



European Business in China

POSITION PAPER

2025/2026

September 2025 | China

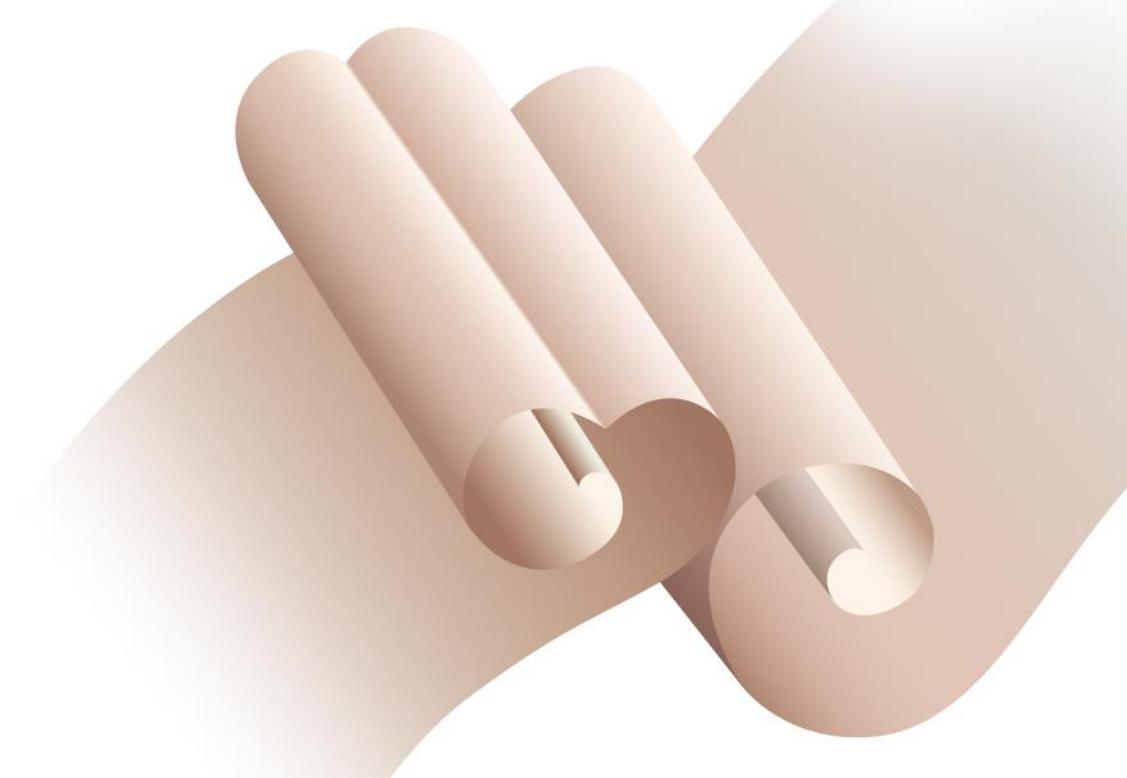


Introduction



European Business in China Position Paper 2025/2026

- The Chamber's annual advocacy plan.
- Detailed and constructive recommendations to Chinese policymakers.
- Developed by 1,600+ members in 51 working groups, sub-working groups, industry desks and forums.



State of Affairs: Businesses under pressure as deflation persists



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- Record proportion of European companies reported that doing business in China became more difficult y-o-y in the past four editions of the Business Confidence Survey
 - 73% reported this to be the case in the BCS 2025.
- China EBIT margins are \leq their global average EBIT margins for a majority of respondents; while optimism about near-term growth and profitability at record low levels
 - seven in ten respondents to the BCS 2025 report that their global average EBIT margins are \geq their China EBIT margins.
 - Optimism among Chamber members about their near-term future growth and profitability in China is also currently at record low-levels – clocking in at 29% and 12% respectively in the BCS 2025.

The domestic economy and geopolitics are dominant concerns



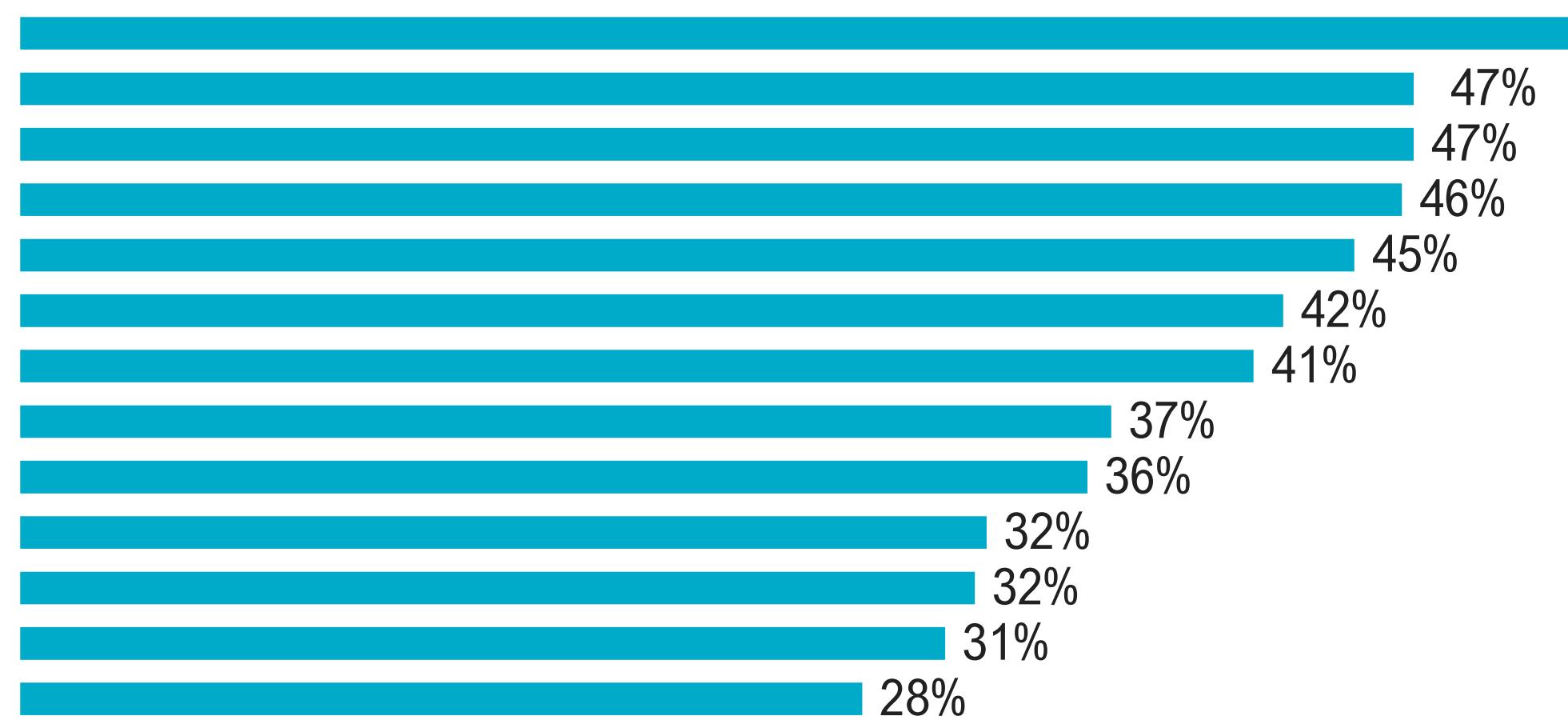
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Please choose at least three challenges your company believes will have the greatest impact on future business in the Chinese mainland

N=503

△ 2024-25
[p.p.]

