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Original Paper

Economic Security Impacts and Risk Prevention for China under the US-EU Trade Agreement

Liu Xiaobing[1*], Wang Yingying[2] & Peng Cheng[1]

[1] College of Finance and Economics, Sichuan International Studies University, Chongqing, China

[2] College of International Business and Management, Sichuan International Studies University, Chongqing, China

[*] Liu Xiaobing, E-mail: lxbing1111@163.com

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Abstract

In August 2025, the United States and Europe concluded the Reciprocal, Fair, and Balanced Trade Agreement (hereinafter referred to as the US-EU Agreement), which aims to advance transatlantic economic integration with a focus on national economic security. This agreement creates a more exclusive economic partnership between the two parties. Through mechanisms such as reciprocal tariffs and regulatory alignment, the agreement places significant pressure on China, including restrictions on export opportunities, higher corporate compliance costs, and increased technological barriers. These challenges could lead to deeper structural risks, such as the potential for industrial path dependency, forced adjustments to supply chains, and diminishing influence in global governance. In response, China needs to strengthen its support for scientific and technological innovation, enhance the resilience of its supply chains, diversify its market strategies, and deepen its commitment to rule-based international cooperation. By developing a robust framework for national economic security governance, China will be better positioned to address the challenges arising from the shifting global economic and trade landscape.

Keywords

US-EU trade agreement, economic security

1. Introduction

In August 2025, the United States and Europe formally announced the conclusion of *the Reciprocal, Fair, and Balanced Trade Agreement* (hereinafter referred to as *the US–EU Agreement*). The agreement covers a range of areas, including tariff coordination, investment commitments, strategic energy procurement, and industrial cooperation. It is intended to reshape transatlantic trade relations, strengthen economic and strategic ties between the United States and the European Union, and respond to an increasingly complex global geopolitical environment. At the same time, several aspects of the agreement's implementation remain to be clarified. Certain provisions—particularly those related to trade and industrial policy, may attract attention from third countries during implementation. As the agreement is put into practice, it may also have broader implications for the global trade environment (Song, 2018).

The formation of this agreement can be understood in the context of changes in the United States' China strategy, which has gradually shifted from what was previously described as cooperative competition toward a framework of strategic competition, as well as the strengthening of coordination within the transatlantic alliance (Ke, 2023). Since the escalation of trade tensions between the United States and China, the United States has introduced a range of policy measures, including additional tariffs, restrictions on technology transfers, and initiatives aimed at supply chain de-risking and friend-shoring. These policies seek to reduce strategic dependencies in key technological sectors (Su et al., 2025). While the European Union maintains a degree of strategic autonomy in its China policy, reflected in its triple positioning framework that characterizes China simultaneously as a partner, an economic competitor, and a systemic rival, its policy coordination with the United States has gradually increased in areas such as technology security screening, market access regulations, and the development of global governance standards. In particular, transatlantic cooperation has expanded in addressing issues described as non-market economic practices and broader systemic challenges. These developments have introduced new complexities into the traditional framework of trilateral economic relations among China, the United States, and the European Union (Fu, 2017).

Against this backdrop, *the US–EU Agreement* may further deepen transatlantic coordination in the global economic and trade system through several institutional mechanisms, including regulatory coordination, market access oversight, and cooperation in key technology sectors. In practice, these mechanisms involve closer alignment of rules in areas such as digital trade and environmental standards, the strengthening of investment screening and supply chain due diligence requirements related to market access, and expanded cooperation in strategic technologies.

Taken together, these policy instruments may reinforce regulatory linkages associated with economic security considerations and contribute to ongoing adjustments in global production networks and industrial organization (Kong & Li, 2025). Within the broader policy framework of de-risking, the agreement may also encourage closer coordination among major. Western economies in areas such as regulatory governance, capital flows, and technological cooperation (Shi, 2022). These developments have the potential to influence the evolving landscape of transatlantic trade and investment while also shaping the broader environment in which global value chains operate. For China, such changes may affect several dimensions of economic development, including participation in global value chains, technological upgrading and innovation capacity, export market diversification, and engagement in international rule-making, particularly in sectors such as semiconductors, new energy, and artificial intelligence (Zhang & Chen, 2024).

This evolving external environment also coincides with a period in which China is promoting high-quality development and advancing the construction of a modern economic system. Policy documents released in recent years outline a number of strategic priorities, including strengthening the resilience and security of industrial and supply chains, expanding high-standard opening-up, and supporting the development of advanced manufacturing, digital infrastructure, and the digital economy. *The Outline of the 14th Five-Year Plan for National Economic and Social Development* and *the Long-Range Objectives through the Year 2035* further emphasizes the development of a dual circulation framework, in which domestic economic circulation plays a central role while domestic and international markets remain mutually reinforcing. Within this framework, policy priorities include strengthening technological innovation capacity, upgrading the modern industrial system, and expanding institutional opening-up. More recent policy initiatives, such as *the Action Plan for*

Promoting Large-Scale Equipment Renewal and Consumer Goods Trade-in and *the Opinions on Improving the New Whole-Nation System for Tackling Key Core Technologies under the Socialist Market Economy*, highlight continued policy attention to technological innovation, industrial upgrading, and the resilience of industrial and supply chains.

