possible and slow the development of Chinese capabilities.

These efforts would only be step one in embracing full-scale competition; they would be the precondition for the start of a radical agenda that takes the European economy to its full potential. Europeans alone could eliminate all internal barriers to the single market, and no outside assistance or alignment of conditions would be necessary. As Draghi put it in his August 2025 speech, while Europeans are pushing for an additional €2 trillion (\$2.3 trillion) of military expenditure over the next five years, they still impose tariff-equivalent duties of 64 per cent on industrial equipment and 95 per cent on metals. The result: 'slower tenders, higher costs, and more purchases from suppliers outside the EU, without this boosting our economy'.³⁶ It is the definition of self-harm.

At the same time, Europeans could seek to reclaim the language of competition, market economy, and rules-based order from the CCP's rhetoric. Europeans could seek global support to create a vast competitiveness zone with new collective rules on market principles and state aid; the G7's trustworthiness-based approach being pushed by Japan could serve as a template. Economic intelligence units in European national ministries could coordinate and share their findings among allies and partners to raise awareness of vulnerabilities. A coordinated approach would include a new regulatory framework for AI-powered applications, including smart devices, EVs, and energy infrastructure. This framework would comprise strong cybersecurity criteria to provide market opportunities for eligible non-Chinese companies from around the world to compete in this sector.



More broadly, Europe could present a compelling vision of modernity that would strengthen liberal forces and unite them in a coalition of business leaders and policymakers who seek to protect European prosperity and rules-based principles. Such a vision would combat head on the narrative of the inevitability of the authoritarian competitive advantage. This could mean going beyond the existing rulebook to create a new one. The EU-US framework agreement on trade is a pragmatic end to European insistence on World Trade Organisation norms; it allows the EU to take harsh measures to inflict serious pain on the Chinese economy—in pragmatic collaboration with the US and with no illusions about Washington’s trajectory.

A chance for Europe

The Chinese leadership projects confidence in the supposed superiority of its system, but it knows it has to prove it. As long as market economies outperform Beijing’s model and continue to innovate and compete, there will be doubts about the long-term viability of a wasteful version of state-backed predatory capitalism that fosters wealth and innovation mostly for the interests of the ruling party. It is in the nature of the Chinese system that maximum security can be generated only by winning the economic, technological, and ideological battle. The Chinese leadership knows that if Europeans can implement the necessary policies and ramp up the confidence to take on full-scale competition more seriously, they have the ingredients to prevail—for now. While Beijing is increasingly unconvinced that Europe will bring itself to compete, the onus is on European leaders to prove China wrong.

The events of recent months have demonstrated that only an immediate and radical policy shift will allow Europe to continue to have options. Aside from the US and China, the EU is the only other major global player with the combination of economic, financial, technological, and military means to fully decide its own path and increase its independence and prosperity on its own. Europe has the tools to confidently reset the terms of its relations with Beijing and fight for a chance to prove the superiority of its own system. It is now a question of will.



Funding

This paper was made possible with generous support from *Stiftung Mercator*.

STIFTUNG
MERCATOR

Notes

¹ 'The Draghi report on EU competitiveness', European Commission, 9 September 2024, https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en.

² M. Draghi, 'Comment changer la trajectoire de notre continent ?' [How to change our continent's trajectory], Le Grand Continent, 22 August 2025, <https://legrandcontinent.eu/fr/2025/08/22/mario-draghi-comment-changer-la-trajectoire-de-notre-continent/>.

³ See data collection at <https://datacollection.ecfr.eu/> based on a survey conducted in November and December 2024 by Datapraxis, YouGov, Norstat, Rating Group, and Gallup International Association; see also T. Garton Ash, I. Krastev, and M. Leonard, 'Alone in a Trumpian world: The EU and global public opinion after the US elections', European Council on Foreign Relations, 15 January 2025, <https://ecfr.eu/wp-content/uploads/2025/01/Alone-in-a-Trumpian-world-The-EU-and-global-public-opinion-after-the-US-elections.pdf>.

⁴ All figures based on 2024 data from the International Monetary Fund: <https://www.imf.org/external/datamapper/>.

⁵ D.H. Rosen et al., 'After the Fall: China's Economy in 2025', Rhodium Group, 31 December 2024, <https://rhg.com/research/after-the-fall-chinas-economy-in-2025/>.

⁶ This section is based on an analysis of the speeches and public comments of Chinese and European leaders over the past twenty years. The analysis was conducted by a team of researchers at the European Studies Centre at St Antony's College, University of Oxford, around Leonhard Xu for the Dahrendorf Programme's Europe in a Changing World project.