China's economic slowdown
United States (US)-China tensions
Geopolitical risks/regiona conflicts
Competition from Chinese privately-owned enterprises (POEs)
Global economic slowdown
Economic nationalism
Competing against non-compliant competitors
EU-China tensions
Ambiguous rules and regulations
Competition from Chinese state-owned enterprises (SOEs)
Rising labour costs
China's self-sufficiency drive
Rising compliance costs



Macroeconomic Risk
Business Risk

Regulatory Risk

1) 'N/A' refers to a new option or an option that is different from previous years

60% (-1pp y-o-y) pessimistic on outlook for competitive pressure in their sector*

*Data not displayed on slide

Investment and operational strategies are being adjusted accordingly

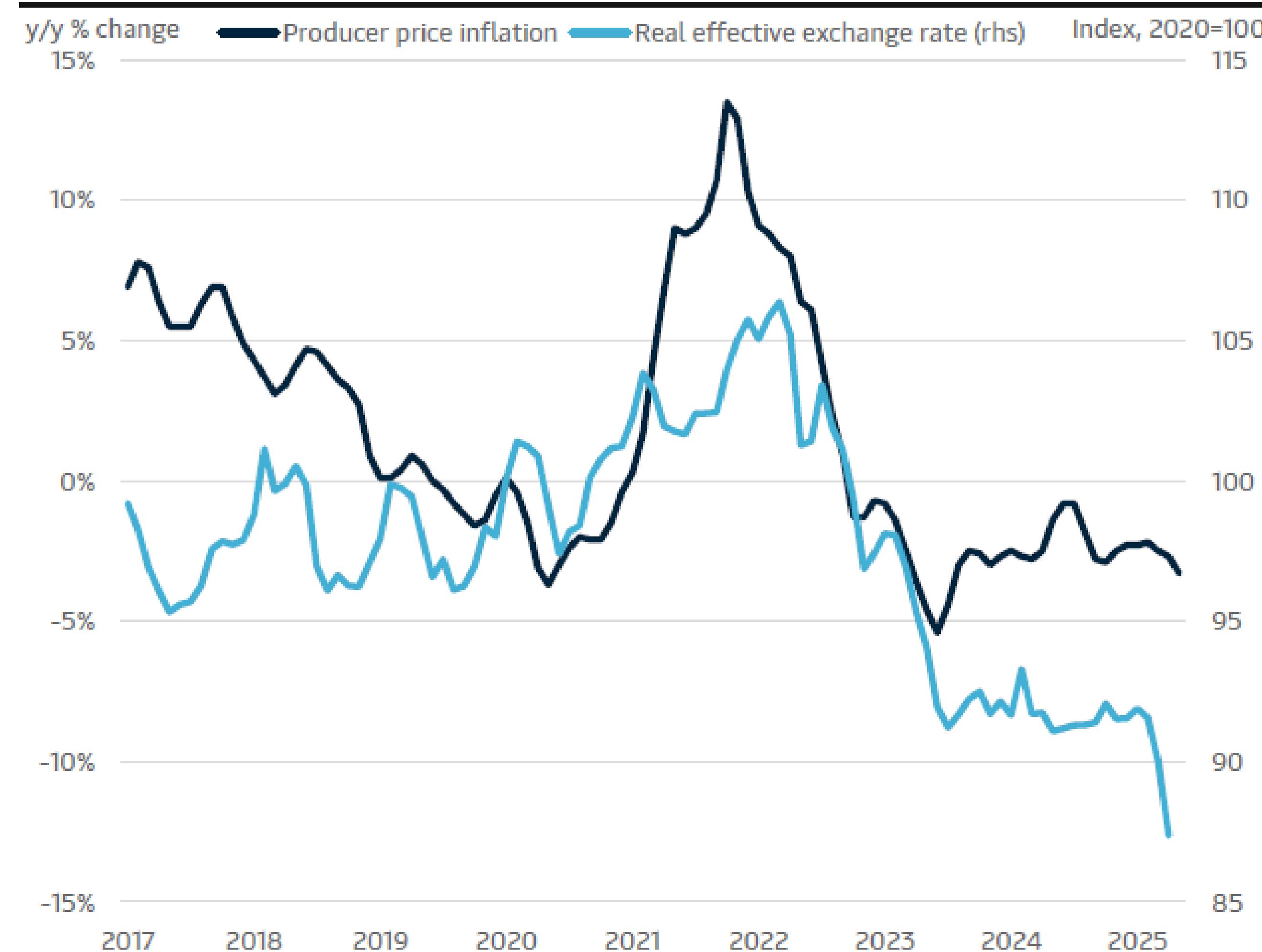
- Confidence in China as a future investment destination at record-low levels; and record low numbers looking to expand their China operations
 - A historic low 12% of Chamber members currently view China as the top future investment destination for their company and less than half (38%) are considering expanding their China operations in 2025.
- Chamber members shifting both current and future investments away from China
 - Europe is the top-destination that investments are being shifted to (overtaking ASEAN)
- Chamber members are adjusting their supply chain strategies, by both onshoring and offshoring into/away from China
 - 26% further onshoring into China
 - 13% are offshoring or in the process of establishing alternative supply chains outside of China

Low domestic demand, supply/demand imbalances, deflation and depreciation adds to China export competitiveness



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China producer price inflation and real effective exchange rate