Against this background, examining the strategic objectives, institutional mechanisms, and potential spillover effects of *the US–EU Agreement* has become an important area of analysis. Such an examination also contributes to a clearer understanding of how China's external economic environment may evolve in the context of ongoing adjustments in the global economic and trade system. In this regard, systematic analysis of these developments may provide useful insights for discussions on economic security, foreign trade development, and the broader dynamics of international economic cooperation (Chen & Cheng, 2020).

2. The Evolution of China's Economic and Trade Relations with the United States and the European Union

Within the broader process of economic globalization, China's economic and trade relations with the United States and the European Union have developed into a central component of the international division of labor within global value chains. Since the establishment of formal economic and trade ties, the scale of exchanges, the institutional mechanisms governing cooperation, and the scope of engagement have expanded steadily. Over time, this relationship has exhibited clear phase-specific characteristics, reflecting shifts in the international political and economic environment. These evolving interactions have, in turn, exerted a significant influence on both the stability and the structural evolution of the global economic and trade order.

2.1 Embedding and Complementarity: Initial Integration into Global Value Chains (1970s-1990s)

The geopolitical détente in the later stages of the Cold War created favorable conditions for the establishment of economic and trade relations between China and the United States and Europe. In 1979, China and the United States formally established diplomatic relations and signed *the Sino–U.S. Trade Relations Agreement*, which granted mutual most-favored-nation (MFN) status and provided an institutional foundation for the expansion of bilateral economic exchange (Zhao, 2016).

During this period, supported by its reform and opening-up policies and a relatively abundant supply of low-cost labor, China gradually integrated into the global production networks largely led by the United States and European economies. By the end of the twentieth century, China–U.S. trade had expanded from approximately $2.45 billion at the outset of diplomatic relations to $61.48 billion, with the United States becoming a major export destination and an important source of technology for China. China–EU trade also recorded steady growth over the same period.

Within the international division of labor at the time, China primarily undertook processing and manufacturing activities, gradually acquiring the reputation of the world's factory. By contrast, the United States and Europe largely supplied advanced technology, established brands, and final consumer markets. This configuration produced a typical global value chain structure characterized by manufacturing in China and consumption in the United States and Europe. Overall, economic cooperation during this phase was marked by asymmetric integration and strong factor complementarity.

2.2 Deepening and Mutual Construction: The Formation of Institutional Interdependence (2000-Late 2010s)

China's accession to the World Trade Organization (WTO) in 2001 marked a major turning point in its economic relations with the United States and the European Union, initiating a phase of rapid expansion in trade and investment. During this period, bilateral trade grew substantially, China–U.S. trade increased from $553.5 billion in 2015 to a peak of $633.5 billion in 2018. China–EU trade followed a similar trajectory, rising steadily from $586 billion in 2015 to approximately $707 billion by 2019. Over time, China became one of the most significant trading partners for both the United States and the European Union, and an increasingly important source of imports for both economies (Xu et al., 2015).

This growing economic relationship was reinforced by deeper institutional linkages through two-way investment. By 2019, the stock of U.S. investment in China had reached approximately $115 billion, while investment from the European Union had grown to around $135 billion. These investments were concentrated primarily in high value-added industries such as aerospace, semiconductors, and chemicals. At the same time, Chinese outward investment in the United States and Europe expanded rapidly. China's investment stock in the United States increased from about $11 billion in 2015 to roughly $25 billion in 2019, while its investment in Europe rose from approximately $68 billion to nearly $100 billion, extending into sectors including energy, infrastructure, and technology.

In parallel with the expansion of trade and investment flows, institutional dialogue mechanisms between China and both the United States and the European Union became more formalized. Platforms such as strategic economic dialogues and high-level economic and trade consultations were gradually established, contributing to a framework of structured engagement. Together, these developments fostered a pattern of increasingly institutionalized economic interdependence within the global trading system (Gu & Wang, 2011).

2.3 Restructuring and Competition: The Reconfiguration of the Global Economic and Trade Order (2018-Present)

As China's industrial and technological capabilities have continued to upgrade and the United States has increasingly framed China as a strategic competitor, China's economic relations with both the United States and the European Union have entered a period of significant adjustment. This shift has been reflected in evolving policy positions on both sides of the Atlantic. In its 2019 policy document *EU–China: A Strategic Outlook*, the European Union described China simultaneously as a cooperation partner, an economic competitor, and a systemic rival, signaling a more complex and cautious approach to bilateral relations. Although China and the EU concluded negotiations on *the Comprehensive Agreement on Investment* (CAI) at the end of 2020, the agreement was subsequently suspended by the European Parliament due to political considerations. At the same time, the United States and the European Union strengthened policy coordination through mechanisms such as the Trade and Technology Council (TTC), seeking greater alignment in areas including technical standards, digital governance, and the green transition. These initiatives have contributed to the emergence of a more coordinated transatlantic approach to economic governance, increasingly framed around the concept of economic security (Zhang et al., 2024).

