Who Needs Allies? A Fraying Transatlantic Alliance Opens the Door for China in Europe

18 March 2025

Absorbing the blow

The shock is wearing off. Just two months into the new U.S. administration, Europe is processing a new reality—that it can no longer rely on U.S. support for its regional defence.

The dawning realization of this historic shift in geopolitical alliances has prompted pledges by the European Union (EU) and European countries to increase defence spending. German Chancellor-elect Friedrich Merz has announced a bold plan to abolish long-standing debt restrictions and raise up to €500bn for defence and infrastructure. French President Emmanuel Macron has offered to extend the country's nuclear umbrella to cover European allies and—like British Prime Minister Sir Keir Starmer—to send peacekeeping troops to Ukraine. Later this month, European Commission head Ursula von der Leyen is expected to provide details of an ambitious regional defence funding plan designed to ease fiscal rules so member states can step up their military purchases.

U.S. Vice President J.D. Vance's shock therapy at the Munich Security Conference in February was clearly effective. The messaging may have been crude, but the message was justified. The United States allocates 3.4% of its GDP to defence—the third-highest proportion of any member within the North Atlantic Treaty Organization (NATO)—making it the alliance's largest spender on defense in absolute terms. Yet by end of 2024, as many as nine other NATO members were still not honouring the 2% commitment they made a decade earlier—and now, NATO head Mark Rutte has called for the new minimum to rise well beyond 3%.

Not Just Defence

Spending pressure on defence comes at a difficult time for Europe's cash-strapped economies, especially as the transatlantic break-up is extending to trade. Washington's imposition of 25% tariffs on European steel and aluminium on 12 March prompted an immediate EU response, with tariffs on up to US$28bn of U.S. goods from 1 April. EU levies of up to 50% on products such as soybeans, bourbon whiskey, jeans and Harley-Davidson motorcycles - an attempt to maximise the impact by focusing on U.S. Republican states—scored a hit with U.S. President Donald Trump who immediately threatened a 200% tariff on European wine. With tempers flaring and a vicious cycle of retaliatory tariffs now established, it could be a while before both sides find their way to the negotiating table.

With U.S. relations in freefall, Europe is looking around for more stable trading partners, including China—already a significant trading partner for the EU, accounting for 9% of the bloc's exports and some 20% of imports. While a small number of (mainly central and eastern) European countries have fostered strong relations with China in the past, larger economies across the region are now taking this path. Spain, which has called for EU members to decide independently when to compete or partner with China, has already attracted Chinese car battery and automotive companies. Meanwhile, the UK's well-timed re-engagement with China since last autumn reflects a desire for stronger and more reliable bilateral trading relations. For its part, Beijing may see in the UK a trading partner less encumbered by geopolitical complexity and the regulatory restrictions on Chinese investment being imposed by the EU.

Mutual Interests

China recognises the immediate opportunity in Europe, having much to gain from stronger bilateral relations. First, it wants to open up the European market which, after the United States, is a prestigious market for Chinese companies going global. Second, it wants to reinvigorate European investment into its still-sluggish domestic economy. Third, the Chinese leadership has a chance to reframe negative European perceptions of its relationship with Russia by participating in the peace process and helping to rebuild Ukraine's shattered infrastructure. Finally, closer bilateral ties will provide some reassurance both to Beijing and Brussels in the face of the U.S. rapprochement with Moscow and speculation about a potential "reverse Nixon"—whereby the United States courts Russia to alienate China (rather than allying with China to alienate the former Soviet Union as U.S. President Richard Nixon did in 1972).

U.S.-China relations hang in the balance amid tit-for-tat tariffs, sanctions and tough talk. Yet President Trump's unpredictability and his love of the deal—as well as suggestions that he might visit Beijing or even host President Xi Jinping in Washington in the coming months—raise the possibility of further about-turns in the U.S.-China trading relationship. For its part, China has made abundantly clear its willingness to come to the negotiating table at any time.

Diversifying Partners

While Europe knows it can no longer rely on the United States as a stable trading partner, it (and the EU in particular) remains wary of China's intentions. Growing geopolitical tensions have fuelled anti-China sentiment, particularly in relation to China's stance in the Ukraine-Russia war, while retaliatory tariffs and antitrust investigations have added to mutual distrust. Europe fears that Chinese products and services will flood its markets not only via e-commerce platforms but also in key technology sectors such as electric vehicles (EVs), batteries, solar panels and consumer electronics where China's market dominance presents a growing challenge for European governments trying to safeguard their domestic industries. The EU's US$332bn trade deficit with China in 2024 remains a worry and calls continue for greater market access for European companies in China.

European wariness is justified. Yet the current freefall in U.S. relations and the reality of Chinese market dominance in key sectors suggest that mindsets may need to change. Three decades ago, European and U.S. multinational companies entering China with superior products and technologies partnered with local companies as the price for gaining access to cheap manufacturing and a nascent mainland market. Today, it is Chinese multinational companies that are market leaders, notably in key tech-related sectors where they are starting to enter into joint ventures with their European counterparts. If more governments and companies in the region can become more comfortable with the concept of partnership with Chinese companies in specific industries rather than direct competition across the board, European industry can benefit.

With historical trading alliances no longer guaranteed, the European bloc needs to reduce its economic dependence on the United States. While China will not replace the United States, it can become a more significant and stable trading partner—one of several—without European hosts having to relinquish their social values or undermine their national security. Of course this will be a complicated process. But at least Europe will be able to offset the disruption and uncertainty caused by the seismic changes in U.S. trade policy and a terminally unpredictable U.S. leadership.