⁷ 'EU-China – A strategic outlook', European Commission, 12 March 2019, <https://commission.europa.eu/system/files/2019-03/communication-eu-china-a-strategic-outlook.pdf>.

⁸ D. Tobin, 'The Persistent, Soaring Ambitions of Xi Jinping's "New Era" for China, Socialism, and the Globe', The Asan Forum, 7 May 2025, <https://theasanforum.org/the-persistent-soaring-ambitions-of-xi-jinpings-new-era-for-china-socialism-and-the-globe/>.

⁹ Figures based on information provided by the Federation of German Industries.

¹⁰ T. Garton Ash, I. Krastev, and M. Leonard, 'Living in an à la carte world: What European policymakers should learn from global public opinion', European Council on Foreign Relations, 15 November 2023, <https://ecfr.eu/publication/living-in-an-a-la-carte-world-what-european-policymakers-should-learn-from-global-public-opinion/#selective-alignment-in-a-war-torn-world>.

¹¹ J. Puglierin, A. Varvelli, and P. Zerka, 'Transatlantic twilight: European public opinion and the long shadow of Trump', European Council on Foreign Relations, 12 February 2025, <https://ecfr.eu/publication/transatlantic-twilight-european-public-opinion-and-the-long-shadow-of-trump/#the-china-conundrum>; and Eurobarometer data from 2023 and 2024.

¹² 'Joint statement of the G7 Foreign Ministers' Meeting in Charlevoix', G7 Canada, 14 March 2025, <https://g7.canada.ca/en/news-and-media/news/joint-statement-of-the-g7-foreign-ministers-meeting-in-charlevoix/>.

¹³ 'G7 Foreign Ministers' Meeting Communiqué (Capri, April 19, 2024) – Addressing Global Challenges, Fostering Partnerships', German Federal Foreign Office, 19 April 2024, <https://www.auswaertiges-amt.de/en/newsroom/news/2653922-2653922>.

¹⁴ K. Bradsher, 'China Hits Canada With Tariffs in Indirect Riposte to Trump', New York Times, 8 March 2025, <https://www.nytimes.com/2025/03/08/business/china-tariffs-canada.html>.

¹⁵ A further tightening of the export restrictions, expected in October 2025, has been paused, but the April measures remain largely in place.

¹⁶ F. Bermingham, 'Exclusive | China tells EU it does not want to see Russia lose its war in Ukraine: sources', South China Morning Post, 4 July 2025, <https://www.scmp.com/news/china/diplomacy/article/3316875/china-tells-eu-it-cannot-afford-russian-loss-ukraine-war-sources-say>.

¹⁷ R. Minder, 'Europe must rely less on Chinese technology, Danish PM says', Financial Times, 2 September 2024, <https://www.ft.com/content/fb5d678f-d828-460b-b683-caade2b04fe3>.

¹⁸ 'Scholz fordert mehr Druck auf Putin' [Scholz calls for more pressure on Putin], Tageszeitung, 16 April 2024, <https://taz.de/Regierungsbesuch-in-China/!6004439/>.

¹⁹ 'Scharfe Kritik Chinas an Äußerung Wadephuls' [China sharply criticises Wadephul's statement], Tagesschau, 18 August 2025, <https://www.tagesschau.de/ausland/asien/china-veraergert-aeusserung-wadephul-100.html>.

²⁰ P. Eckert, 'US report links China arms sales to Darfur carnage', Reuters, 13 March 2008, <https://www.reuters.com/article/news-darfur-china-report-col-idCAN1356992920080314/>.

The Sudan deals gained prominence when munitions supplied by China were discovered during the 2003–5 genocide in Darfur. In Afghanistan, arms deliveries to the Taliban in the early 2000s included anti-aircraft missiles, landmines, and munitions. These weapons were also used against US and British troops. Only after the US made it clear that it would no longer tolerate this did deliveries of high-quality weapons cease. For more on this, see A. Small, *The China-Pakistan Axis: Asia's New Geopolitics* (London: Hurst, 2015).

²¹ 'India-China clash: 20 Indian troops killed in Ladakh fighting', BBC News, 16 June 2020, <https://www.bbc.com/news/world-asia-53061476>.

²² Y. Joshi, 'Noise over Substance – Modi-Xi Summit and Sino-Indian Relations', Institute of South Asian Studies, 24 October 2019, <https://www.isas.nus.edu.sg/papers/noise-over-substance-modi-xi-summit-and-sino-indian-relations/>.

²³ K. Mehrotra and L. Li, 'India and China restored direct flights. Can relations take off again?', Washington Post, 2 November 2025, <https://www.washingtonpost.com/world/2025/11/02/india-china-direct-flights-relations/>.