Recent trade data illustrate the changing dynamics of China's economic relations with the United States and the European Union. As shown in Figures 1 and 2, total China–U.S. trade declined from $755.6 billion in 2021 to $664.2 billion in 2023. Over the same period, China's trade surplus with the United

States narrowed from $404.2 billion in 2022 to $351.8 billion in 2023, suggesting the initial effects of U.S. policies aimed at supply chain diversification and reducing dependence on Chinese production (Liu & Li, 2025). By contrast, China–EU trade continued to expand, reaching approximately $1.16 trillion. However, China's trade surplus with the European Union decreased significantly, falling from $255.7 billion in 2022 to around $120 billion in 2023. This pattern suggests that the EU is gradually adjusting its trade structure with China. On the one hand, it may be seeking to reduce reliance on Chinese manufactured goods; on the other, it may be expanding exports to China in sectors such as high-end machinery, automobiles, and chemicals. These developments are broadly consistent with the EU's emerging de-risking strategy toward China (Jiang & Yang, 2024).

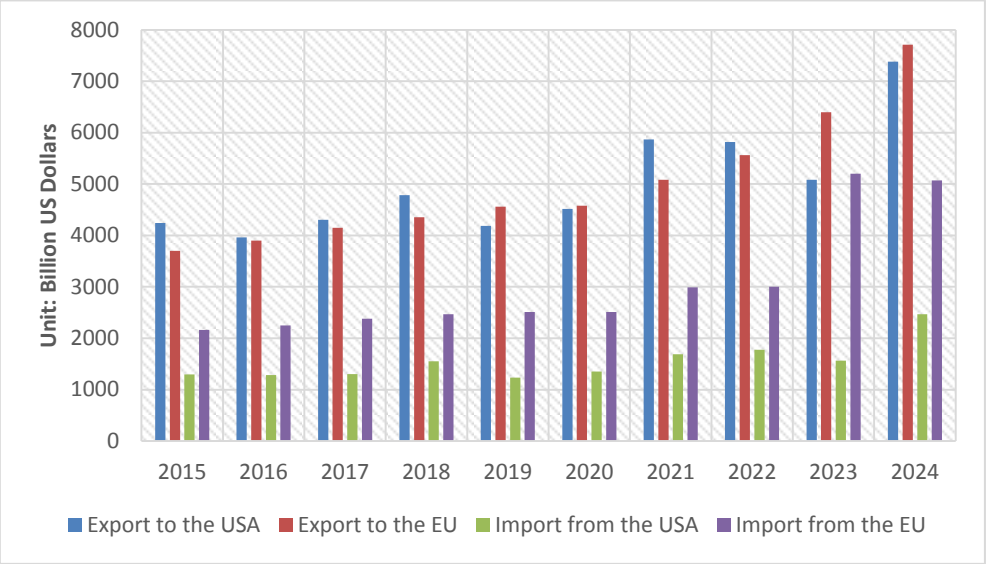

Figure 1. 2015-2024 China-US-EU Import and Export Trade Volume

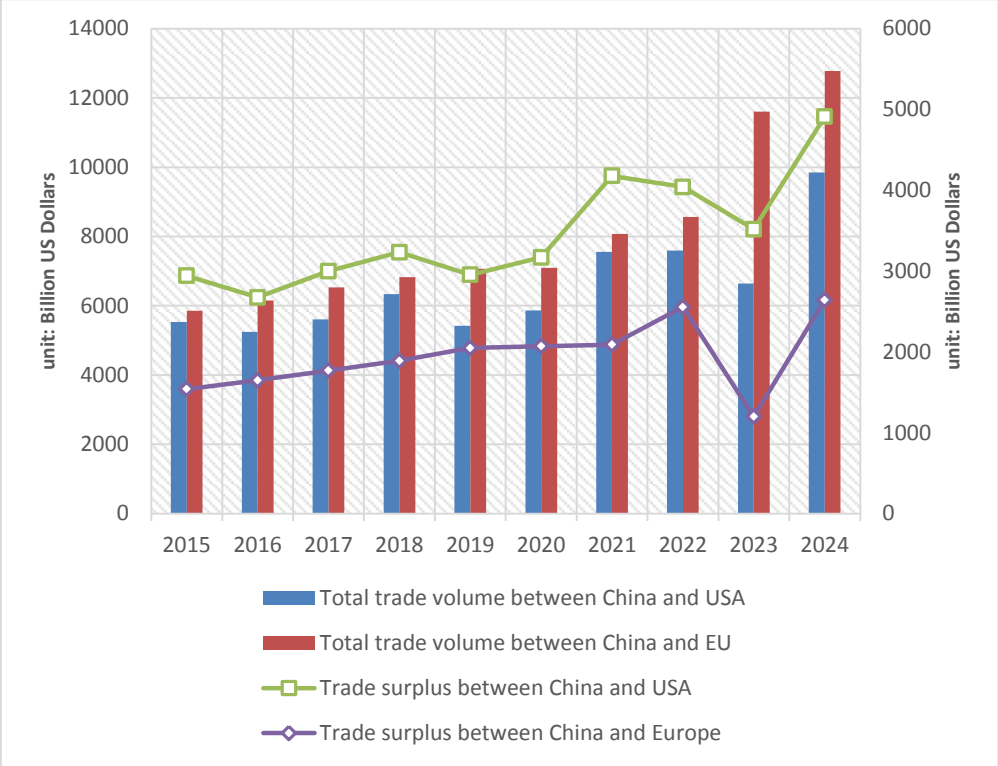

Figure 2. 2015-2024 Total China-US-EU Trade Volume and Trade Surplus

Data Source: Compiled from data from the General Administration of Customs of China Annual Statistical Bulletin, US Department of Commerce, Eurostat, and the US International Trade Commission.

