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The EU has new anti-Beijing instruments, but will China have to face the music?

When Western companies rushed into China in the 1980s and 1990s, they traded their latest technology for market access. Now, China has absorbed, adapted and improved foreign know-how and is flooding Europe with advanced products, while the European Union's trade deficit balloons. As Paris and Berlin finally align on a response, analysts question whether Brussels' defensive "instruments" can contain a rival it helped create. Issued on:

7 min Reading time

When in 1994 Klaus Wulf, chief technical officer of the German-Chinese joint-venture FAW-Volkswagen was asked if he was worried about the effect of China's demands for transfer of the latest German technology, he did not appreciate it.

“You are looking for a needle in a haystack,” he snapped angrily. “We now have access to a market with millions of customers."

In Changchun, the factories of Chinese car giant First Automotive Works had begun producing Volkswagen's Jetta sedan car, based on the Germany company's 1979 model. It was to become immensely popular with the rising Chinese middle class, and taxi companies.

Volkswagen was one of a handful of Western car companies trying to gain a foothold in China, after it opened its doors to the outside world in 1979 following three decades of isolation, allowing foreign investment as of 1984.

Beijing had granted the German company permission to start "joint ventures" with Chinese partners in Shanghai (Volkswagen Santana) and Changchun, in the far north of the country.

French carmaker Peugeot got its foothold in Guangzhou, in a joint venture with the city government, while Citroën established itself in Wuhan, linking up with military truck manufacturer Dongfeng.

American Motors Corporation established a joint venture with Beijing Automotive (later inherited by Chrysler), to produce the “Beijing Jeep” Cherokee.

The Beijing Jeep Cherokee, produced by the joint venture between US car maker AMC and Beijing Automobile Works, pictured on 26 March, 2006. © Wikimedia Commons

Foreign companies were initially only permitted to invest in joint ventures, in which the Chinese partner would hold a 51 percent stake.

And the foreign partner was required to hand over its latest technological know-how and expertise.

Legislation such as the 1994 Automobile Industry Policy made the transfer of technology explicit: new automotive joint ventures were expected to "establish [research and development] capacity, produce vehicles meeting contemporary international standards and progressively localise components".

Quick buck In the 1990s, European car manufacturers were out for a quick buck, without considering the consequences of sharing their technology with their Chinese partners.

“If you look at German companies, they [had] been doing well for a few decades,” says Esther Goreichy, a visiting fellow with the Mercator Institute for China Studies. "So they benefited from this. But it lacked the long-term view. People were not willing to see that it was not harmless for EU companies. And now we see that clearly."

In 2003, MIT researcher Michael Y. Lee found that: "China has benefitted significantly from foreign investment and technology transfers. [Starting from the early 1980s] China was able to leapfrog from 1950s-level automotive production systems into 1990s-level advanced technologies, and the gap with world standards continues to narrow.”

China began to build its own, modern car factories, and the Chinese partners of the joint ventures increasingly came up with their own models.

Joint-venture figures started to decline sharply, nosediving during the Covid-19 pandemic. This, combined with China's shift towards domestic electric vehicle manufacturing, saw output fall from €4.116 billion in 2018 to approximately €2.67bn in 2025.

Volkswagen's full-year results show that profits dropped from €2.621bn in 2023 to approximately €958 million in 2025.

Role reversal Today China is flooding EU markets with advanced electric vehicles (EVs), which it was able to produce thanks to decades of obtaining, adapting and improving foreign technology – adding to Brussels' concerns over an already disproportionate trade deficit at the expense of the EU.

Eurostat data shows that the EU's goods deficit with China increased from €65bn in the first quarter of 2024 to €98bn in the first quarter of 2026, according to its latest report.

“We know that the deficit is also growing because China is advantaged by subsidies,” says Goreichy, quoting an OECD report that found Chinese subsidies are eight times bigger than the ones the EU distributes to its companies.