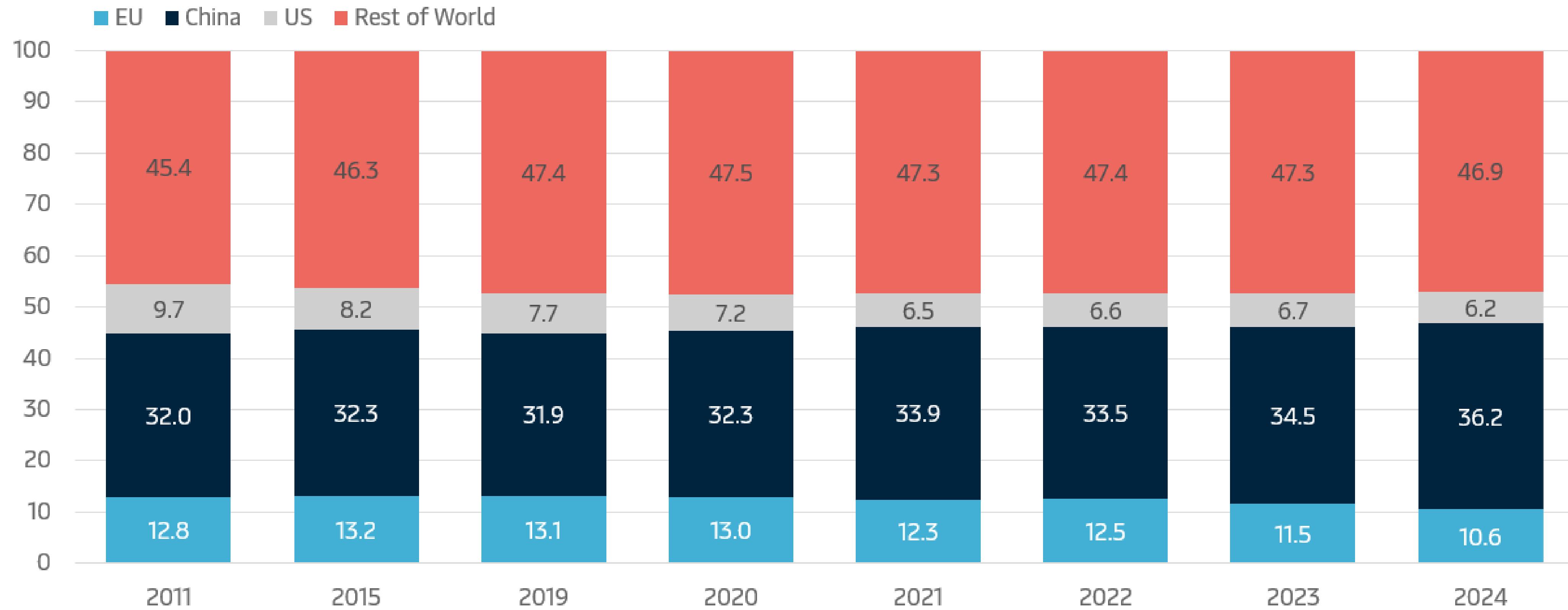


China continues to gain global export market share at a rapid clip



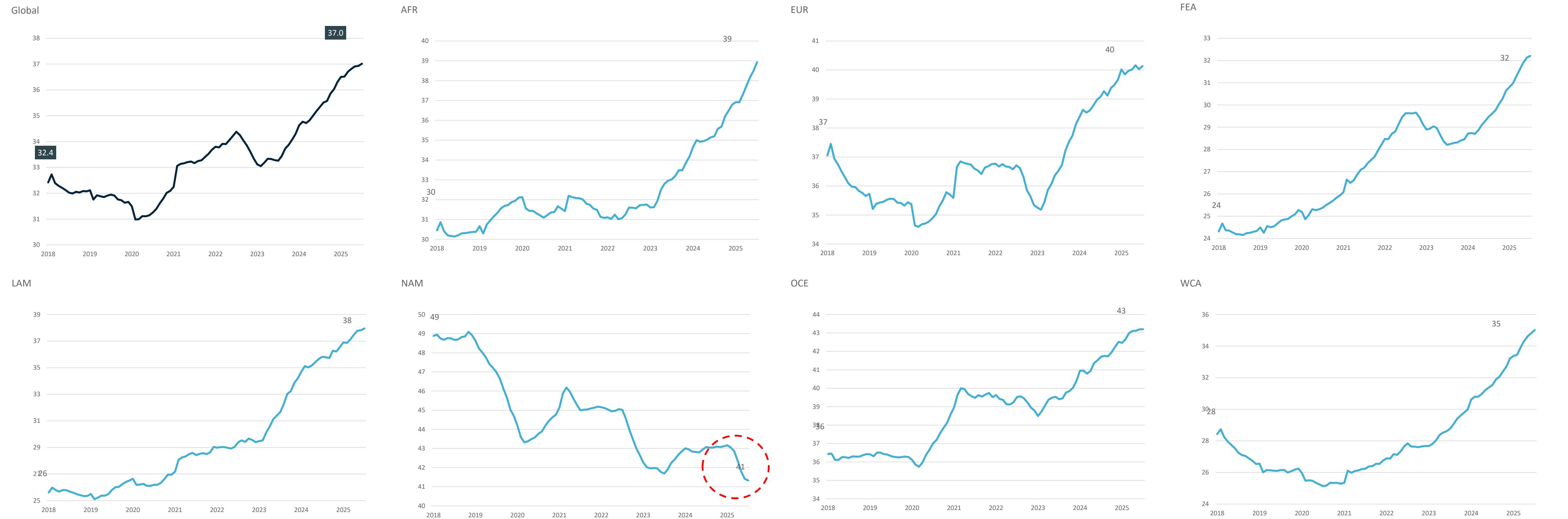
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Regional share in global container export, %, 12m moving average



CHN exports | Chinese container exports remain the primary driver of **strong market growth** in global container trade.

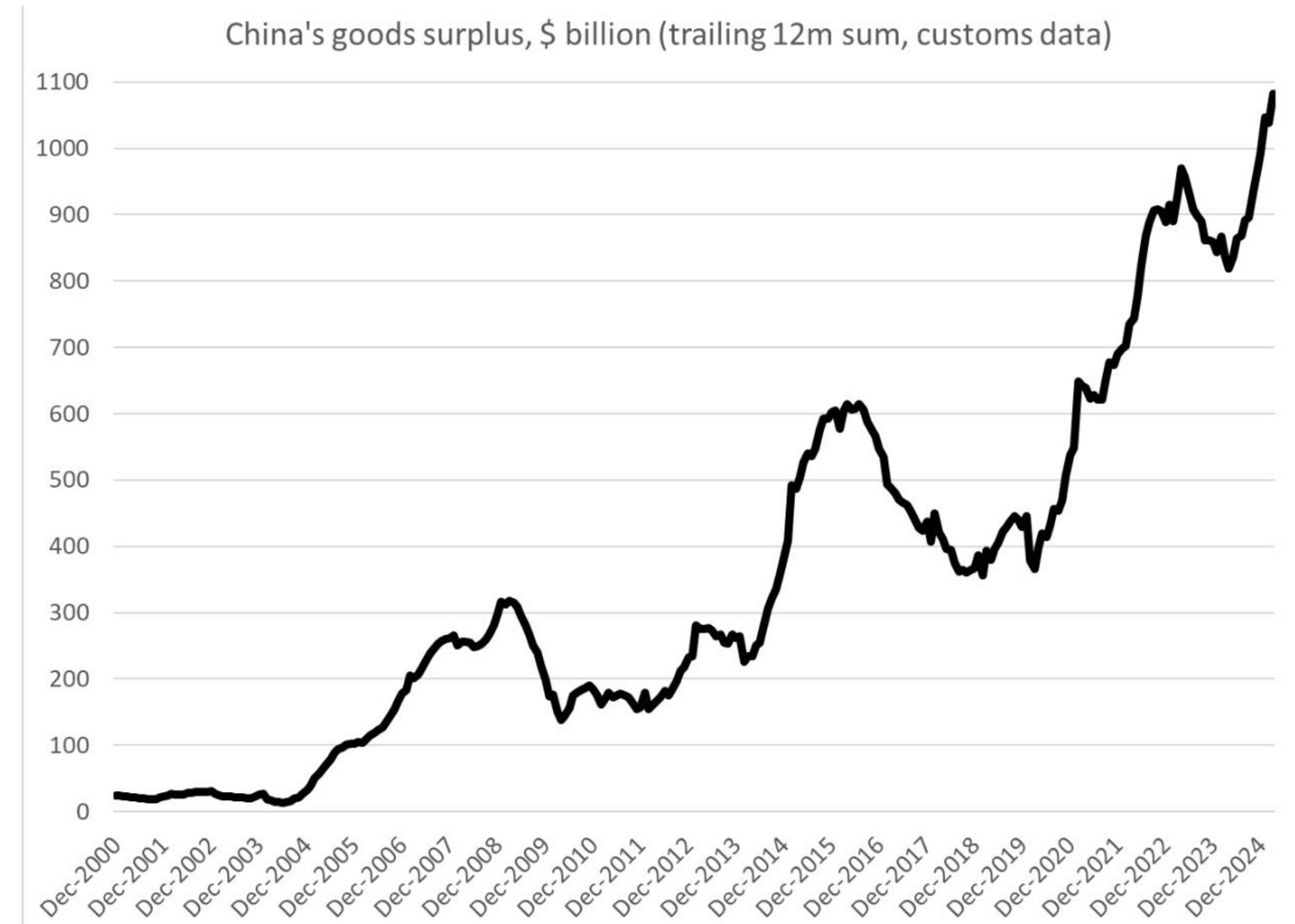
CHN Export Share split per Import Region, %, 12m moving average



Can the world continue to absorb these large imbalances?