Investment relations have also undergone noticeable changes. Growth in U.S. and EU investment in China has slowed in recent years, with new investment increasingly concentrated in sectors that avoid the transfer of technologies regarded as strategically sensitive. At the same time, Chinese investment in the United States and the European Union faces increasingly stringent screening mechanisms, resulting in slower growth and, in some cases, stagnation. As a result, the investment relationship between China and Western economies has shifted from the deep mutual embeddedness observed in earlier years toward a more selective pattern of engagement shaped by security considerations and risk management (Zhao, 2012).

Against this backdrop, economic interactions among China, the United States, and the European Union have entered a phase characterized by a combination of regulatory competition and limited cooperation. On the one hand, the three actors continue to share interests in areas such as global financial stability, climate governance, and public health cooperation. On the other hand, competition has intensified in key areas including advanced technologies, global value chain configuration, and international rule-making (Xu et al., 2022). In response, China has sought to participate more actively in emerging regional and global governance frameworks. Initiatives such as its application to join *the Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP) and *the Digital Economy Partnership Agreement* (DEPA), together with deeper engagement under *the Regional Comprehensive Economic Partnership* (RCEP), reflect efforts to expand its role in shaping the evolving architecture of international economic governance (Huang & Pan, 2025).

3. Analysis of the Impacts of the U.S.–EU Agreement on China's Economic Security

The conclusion of the U.S.-EU Agreement suggests that transatlantic economic cooperation is moving from issue-based coordination toward a more structured security-oriented framework. For China, the significance of this shift does not lie only in short-term trade diversion, but in the possibility that tariff preferences, regulatory coordination, technology controls, and supply chain governance may interact and generate cumulative pressure on exports, corporate operations, and industrial upgrading. Accordingly, the impacts of the agreement can be understood at two levels: direct pressures on market access, compliance burdens, and technology acquisition; and broader medium- to long-term effects on industrial transformation, supply chain positioning, and participation in international rule-making

3.1 Direct Impacts of the U.S.-EU Agreement on China's Economic Security

3.1.1 Risk of Export Volume Contraction

The reciprocal tariff provisions and rules of origin stipulated in *the US-EU Agreement* are likely to directly restrict China's export market access, thereby posing a tangible risk of contraction in export volumes.

First, the agreement introduces reciprocal tariff liberalization across several sectors. Under the proposed arrangements, the European Union would remove tariffs on U.S. industrial products, including machinery and electronic equipment, while also expanding preferential market access for U.S. agricultural goods. Such measures could enhance the price competitiveness of U.S. products in the European market and increase competitive pressure on similar goods exported from China. In the mineral resources sector, the United States and the European Union have also expressed intentions to strengthen cooperation on export control policies related to critical minerals. This coordination may affect global supply conditions for minerals such as rare earth elements, lithium, and cobalt, potentially increasing market competition and regulatory scrutiny for these products.

Second, rules of origin mechanisms are expected to play an important role in ensuring that preferential treatment primarily benefits producers located within the United States and the European Union. These rules could function as non-tariff barriers for third-country exporters, including Chinese firms, and may limit the possibility of accessing the U.S. or EU markets through indirect channels such as re-exports or contract manufacturing arrangements.

Table 1. Share of Chinese Exports to the US and EU by Product Category (%)

Export Product Category	Country	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Industrial Goods	EU	15.51	16.10	16.39	16.42	17.02	15.23	15.38	15.76	14.90	14.34
	USA	17.53	17.90	18.54	18.82	16.41	16.96	16.32	15.44	13.95	13.75
Agricultural	EU	11.46	11.07	11.38	11.19	11.72	9.81	10.39	11.68	11.19	11.77

Products	USA	10.58	10.17	10.21	10.41	8.16	8.40	8.76	10.42	10.23	11.99
Mineral Products	EU	4.95	5.04	5.15	6.78	6.24	4.61	4.67	8.88	7.69	7.01
	USA	4.21	5.27	4.13	3.30	2.41	1.28	1.60	1.68	1.77	2.17

Data Source: General Administration of Customs of the People's Republic of China.

Evidence from Table 1 provides some indication of recent trends. The data show the shares of China's exports of industrial goods, agricultural products, and mineral products destined for the United States and the European Union between 2015 and 2024. Since the escalation of U.S.–China trade frictions in 2018, China's export share to the United States has declined noticeably. For example, the share of industrial goods exports to the U.S. market decreased from 18.82% in 2018 to 13.75% in 2024. During the same period, part of this export volume was temporarily redirected toward the European market, with China's share peaking in 2019. This suggests that the EU absorbed some of the trade diversion effects generated by U.S.–China trade tensions in the short term (Xu et al., 2015).