Stellantis, a merger of the French PSA automotive group and Chrysler, in May announced its intention to create an EV joint venture with Chinese state-owned car maker Dongfeng, with production in Rennes, northwest France.

Other EU-based joint ventures with Chinese companies include Chery (with Spanish Ebro-EV) and Leapmotor (also with Stellantis).

However, there is one major difference between these and the joint ventures created in China: while foreign investors in the latter were required to create entities with Chinese companies and transfer their latest know-how, in Europe the Chinese investors use the joint-venture construction to avoid tariffs or lower logistics costs, and are not bound by a legal obligation to transfer their technology to their European partner. In fact, Chinese law forbids this.

Europe now plays the role China played in 1984, minus the leverage.

On 1 June, China's State Council issued Order No. 837 which includes “legislation on outbound investment screening and national security", explains Alicia Garcia-Herrero, chief economist for Asia Pacific at the French investment bank Natixis in Hong Kong.

"Many European governments keep on dreaming that they will receive this technology. But China has already told us that they will not transfer technology," she said. "Because they know that if they do, Europe can catch up with China. And China is not going to allow for that because they know exactly what happened to them."

'Systemic rival' The EU, long concerned by the increasing competition from Chinese automotive companies, as well as other technology firms, plus its growing trade deficit with China, has begun to make moves attempting to limit the damage.

In 2019, the EU designated China a " systemic rival ". Then in 2021, it suspended a massive commercial deal – the China-EU Comprehensive Agreement on Investment – after a war of words with Beijing over China's human rights record, resulting in tit-for-tat sanctions

EU struggles to come out on top in systemic rivalry with China

Since then, Brussels has proposed an orchestra of anti-China “instruments" – defensive policies aimed at protecting the EU market and making European companies more competitive.

These measures include the Industrial Accelerator Act , proposed in March 2026, which contains a Made in Europe policy attaching public procurement and technology transfer conditions to foreign direct investment, plus a revised Cyber Security Act , tabled in January 2026.

Two tools announced in June but not yet drafted comprise a solidarity instrument to support companies diversifying critical supplies away from China, and a diversification instrument aimed at reducing the trade deficit, expected to be fleshed out around September.

The two legislative proposals must still pass through the European Parliament and Council, and while the European Commission hopes to see them adopted by the end of 2026, no vote has yet been scheduled.

The EU's main car producers, France and Germany, seem to be willing to back them.

In July, French President Emmanuel Macron and German Chancellor Friedrich Merz agreed to draw up a " Franco-German roadmap " on how to respond to China's trade practices by September.

The push builds on a recent report by France's High Commission for Planning, entitled “The Chinese steamroller – quantifying the systemic threat to Europe's industrial base", which argues that Beijing's industrial rise now amounts to a "systemic shock" for Europe's manufacturing base.

The report says China's combination of scale, low production costs, heavy over-capacity and rapid technological upgrading is reshaping global manufacturing and eroding Europe's competitiveness.

France and Germany move to tackle EU's growing trade deficit with China

“Merz and Macron were never allied before on protective measures against China,” says Garcia-Herrero.

But, she adds, a lot of leverage was lost when widely reported rumours suggested that Volkswagen was about to make 100,000 workers redundant – although this has not been confirmed by Volkswagen.

“These companies are making no money in China anymore and Merz can say, you are shaving off 100,000 jobs, you Volkswagen, in my own country, so why would I defend you?"

Even with France and Germany on the same page, it is not clear if Brussels' “instruments” will be effective, she says. “Many countries will oppose, because China basically will bash any country trying to come up with more protectionist measures."

For Garcia-Herrero, the answer lies in lifting policy on China to the EU level, rather than leaving member states to pursue separate initiatives – and in building leverage.

"If China threatens us with tariffs on pork, we need to know what we can use as a threat. What does China have that we can hurt? That's what China does. We need to learn [to do it too]."