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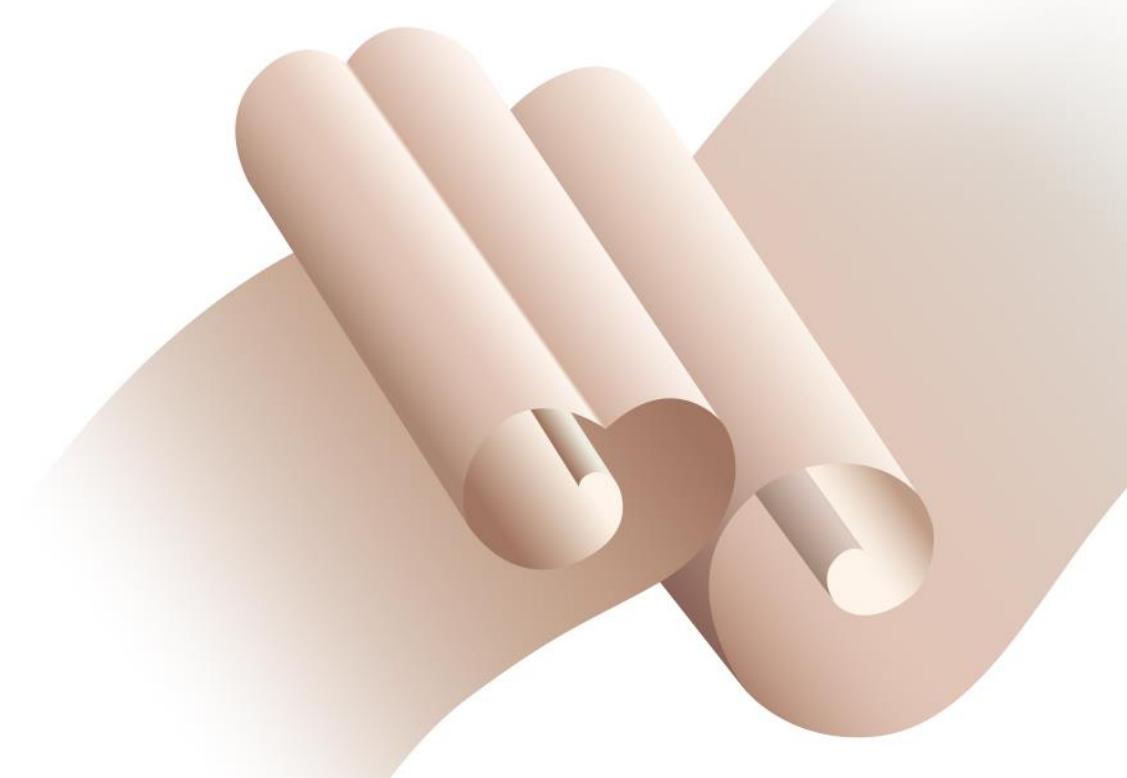
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Position Paper 2025

Recommendations for the 15FYP: Towards a New Productive Development Model

-  1. Fix the root causes of involution
-  2. Provide a bigger role for the market to boost efficiency and eliminate waste
-  3. Make trade make sense for key trade partners
-  4. Capitalise on your strength in green leadership
-  5. Ensure an open and inclusive digital transition



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Review of the 14FYP

Some 14FYP core principles will likely influence policy direction for the next half decade



Goal: increase level of self-reliance and enhance tech leadership in key sectors

'Coordinate development and security'

Top-level policy priority aimed at balancing economic growth against national security concerns

'Dual circulation'

Now part of the CPC constitution

- Reduce dependencies on third markets in critical areas (food, energy, technology)
- Increase resilience by boosting domestic innovation, high-tech manufacturing capabilities and domestic consumption

Internal circulation

- Focus on domestic market
- Increase self-reliance / technological capabilities

External circulation

- Define China's role in global markets
- Carefully manage the role global markets can play in China's domestic economy

‘Internal circulation’: industrial policies, self-reliance and domestic consumption



Upgrading of China’s manufacturing base

China’s share of global manufacturing more than
Germany + US + Japan + South Korea combined

Technological innovation

Increased focus on basic research

Resource misallocation, market inefficiencies

Heavy reliance on government subsidies

Disproportionate focus on supply-side support

Slower consumption growth relative to increase in
production capacity

Unhealthy competition (involution)

Decrease in FDI

As playing field tilted in favour of domestic players
(A&C guidelines, ‘buy China’ policies)

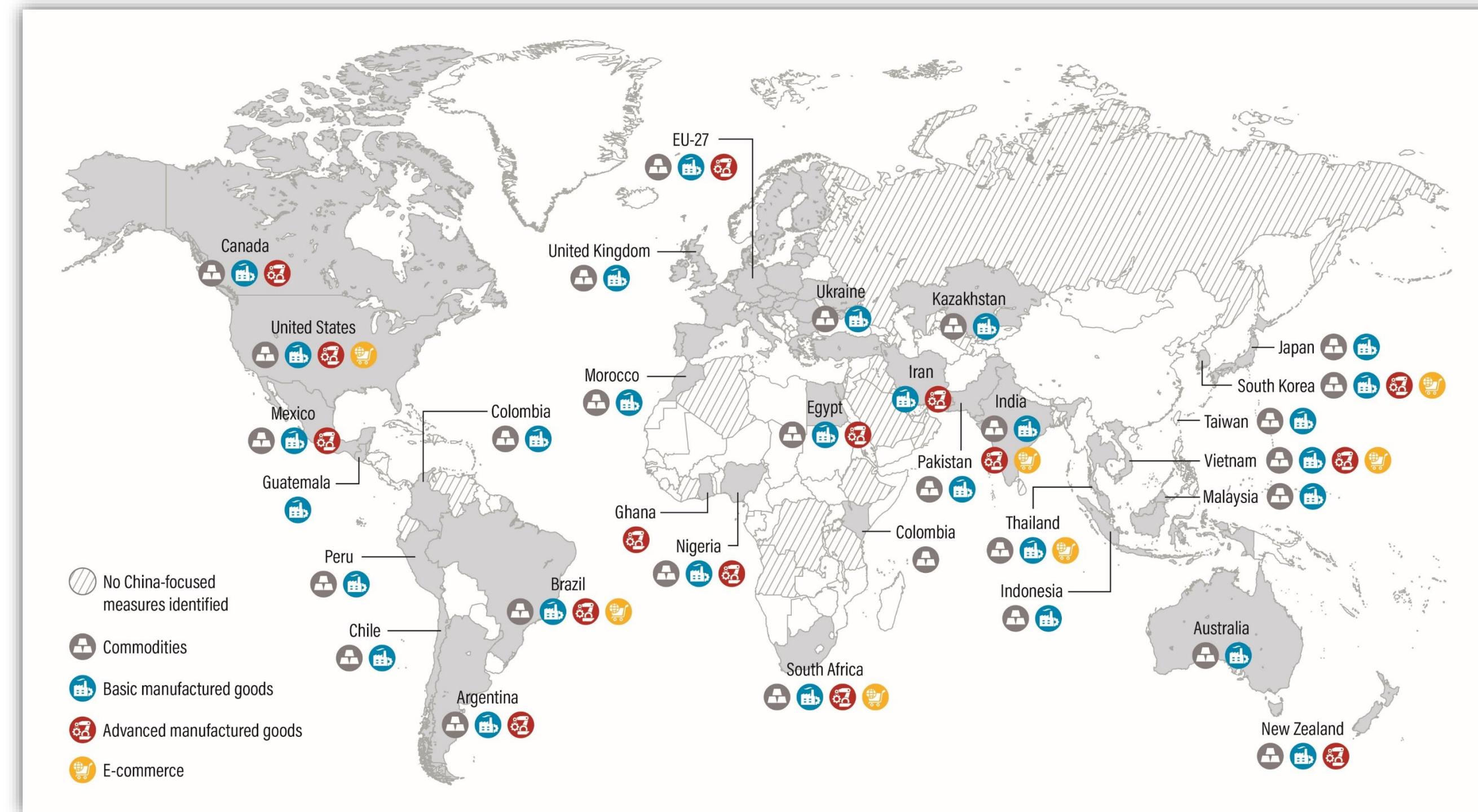


'External circulation': a catalyst for trade imbalances



A growing number of markets are imposing trade defence instruments against China's imports of various products

Cementing China's role in global supply chains
China's share of global container exports rose from 32% in 2019 to 36% in 2024