However, since 2020, regulatory scrutiny of Chinese exports within the EU has gradually intensified. Policy instruments such as *the Carbon Border Adjustment Mechanism* (CBAM) have raised regulatory thresholds for certain carbon-intensive products, while concerns regarding industrial security and supply chain resilience have introduced additional regulatory requirements in some high-technology sectors. These structural changes may limit the long-term expansion of China's export share in the EU market. If *the U.S.–EU Agreement* leads to further convergence in tariff schedules, regulatory frameworks, and technical standards, Chinese exporters may face increasing competitive pressure in both markets simultaneously.

Agricultural and mineral products may also be affected. In the agricultural sector, China's combined export share to the United States and the European Union increased slightly from 22.04% in 2015 to 23.76% in 2024. China's export share to the EU remained relatively stable at around 11%, but the scope for further expansion appears limited. Preferential access granted to U.S. agricultural exports under the agreement could intensify competition in products such as soybeans, meat, and aquatic products. In addition, the EU's strict environmental, food safety, and traceability standards may further increase compliance costs for exporters.

In the mineral products sector, China's export share to the EU increased from 4.95% in 2015 to 7.01% in 2024, while its share to the United States declined from 4.21% to 2.17% during the same period. This pattern suggests a gradual shift in market dependence toward Europe. If the United States and the European Union increase coordination on supply chain policies related to critical minerals, exporters may face a combination of demand-side adjustments and regulatory constraints. Overall, the tariff arrangements and rules-based provisions within *the U.S.–EU Agreement* could reshape market competition in ways that increase uncertainty for China's exports of industrial goods, agricultural products, and mineral resources.

3.1.2 Risk of Elevated Corporate Compliance Costs

A second direct impact lies in the rising cost of maintaining access to transatlantic markets. The emerging compliance obligations related to labor standards, environmental governance, and investment screening under *the US-EU Agreement* will impose sustained upward pressure on firms' operational expenditures.

Even prior to the proposed agreement, the European Union had introduced a series of regulatory initiatives, including t*he Forced Labour Ban Regulation*, *the Corporate Sustainability Due Diligence Directive* (CSDDD), and *the Net-Zero Industry Act*. Although these regulations are not directed at any specific country, they raise the regulatory threshold for firms exporting to or operating within the EU market, including Chinese companies.

The U.S.–EU Agreement could reinforce these regulatory trends through closer transatlantic coordination. In the area of labor governance, both parties have emphasized cooperation to address forced labor in global supply chains, which may increase scrutiny of labor-intensive goods produced in third countries. With respect to environmental and sustainability regulations, the EU has indicated that it may allow certain implementation flexibilities for U.S. firms in policies such as CBAM or CSDDD while maintaining existing requirements for external partners. As a result, exporters from third countries may face higher compliance costs related to carbon reporting, environmental standards, and supply chain traceability (Jiang & Yang, 2024).

For Chinese enterprises, the core challenge is therefore operational rather than purely legal. Firms may have to invest more heavily in certification systems, data reporting, supplier audits, carbon accounting, and internal compliance management in order to preserve access to U.S. and EU customers. This is likely to raise fixed compliance costs, and the burden may be particularly heavy for export-oriented manufacturers embedded in multinational supply chains.

Investment screening should also be understood mainly through this compliance lens. Closer coordination between the United States and the European Union in reviewing capital flows to and from strategic sectors may lengthen approval procedures, increase disclosure obligations, and add uncertainty to cross-border investment planning. However, the principal effect here is not direct technology denial, but the expansion of institutional transaction costs faced by firms.

3.1.3 Risk of Escalating Technological Restrictions

The third direct impact concerns access to advanced technology and participation in high-end technology markets. Compared with compliance pressures, the essence of this risk is supply-side restriction: the U. S. and the EU may increasingly coordinate export controls, security standards, and technology cooperation in ways that restrict China's access to critical components, equipment, and knowledge networks in sectors such as semiconductors, artificial intelligence, aerospace, and telecommunications.

This risk does not depend on repeating every specific policy instrument, whether export control lists, entity-based restrictions, or sectoral security reviews. What matters analytically is that these tools can be combined into a more coherent transatlantic technology security framework. Once this happens, China may face not only tighter access to frontier inputs, but also a higher probability of exclusion from standard-setting processes and downstream commercial ecosystems in advanced industries.

Current trade data indicate that China continues to import significant volumes of high-technology components from both the United States and the European Union. Imports of motors, electrical equipment, and semiconductor products from these economies remain substantial. In 2024, China

imported approximately $263.19 billion of such products from the EU (accounting for 6.33% of total imports), compared with $129.36 billion from the United States (3.11%). These figures suggest that the EU plays an important role as a supplier of advanced components. If regulatory alignment between the United States and the European Union increases in areas related to technology security, external supply constraints may become more pronounced.

Dependence is also evident in certain high-end equipment sectors. Aerospace products have historically relied heavily on U.S. and European suppliers. Between 2015 and 2019, the U.S. share of China's aerospace imports exceeded 50%, while the EU's share remained significant, reaching 41.9% in 2024. Coordinated export controls or regulatory restrictions could therefore influence supply conditions in these industries.

