

## Bruegel: Lose-lose scenario for Europe from ongoing China-US negotiations

A hastily agreed trade deal between China and the US may ease negative sentiment in global financial markets. But it could cost Europe dearly, **writes Alicia Garcia-Herrero for Bruegel**



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While there is no clear winner from the US-China trade tensions, the way in which the negotiations between the US and China are shaping up does not bode well for the European Union (EU). If China were finally to massively increase its imports from the US to buy back its future, it needs to substitute imports from other parts of the world, leaving missed opportunities borne by US allies, especially the European Union. Further, should China offer the concession that the US has requested in terms of banning import tariffs for some previously targeted sectors, this can only be more bad news for those sectors in Europe, except for the parts of the value chain that are produced in the US and exported to China. As such, we should expect a trade diversion away from Europe and in favour of the US.

Within this context, European exporters would find it hard to benefit from filling the gap left by either the American or Chinese exporters. As most of the benefits of a US-led trade war for Europe would have come from the Chinese market and not so much the US one due to the sectoral similarities of US and EU exports into China, the key European beneficiaries that were supposed to replace US exports: car manufacturers and aircraft producers (by substituting US exports into China in the event of higher tariffs) shift to be the losers in a quick deal between China and the US

is reached.

Further, even if China were finally to accept a huge import bill from the US, it would not be free: the key objective for China to accept such bill would have to be consistent with its ultimate goal, namely, moving up the technology ladder. However, it remains clear that China's moving up the technological ladder could still be put at risk by renewed pressure from the US. In the long run, thus, China will become increasingly aware of its economic relations with the US and more eager to become less reliant on US technology. Against this backdrop, we should not be surprised to see a new wave of government-supported mergers and acquisitions (M&A) by Chinese companies, especially on the high-tech end such as in the semiconductor sector. The easiest target continues to be Europe given the increasingly wary attitude of the US on M&A by China.

[You can read the full report here, by Alicia Garcia-Herrero](#)

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