Data sources: MERICS, China's Ministry of Commerce Trade Remedies Information

Trade imbalances
Corrective action being taken by a growing number of third markets
Increased trade frictions and uncertainty

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**Recommendations for the 15FYP: Towards a
New Productive Development Model**

**1. Fix the root causes of
involution**

Concerns about China's economic slowdown shared across the board



Business Confidence Survey

- China's economic slowdown the top concern for European companies
- Optimism about near-term future growth and profitability at record low levels

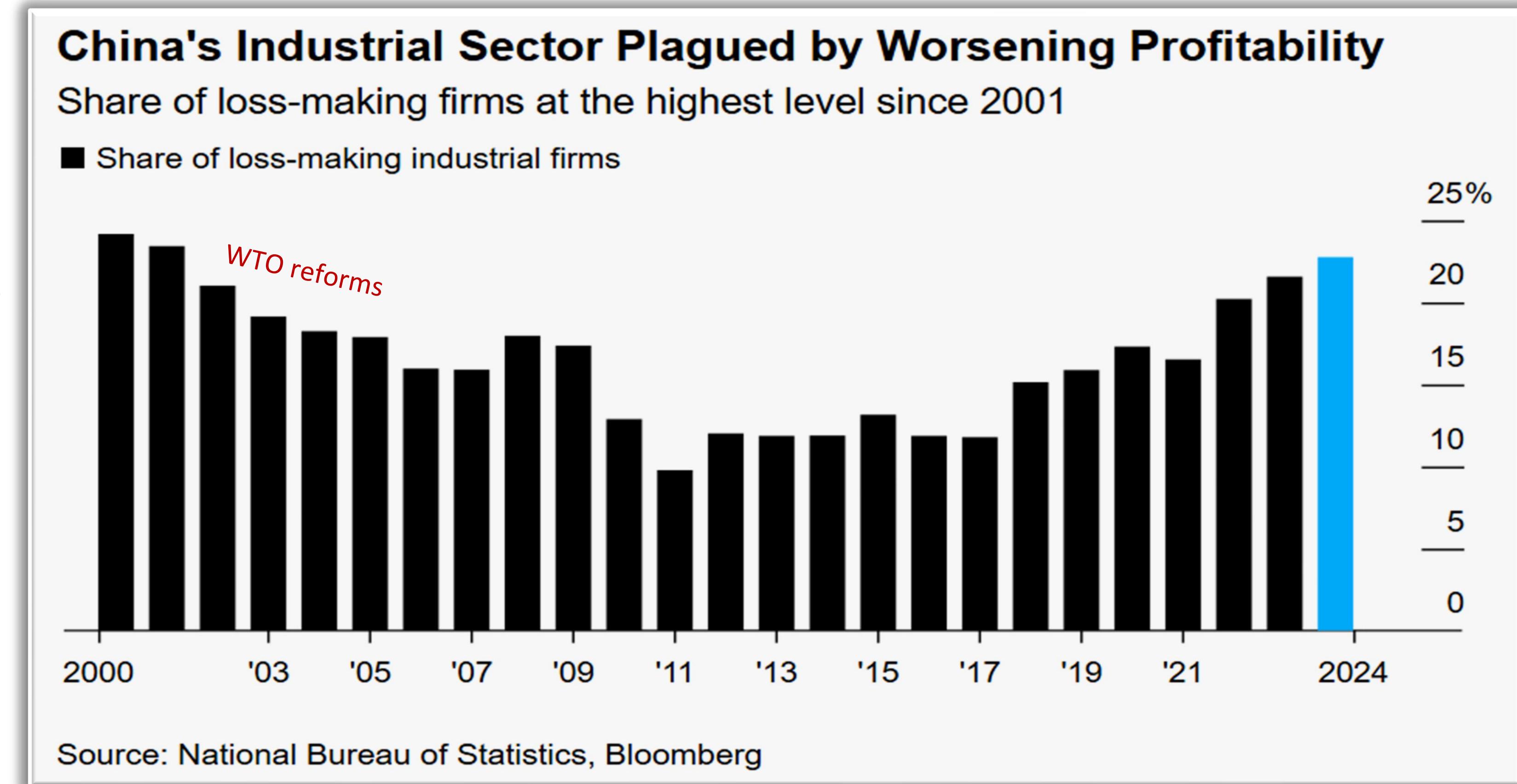
Similar sentiment shared by Chinese companies

- Share of loss-making industrial firms in 2024 surged to highest level since 2001

Between 1980s and early 2000s

Steady deterioration of enterprise financial performance, due to:

- growing competition among state and private firms
- various overhead burdens
- operating inefficiencies



Key structural issues that require urgent action



Consumption growth lagging growth in manufacturing output



- Unhealthy, unsustainable competition ('involution')
- Expanding inventories
- Pressure on profit margins
- Decreasing asset utilisation
- Pressure to export

Inadequate social safety net



- High costs for housing, child- and elderly care

Dampening consumer confidence

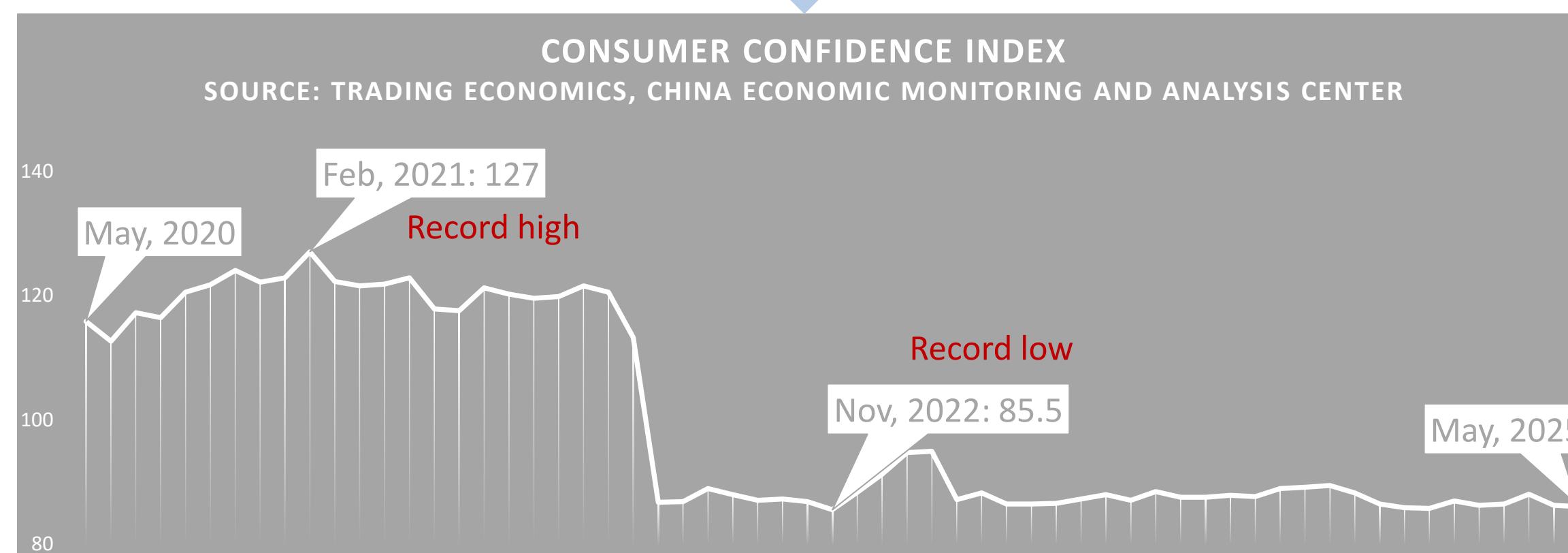


Local governments' 'prisoner's dilemma'