In the high-end equipment sector, China has long relied on the US and the EU for the supply of aerospace products. Specifically, the US held a market share of over 50% for such products during 2015-2019, while the EU still accounted for 41.9% of the import share in 2024. This indicates that China's pattern of dual dependence on the US and the EU in core aerospace segments remains unchanged, and coordinated restrictions by the two blocs will further constrain China's independent development space in this sector.

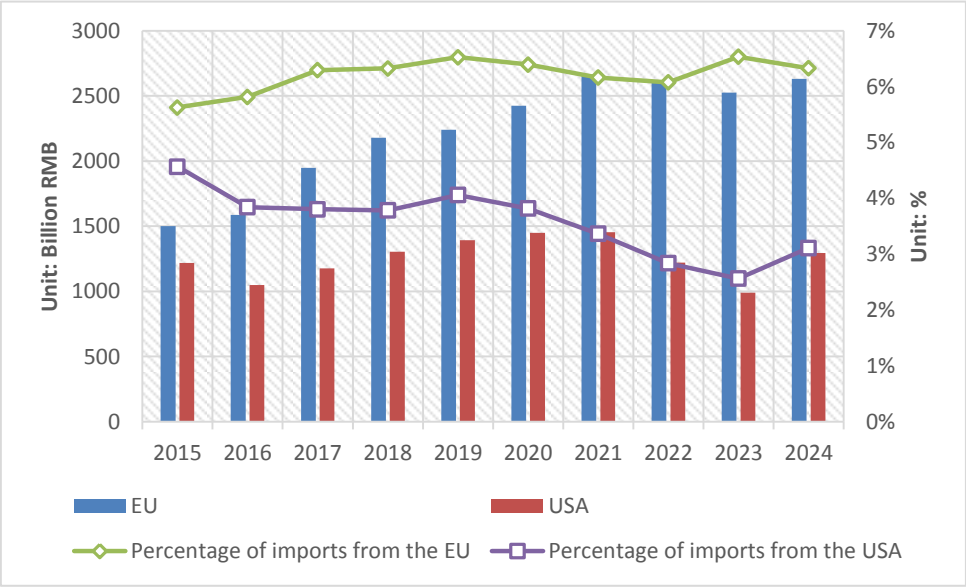

Figure 3. Import Value and Share of Motor Products

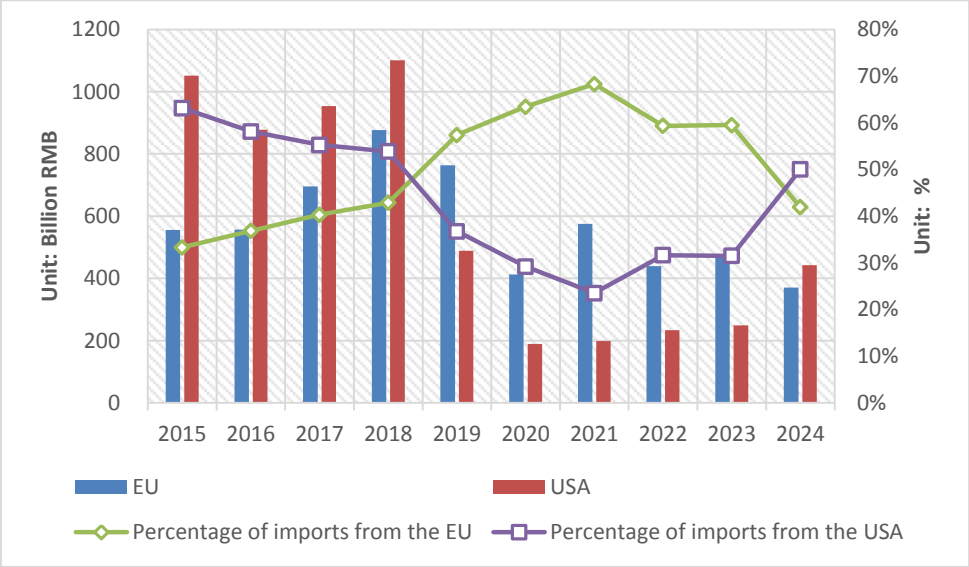

Figure 4. Import Value and Share of Aerospace Products

Data Source: General Administration of Customs of the People's Republic of China.

In addition, on the grounds of US allegations that Chinese telecommunications firms pose security risks to the European Union, the EU issued a recommendation in 2020 calling for the exclusion of equipment suppliers such as Huawei from the supply chains for 5G network construction across the EU. Nevertheless, only one-third of EU member states implemented this recommendation. Further efforts by the US and the EU to promote mutual recognition of telecommunications equipment industry standards and advance cybersecurity cooperation will erect higher market entry barriers for Chinese communication technology enterprises in Europe, potentially excluding them from the development of critical infrastructure including 5G networks and the Internet of Things.

Overall, closer technological coordination between the United States and the European Union may reshape regulatory conditions in advanced technology sectors and influence the competitive environment faced by firms from other economies.

