

Weekly China Insight

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China warns the EU against escalating trade tensions

On 29 May, the European Commission held an orientation debate on EU-China relations, concluding that while China remains a critical partner and engagement should continue, "the current state of the trade and investment relationship is not sustainable." The discussion forms part of a broader EU effort to reassess economic ties with China under its "de-risking, not decoupling" strategy, with further deliberations expected ahead of June's G7 and European Council meetings.

Beijing responded swiftly, with the commerce ministry (MofCom) emphasizing that China and the EU are "equal and mutually beneficial economic and trade partners" and urged Brussels to adhere uphold free trade and oppose protectionism. In a statement, MofCom issued a clear warning that if the EU proceeds with new trade instruments or adopts discriminatory restrictions against Chinese firms, China will "resolutely take countermeasures" to protect its interests. The warning was reinforced a day later by Yuyuan Tiantian, a social media account affiliated with state broadcaster CCTV. Citing unnamed sources, the social media account stated that China could launch anti-discrimination investigations and supply chain security reviews in response to any EU measures harming Chinese interests. The social media commentary argued that recent initiatives, including the proposed overcapacity mechanism and industrial policy measures, reflect a growing willingness within the EU to use trade policy as a tool to shield domestic industries.

Beijing is signaling that it will not passively accept a more confrontational EU trade policy, and is attempting to deter Brussels from adopting new restrictions while preserving room for further negotiation. Chinese officials have framed any future Chinese retaliation as a response to discriminatory actions by the EU, while leaving room for an off-ramp.

Beijing rejects OECD report criticizing Chinese industrial subsidies

On 1 June, the Organization for Economic Co-operation and Development (OECD) published a report showing that industrial subsidies across 15 key sectors reached their highest level relative to revenue since the 2007 global financial crisis. The report highlighted China's prominent role in global industrial support. According to the OECD report, Chinese firms received three to eight times more government support than firms in OECD countries between 2005 and 2024. On average, subsidies received by Chinese companies amounted to nearly 2.5% of annual revenue, compared with 0.9% for North American firms and less than 0.5% for European firms. The OECD argued that renewable energy equipment,

semiconductors, aluminum, steel and shipbuilding were identified among the most heavily subsidized sectors.

The Chinese commerce ministry (MofCom) rejected the report's conclusions, describing them as "one-sided and arbitrary." MofCom stated that subsidies are a widely used policy tool among economies, including OECD members, and reiterated that China's industrial subsidy policies strictly comply with World Trade Organization rules and transparency obligations. While expressing willingness to participate in discussions on international subsidy rules, MofCom argued that the OECD's definitions lacked rigor, the sample selection was biased, and the methodology failed to apply a unified standard for measuring subsidies. According to Beijing, the OECD overlooked what it described as the true sources of Chinese companies' competitiveness, including economies of scale, production efficiency, and technological innovation.

China's reaction to the OECD report underscores the widening divide between China and many advanced economies over the role of industrial policy. Beijing's response signals that it will continue to defend its industrial policy mechanisms and challenge foreign accusations that link China's manufacturing success primarily to government subsidies.

EU and China seek talks as trade tensions rise

On 5 June, EU Trade Commissioner Maros Sefcovic met China's international trade envoy Li Chenggang in Paris on the sidelines of an OECD ministerial meeting, as Brussels and Beijing sought to prevent worsening trade frictions from escalating into a broader dispute. The talks opened a month of intensified engagement, with Chinese Commerce Minister Wang Wentao expected in Brussels on 28-29 June and Vice-Commerce Minister Ling Ji due to meet the EU's new trade director general, Ditte Juul Jørgensen.

The EU is pursuing a carrot-and-stick approach in the talks, expanding dialogue while preparing tougher trade tools. Brussels is seeking to streamline around 60 existing working groups into a more manageable trade and investment consultation mechanism, which the Chinese commerce ministry (MofCom) has confirmed is under discussion. At the same time, the EU is preparing more frequent use of safeguards, quotas, and tariffs in sectors such as chemicals, machinery, and steel, as officials argue that the bloc is facing a new China shock from surging Chinese imports.

Sefcovic said his objective was "a practical, result-oriented approach" and "not escalation", but stressed that current trade ties are "unsustainable". According to Sefcovic, Brussels is also considering longer-term instruments, including a dedicated tool to require companies to diversify suppliers in high-risk sectors.

China pushed back against the EU's framing, with the foreign ministry (MoFA) urged Brussels to view bilateral trade "in an objective manner" and work with China to "shorten the list of problems and make the pie bigger", warning that protectionism serves no one's interests. Beijing again threatened retaliation against discriminatory EU measures, including proposals linked to the Industrial Accelerator Act, cybersecurity restrictions, and tools targeting Chinese industrial overcapacity.

The ongoing and upcoming talks between the EU and China will test whether dialogue can slow a hardening EU trade agenda against Beijing. Meanwhile, both sides seem prepared for escalation, with Brussels seeking new leverage over Chinese imports and dependencies, and Beijing signaling it will retaliate if EU measures cause direct harm to Chinese firms.

China tightens rules on outbound investment

On 1 June, the Chinese State Council released the Regulations on Outbound Investment, marking the country's first dedicated administrative regulation governing outbound investment. Scheduled to take effect on 1 July, the regulations consolidate a previously fragmented system based mainly on departmental rules and normative documents. The regulations support investors in conducting outbound investment on market-based principles, while placing outbound capital, technology, data, personnel movement, and overseas asset transfers under a more unified regulatory framework.

Article 13 of the regulations is especially significant, barring investors from exporting, using, or transferring prohibited goods, technologies, services and related data, including through cross-border personnel dispatch, technical guidance, or training. This guideline closes loopholes around indirect technology transfer and reflects growing concern over technology leakage in sectors where Chinese firms are expanding overseas.

The regulations also elevate outbound investment security review to a higher level, with Article 15 establishing a new mechanism to review outbound investments that affect or may affect national security. Violations can trigger fines, forced disposal of assets, suspension of investment activity, and investment bans of one to three years.

The regulations also strengthen China's ability to respond to foreign restrictions, with Articles 24 and 25 allowing Chinese authorities to take countermeasures against countries, organizations, or individuals that impose discriminatory investment or business restrictions on China or Chinese investors. Possible measures include restrictions on China-related imports and exports, investment in China, transactions with Chinese entities, entry of personnel or products, and work or residence permits.

The new regulations come as Chinese companies accelerate overseas expansion in batteries, solar, electric vehicles, advanced manufacturing, and digital sectors. The issuance of the regulations signals that even though Beijing is encouraging Chinese firms to expand overseas, stronger regulatory scrutiny will be placed on capital outflows, technology leakage, and supply chain decoupling risks. This will raise compliance demands for large multinationals, small exporters setting up overseas entities, and professional service providers supporting Chinese firms abroad.