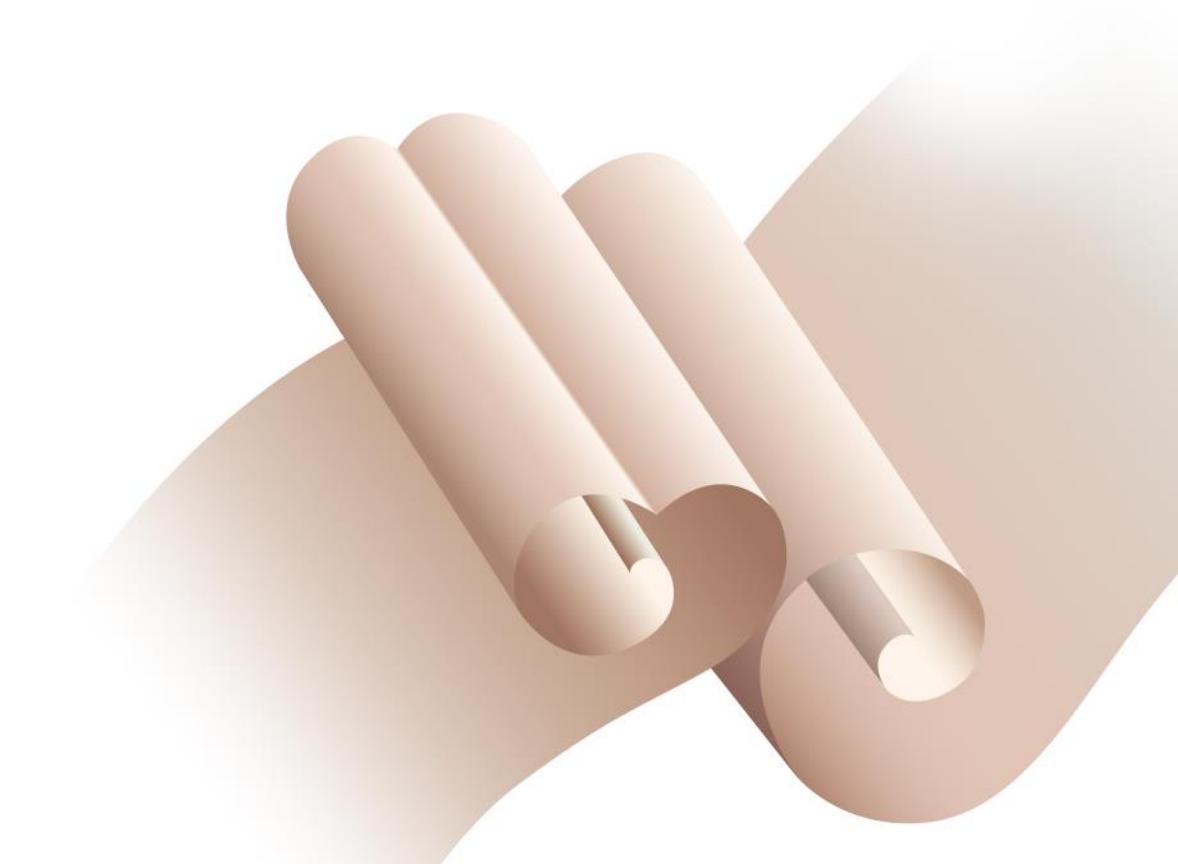


- Local governments incentivised to support local champions in key sectors in the hope that they can become market leaders nationwide/globally

- Targeted segments become saturated, further precipitating unsustainable competition



Many of the Chamber's recommendations are aimed at addressing these key issues.



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**Recommendations for the 15FYP: Towards a
New Productive Development Model**

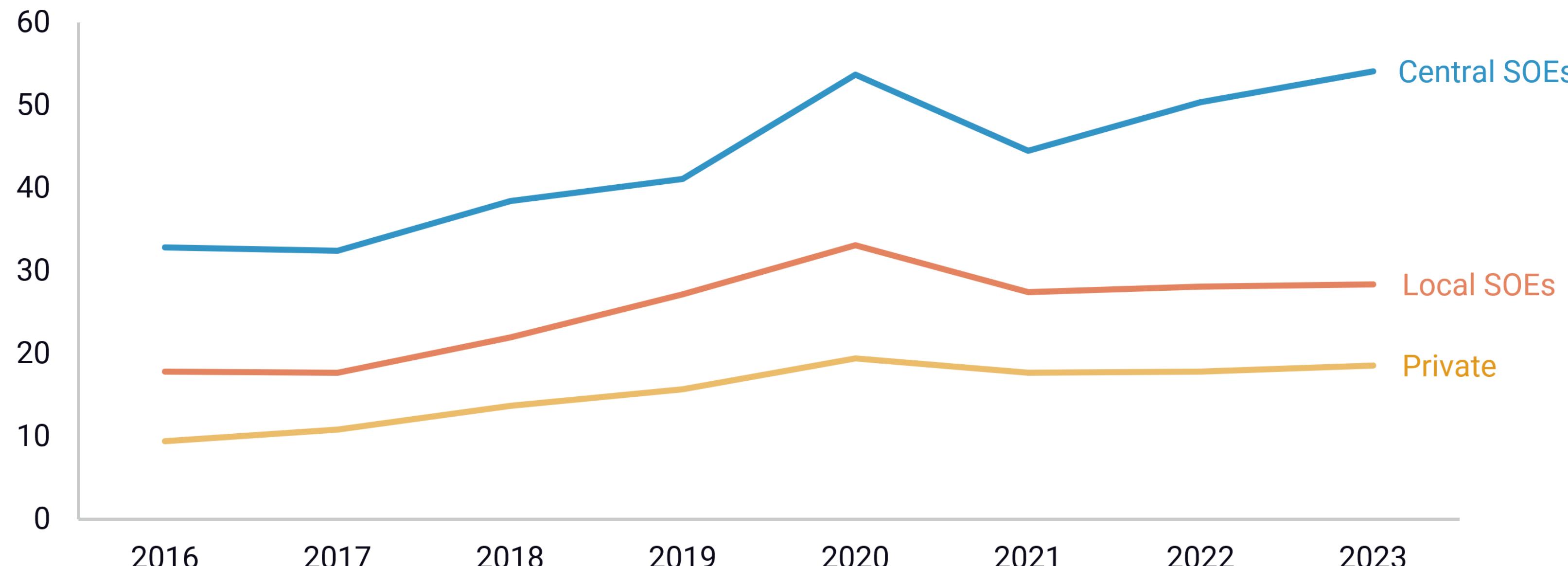
**2. Provide a bigger role
for the market to boost
efficiency and eliminate
waste**