3.2 Indirect Impacts of the US-EU Agreement on China's Economic Security

3.2.1 Risk of Locked Industrial Development Path

The interaction between environmental regulation and technological competition may influence the trajectory of industrial upgrading in China. The United States and the European Union possess significant advantages in green technology development and environmental standard-setting. Regulatory instruments such as carbon border adjustments and sustainability requirements may shift part of the adjustment costs associated with the green transition onto trading partners. For industries with relatively high emissions intensity, adapting to these standards may require substantial investment in technological upgrading and production restructuring. Firms that fail to meet these standards could face reduced market access or declining competitiveness.

At the same time, technology restrictions in advanced sectors may complicate the process of moving toward higher value-added segments of global value chains. If firms encounter persistent barriers in accessing critical technologies while simultaneously facing rising costs in lower-value manufacturing segments, industrial upgrading may become more challenging. In the literature on economic development, such dynamics are sometimes described as a middle-technology trap, in which economies

struggle to compete both with technological leaders in advanced industries and with lower-cost producers in traditional manufacturing sectors. Because green transformation and technological innovation are central drivers of productivity growth in modern economies, the interaction of environmental and technological pressures may influence the pace and direction of industrial transformation.

3.2.2 Risk of Restructuring in Global Industrial Chains

The U.S.–EU Agreement may also influence ongoing adjustments in global supply chains. In recent years, supply chain strategies such as friend-shoring and de-risking have gained prominence in U.S. and European policy discussions. The United States has introduced various industrial policies designed to encourage domestic manufacturing and diversify supply chains, including tariff measures, investment incentives, and procurement policies. The tariff preferences, rules of origin provisions, and regulatory coordination embedded in *the U.S.–EU Agreement* could reinforce these trends by encouraging greater integration between transatlantic supply chains. If implemented, such mechanisms may create incentives for firms to reorganize production networks around markets in the United States and Europe. In addition, regulatory cooperation in areas such as digital trade governance and automotive industry standards may shape the conditions under which firms from third countries access transatlantic markets. As a result, global industrial networks may gradually adjust in response to these institutional arrangements.

These developments suggest that the continued evolution of transatlantic economic cooperation may influence the geographical configuration of global production networks and could contribute to a more fragmented global supply chain structure.

3.2.3 Risk of Diminished Institutional Voice

Finally, the agreement may also affect patterns of rule-making and institutional influence in the global economic governance system. The United States and the European Union collectively account for a large share of global technological innovation, financial resources, and consumer markets. Cooperation between the two economies therefore has the potential to shape regulatory standards in areas such as digital trade governance, artificial intelligence regulation, environmental policy, and supply chain security. If regulatory coordination between the United States and the European Union becomes more institutionalized, the standards developed within this framework may influence broader international rule-making processes. For countries outside these arrangements, including China, adapting to these emerging regulatory frameworks may become an increasingly important element of participation in global markets.

Consequently, developments in transatlantic economic governance may have broader implications for the distribution of influence within the international economic system and for the evolving structure of global economic governance.

4. Strategies for Mitigating Economic Risks under the U.S.-EU Trade Agreement

4.1 Strengthen Support for Enterprise Innovation

Expanding policy support for technological innovation can play an important role in strengthening firms' innovation capacity and addressing technological constraints in key sectors. In recent years, a series of policy initiatives have been introduced to improve the innovation environment for enterprises. These include measures such as *the Several Policy Measures to Promote the High-Quality Development of Venture Capital* and *the Interim Measures for the Management of Government*

Procurement Cooperative Innovation Procurement Methods, which aim to improve financing channels and institutional support for enterprise innovation. In addition, guidelines on major tax and fee incentives related to technological innovation have been released to facilitate firms' access to preferential policies and improve transparency in policy implementation.

At the same time, policy initiatives have sought to expand enterprise participation in the national innovation system. National science and technology programs, large-scale research infrastructure, major scientific instruments, and patent information resources are increasingly being opened to enterprises. This approach creates additional opportunities for collaboration between research institutions and firms, while expanding the application scenarios for technological innovation. Through these institutional arrangements, a more comprehensive innovation support framework has gradually emerged, contributing to the broader objective of strengthening technological capability and innovation capacity within the domestic economy.

Particular attention has been directed toward key technological sectors such as semiconductors, artificial intelligence, and quantum computing. Public funding programs, tax incentives, and industry–finance integration mechanisms have been used to support enterprise research and development activities in these areas. These initiatives aim to promote technological advancement in areas such as high-end semiconductor manufacturing, industrial software, and precision instruments, where technological dependence on external suppliers has historically been more pronounced.

In the field of green energy technology, policy frameworks have also focused on improving diversified investment and financing mechanisms that support low-carbon transformation. National funds supporting green development and low-carbon transition increasingly prioritize areas such as renewable energy development, new power system construction, and the low-carbon transformation of traditional energy sectors. These policies have supported technological progress in industries such as photovoltaics, energy storage, and new energy vehicles. At the same time, market-oriented financing mechanisms are being explored to attract private capital into large-scale research and demonstration projects in strategic clean-energy technologies, including hydrogen energy and carbon capture. Increased investment in these emerging fields may also contribute to greater participation in international technological standards related to low-carbon development.