²⁴ S. Tordoir and B. Setser, 'How German industry can survive the second China shock', Centre for European Reform, 16 January 2025, <https://www.cer.eu/publications/archive/policy-brief/2025/how-german-industry-can-survive-second-china-shock>.

²⁵ J. Oertel, 'Progress', in A. Bachulska, M. Leonard, and J. Oertel, *The Idea of China* (European Council on Foreign Relations, 2024).



²⁶ See, for example, 'ZF and Horizon Robotics to Jointly Launch Driver Assistance System up to SAE Level 3 on the Chinese Market', ZF Friedrichshafen, 27 October 2025, https://press.zf.com/press/en/releases/release_95425.html.

²⁷ A. Roussi, 'Spain under fire for contracting Huawei to store judicial wiretaps', Politico, 17 July 2025, <https://www.politico.eu/article/spain-huawei-contract-judicial-wiretaps/>.

²⁸ 'State Grid Corporation of China aims to build a world "super grid"', EEWorld, 18 April 2016, <https://en.eeworld.com.cn/news/newenergy/eic603326.html>.

²⁹ J. Xi, 'Understanding the New Development Stage, Applying the New Development Philosophy, and Creating a New Development Dynamic', Qiushi, 8 July 2021, https://en.qstheory.cn/2021-07/08/c_640514.htm.

³⁰ 'Announcement No. 18 of 2025 of the General Administration of Customs and Ministry of Commerce to announce the decision to implement export control on some medium and heavy rare earth-related items', Chinese Bureau of Safety and Control, 4 April 2025, <https://www.charltonslaw.com/legal/newsletters/679/announcement-no-18-of-2025-of-the-general-administration-of-customs-and-ministry-of-commerce.pdf>.

³¹ 'Statement by President von der Leyen at Session II - working lunch of the G7, "Economic growth, security and resilience"', European Commission, 16 June 2025, https://ec.europa.eu/commission/presscorner/detail/fr/statement_25_1522.

³² 'Joint Statement on a United States-European Union framework on an agreement on reciprocal, fair and balanced trade', European Commission, 21 August 2025, https://policy.trade.ec.europa.eu/news/joint-statement-united-states-european-union-framework-agreement-reciprocal-fair-and-balanced-trade-2025-08-21_en.

³³ Garton Ash, Krastev, and Leonard, 'Living in an à la carte world'.

³⁴ M. Ruge and J. Shapiro, 'Polarised power: The three Republican "tribes" that could define America's relationship with the world', European Council on Foreign Relations, 17 November 2022, <https://ecfr.eu/article/polarised-power-the-three-republican-tribes-that-could-define-americas-relationship-with-the-world/>.

³⁵ For more on trade-offs in the clean-tech sector, see A. Lipke, J. Oertel, and D. O'Sullivan, 'Trust and trade-offs: How to manage Europe's green technology dependence on China', European Council on Foreign Relations, 29 May 2024, <https://ecfr.eu/publication/trust-and-trade-offs-how-to-manage-europes-green-technology-dependence-on-china/>.

³⁶ Draghi, 'Comment changer ?'.



About the Dahrendorf Programme

The Dahrendorf Programme at the European Studies Centre, St Antony's College Oxford, commemorates the College's third Warden, Ralf Dahrendorf, one of the leading social and political thinkers of his time, and is dedicated to a subject central to his work and life. It has three main components: a Research Agenda which currently focuses on the Europe in a Changing World project, and has previously included the Europe's Stories project, the Free Speech Debate project; an annual Ralf Dahrendorf Memorial Lecture; and an annual group of competitively selected Dahrendorf Scholars.

'Europe in a Changing World'

From July 2024 to September 2026, the project enters a new phase, building on previous insights to offer policy-relevant conclusions for a new European strategy in an evolving global environment. This phase will examine how Europe's engagement with the world—politically, geo-economically, geo-strategically, and culturally—must adapt to an increasingly non-European and post-Western order, with a continued focus on the CITRUS countries.

With great power competition, climate change, technological innovation, and public health crises reshaping the international stage, Europe faces both challenges and opportunities that will define its role in the 21st century. While much attention is given to external pressures, Europe's own transformation is equally significant. The EU is grappling with internal changes that affect how it is perceived globally, from its position as a regulatory superpower to its ambitions as a leader in the green transition. At the same time, recent events—such as the COVID-19 pandemic and Russia's aggression in Ukraine—have underscored Europe's ability to consolidate internally and respond to external shocks.



UNIVERSITY OF
OXFORD



Dahrendorf Programme
European Studies Centre
St Antony's College

62 Woodstock Road
Oxford OX2 6JF

dahrendorf.programme@sant.ox.ac.uk
sant.ox.ac.uk/european-studies/dahrendorf-programme