Disproportionately large support for SOEs disadvantages private firms



Median grant received by company type, 2016 - 2023

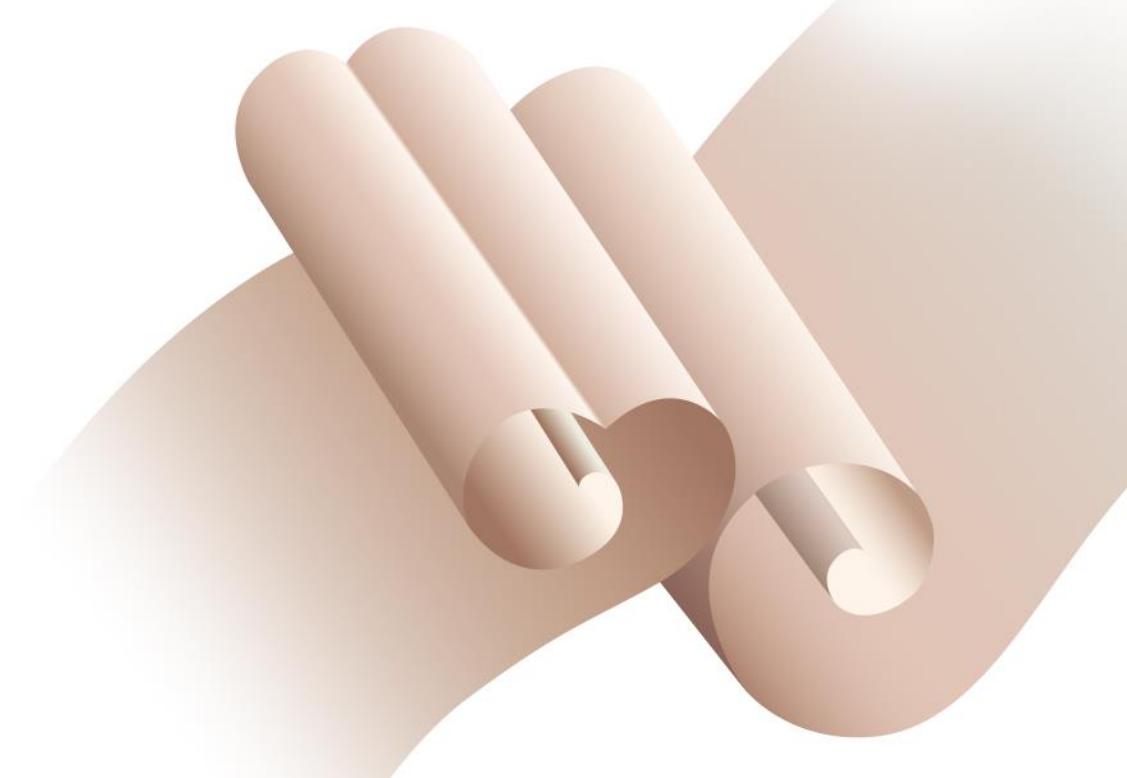
RMB millions



Source: Listed companies' financial disclosures. Only companies with data for all years between 2016-2023 are counted.
N=3,141 companies.

Source: Rhodium Group

Rhodium Group 2024 findings:
Capital allocation does not necessarily follow central objectives – large, established players seen as “safer bets” + local governments under pressure to support the biggest employers and drivers of local growth



Preference for SOEs has resulted in lower overall productivity

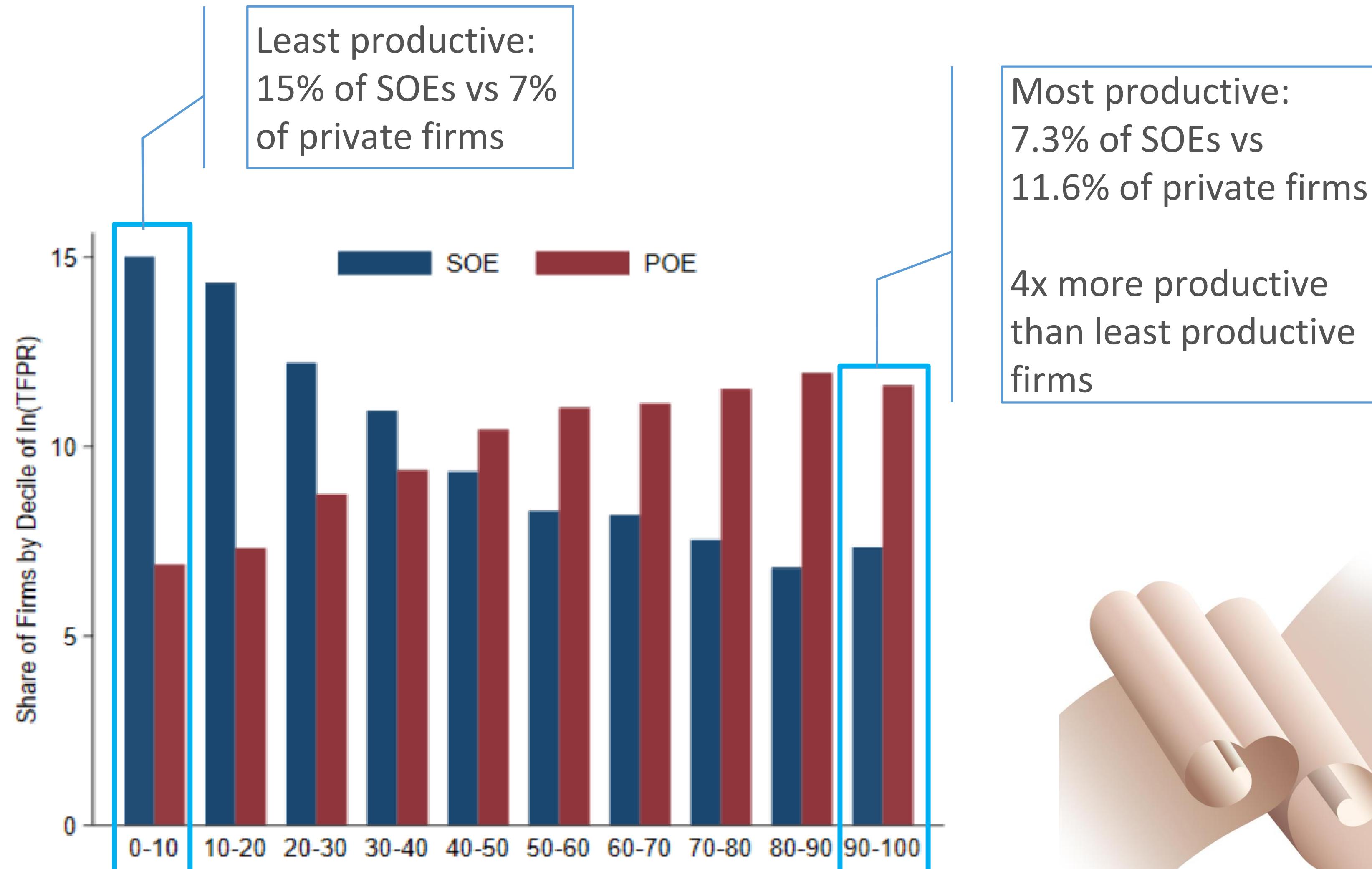


IMF findings (2021)

1998–2005: share of SOEs in industrial output fell from 50% to 30%
→ rapid aggregate productivity growth

In the proceeding years:
SOE reforms slowed and so did aggregate productivity growth
(2012–2017: averaging 0.6%)

Share of SOEs and private firms by decile of revenue productivity (2003-2019)



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**Recommendations for the 15FYP: Towards a
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**3. Make trade make sense
for key trade partners**

Trade increasingly becoming a one-way street: China's partly involution-driven export growth fuelling trade tensions



"Foreign trade reached a record high, and the global market share of China's exports increased steadily [...] We actively fostered new growth drivers for foreign trade and steadily improved the import and export mix. These efforts enabled exports to contribute more to China's economic growth."

Government Work Report 2025

Rapid growth in exports has exacerbated trade imbalances with key partners

- ↓ US tariffs announced in April 2025
- ↓ Pace of China's overall export growth drops sharply in April and May
+ RMB depreciates against the EUR
- ↓ China's exports to the EU alone exceeds its total value of trade with the US during April and May
- ↓ Concerns over the distortive impact of China's trade surplus with the EU have intensified

H1 2025: net exports contributed nearly a third of China's GDP growth

"Today, the EU accounts for an impressive 14.5% of China's total exports. Yet China only represents 8% of our exports. These numbers [...] expose a growing imbalance. This is mostly due to an increasing number of trade distortions and market access barriers. Unlike other major markets, Europe keeps its market open to Chinese goods. This reflects our longstanding commitment to rules-based trade. However, this openness is not matched by China. The EU's trade deficit with China has doubled in the last decade reaching more than EUR 300 billion. So we have reached a clear inflection point."