4.2 Enhance the Resilience of Supply and Industrial Chains

Improving supply chain resilience has become an important component of industrial policy in the context of increasing uncertainty in the global economic environment. One key objective is to strengthen the domestic industrial system by improving coordination between technological innovation and industrial development. Policy support has therefore focused on fostering innovative enterprises while simultaneously strengthening the broader industrial ecosystem.

Central fiscal resources have been used to guide local governments and industrial actors in supporting the development of specialized and innovation-oriented small and medium-sized enterprises (SMEs). Particular attention has been given to sectors associated with key industrial chains, the industrial six foundations (core basic components, key basic materials, advanced basic processes, industrial technology foundations, basic industrial software, and fundamental industrial capabilities), as well as strategic emerging industries and future-oriented sectors. Strengthening these areas may improve the supporting capacity of domestic industrial chains and reduce vulnerability to external shocks (Huang & Pan, 2025).

In addition, policy initiatives have promoted the development of supply chain innovation and governance mechanisms. Guided by the Opinions of the General Office of the State Council on Promoting Supply Chain Innovation and Application, pilot cities and enterprises have been encouraged to explore new supply chain management models and technological applications. These initiatives aim to improve the organization and governance of supply chains in key industries.

The development of digital technologies has also played an important role in this process. Technologies such as the Internet of Things and blockchain are increasingly used to improve supply chain visibility and coordination. At the same time, mechanisms for strategic reserves and emergency allocation of critical materials are being developed in order to mitigate the risks associated with supply disruptions. Collectively, these initiatives contribute to strengthening supply chain resilience and improving the stability of industrial production systems.

4.3 Expand Diversified International Market Partnerships and Foster a Unified Domestic Market

Expand cooperation space through high-level opening-up. In the context of international cooperation, South–South cooperation has become an important component of China's development partnerships. Engagement with developing economies provides opportunities to expand trade relations and diversify international economic cooperation. The Belt and Road Initiative has played a central role in this process by supporting long-term cooperation with partners in Southeast Asia, the Middle East, Latin America, and Africa in areas such as digital economy development, green infrastructure, and energy cooperation. Regional trade agreements and infrastructure cooperation frameworks have also contributed to expanding market access and reducing dependence on a limited number of export destinations (Liu & Li, 2025).

Within Asia, cooperation under *the Regional Comprehensive Economic Partnership* (RCEP) has created new opportunities for industrial collaboration. ASEAN economies in particular have significant growth potential in the electric vehicle sector. Many ASEAN countries are gradually developing domestic automotive production capacity while simultaneously introducing policies to promote the transition toward electric mobility. Given China's existing technological capabilities and industrial scale in the electric vehicle industry, cooperation between China and ASEAN countries offers opportunities for complementary development in areas such as technology exchange, supply chain integration, and market expansion.

At the same time, developments in other regional trade arrangements may also create additional avenues for economic cooperation. For example, the EU–MERCOSUR trade agreement has strengthened economic relations between Europe and Latin America and contributed to diversification in global trade structures. Such developments may also open additional opportunities for cooperation in areas including infrastructure development, clean energy, and digital economy projects.

Alongside international diversification, strengthening the domestic market remains an important policy objective. The construction of a unified national market aims to improve resource allocation, promote fair competition, and enhance domestic demand. *The Guidelines for the Construction of a National Unified Market (Trial)* emphasize reducing institutional barriers across regional markets and improving market integration. Leveraging the scale of the domestic market may support consumption upgrading and industrial transformation while reducing excessive reliance on external markets and technologies.

4.4 Further Advance Institutional Opening-up

Address Rule Competition through Institutional Opening-up. One dimension of this process involves expanding pilot programs that test high-standard trade and investment regulations. Free Trade Zones and Free Trade Ports have served as experimental platforms for aligning domestic regulatory practices with emerging international economic agreements. By referencing regulatory frameworks found in agreements such as *the Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP) and *the Digital Economy Partnership Agreement* (DEPA), these pilot programs seek to improve the compatibility between domestic regulatory systems and international trade and investment standards.

In addition, regulatory frameworks related to corporate governance and sustainability are gradually evolving. Areas such as environmental, social, and governance (ESG) reporting, labor rights protection, carbon traceability, and corporate due diligence are increasingly incorporated into domestic regulatory systems. Greater alignment between domestic standards and international practices may help firms adapt to evolving regulatory requirements in major markets.

Institutional support mechanisms are also being developed to assist firms in navigating international regulatory frameworks. Compliance advisory services and information platforms can provide guidance to firms regarding regulations such as *the Carbon Border Adjustment Mechanism* (CBAM) and *the Corporate Sustainability Due Diligence Directive* (CSDDD), thereby reducing uncertainty in cross-border operations.

Finally, participation in international economic governance remains an important channel for shaping global regulatory frameworks. Engagement through multilateral and regional institutions—including the World Trade Organization, BRICS cooperation mechanisms, and the Shanghai Cooperation Organization—provides opportunities for dialogue on emerging areas such as digital trade governance, green trade standards, and cross-border data flows. Participation in these discussions may contribute to broader international cooperation and facilitate the development of more inclusive global economic governance arrangements.

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