European Commission President Ursula von der Leyen at the 2025 EU-China Summit (July 2025)

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**Recommendations for the 15FYP: Towards a
New Productive Development Model**

**4. Capitalise on your
strength in green leadership**

Key areas for accelerating China's green transition



Modernisation of the power grid

To address interprovincial transmission bottlenecks

Harmonisation of green energy certification with international systems

China's Green Electricity Certificates (GECs) serve as official proof of renewable energy consumption – however, the GEC system currently diverges from international frameworks, complicating compliance for MNCs.

Green finance

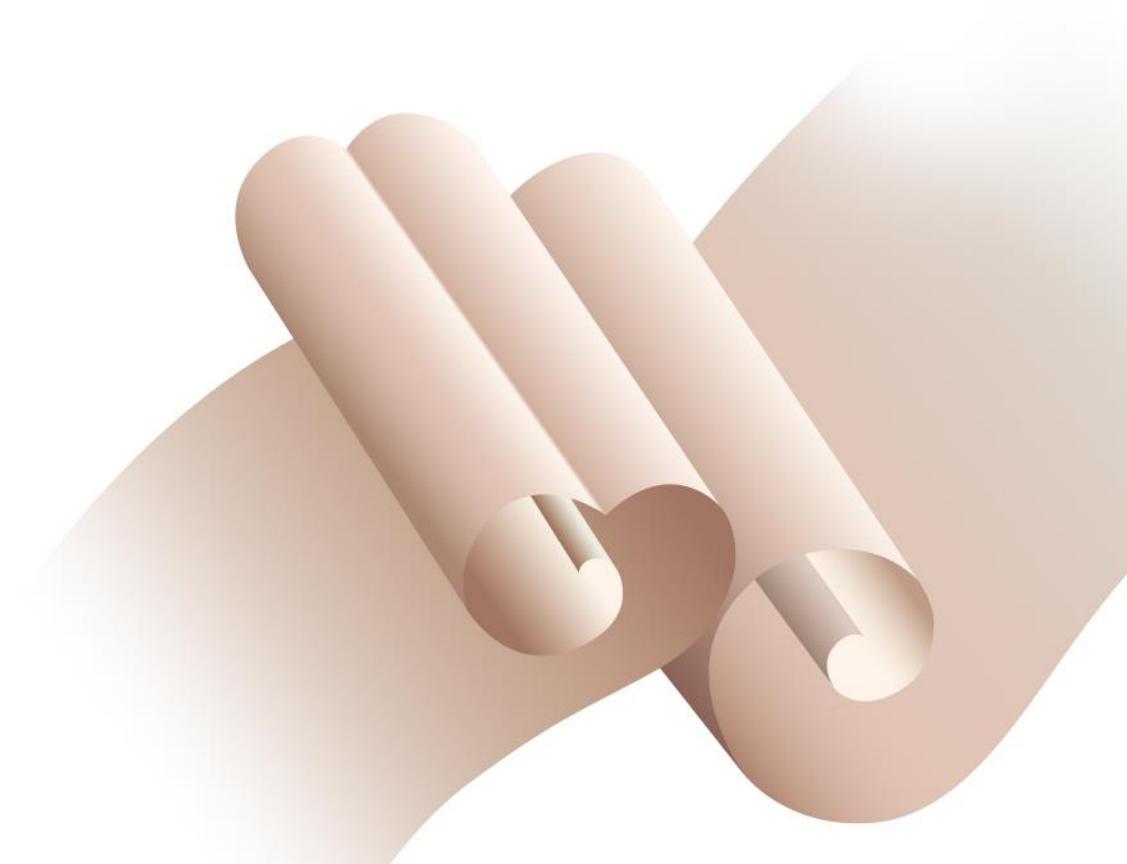
European financial institutions could make significant contributions in this area but they are currently unable to participate due to regulatory barriers.

Circular economy

More action is needed to increase the currently suboptimal recycling rates of waste materials and ensure that more waste enters into 'closed-loop recycling'.

Sustainable fuels for transportation and logistics

China has the potential to become the global leader in the production of sustainable fuels (e.g., hydrogen, green methanol), however, current policies make the pathways for procuring significant volumes of these fuels unclear.



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**Recommendations for the 15FYP: Towards a
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**5. Ensure an open and
inclusive digital
transition**

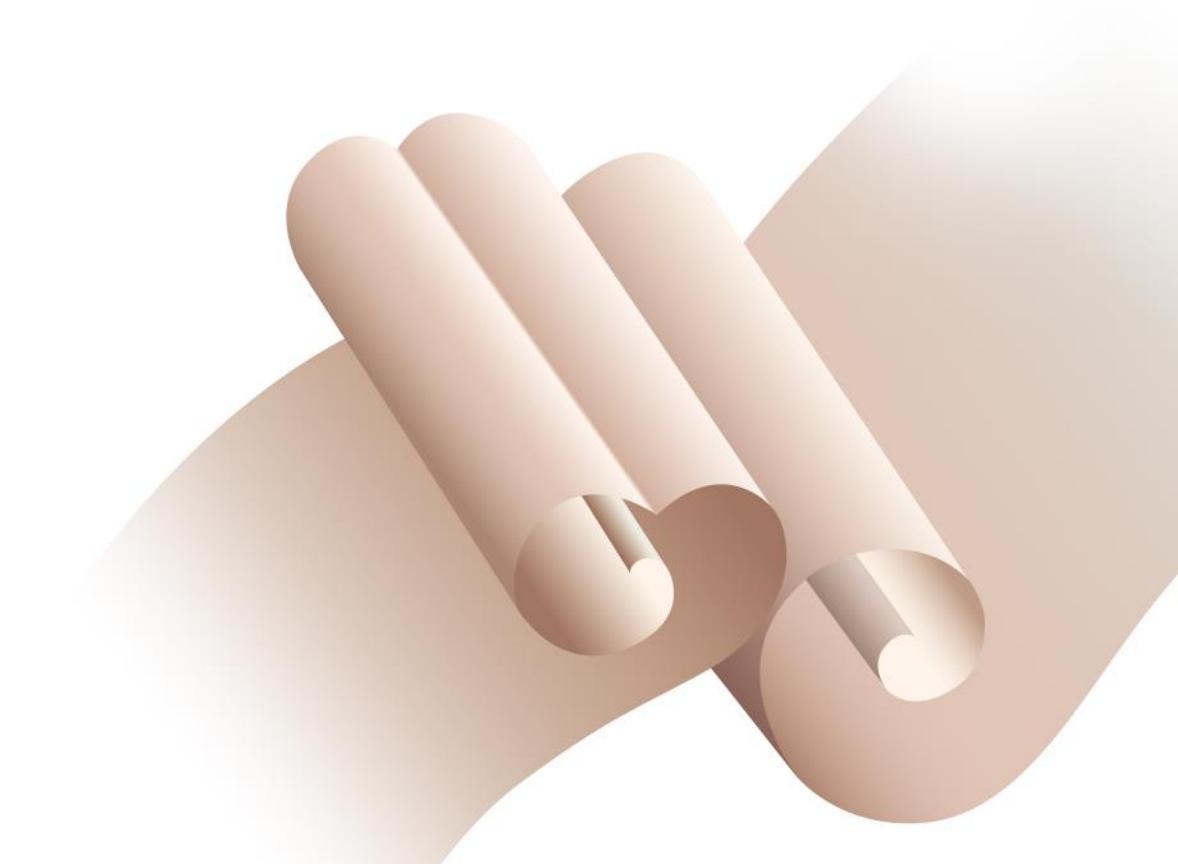
Key barriers

Localisation requirements in procurement tenders

European ICT firms' market access dropped from around 30% in the 4G deployment period to low single digits with the rollout of 5G in 2023.

Autonomous & Controllable (A&C) guidelines

In other ICT segments (e.g., software development, digital solutions) opportunities are also drying up.



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Q&A

