

Leveling the Playing Field: A European Trade Defense Strategy Against China Shock 2.0

1. The Empirical Reality: The 2. China Shock

- **The Structural Trade Shift:** The European economic core is undergoing a historic structural transformation from an export champion to an “import champion.” This is reflected in an EU-wide trade deficit with China of over 350 billion euros, of which Germany alone accounts for 90 billion euros¹. As the US heavily tariffs Chinese goods, the European single market risks becoming the market of last resort for heavily subsidized Chinese industrial overcapacities.
- **Uneven playing field:** According to the 2026 OECD Manufacturing Groups and Industrial Corporations (MAGIC) database, almost 60% of Chinese firms² global market share gains between 2005 and 2024 can be explained by the subsidies received. China is also actively pursuing a policy of import substitution, has aggressive conditionalities on foreign investments, a closed public procurement market and does not open its subsidies to foreign goods or firms.
- **Ground Zero - The Automotive Crisis:** The immediate severity of this shock is most visible in the automotive sector. German car exports to China plummeted by two-thirds between 2022 and 2025³. European companies face Chinese competitors offering products at structurally 30 to 40% lower costs. For the first time in history, Europe is now importing more cars and car parts from China than it is exporting there, while profits from traditional European joint ventures in China have collapsed. The European automotive supplier association (CLEPA) quantifies a 35% cost disadvantage, explicitly endangering over 350,000 European jobs⁴.
- **Dominating the Markets of the Future:** China's ambitions extend far beyond legacy industries into total dominance of the future clean energy economy. China has seen a precipitous rise in clean energy investment, pouring more than USD 625 billion into the sector in 2024 alone⁵. Driven by strategic state prioritization, China achieved its 2030 wind and solar capacity targets a full six years ahead of schedule.
- **A Systemic Challenge:** The Chinese strategy is evolving rapidly, actively mobilizing private sector participation in more than 8,000 recommended energy projects in 2024. As global clean energy investment outpaces fossil fuels two-to-

¹ <https://www.iwkoeln.de/presse/iw-nachrichten/juergen-matthes-handelsdefizit-mit-china-so-hoch-wie-noch-nie.html>

² https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/05/oecd-magic-database-of-industrial-subsidies_3d51d749/ce94f33b-en.pdf

³ <https://cepr.org/voxeu/columns/china-shock-hits-germany>

⁴ https://www.clepa.eu/wp-content/uploads/2025/09/CLEPAPositionPaper_competitiveness-for-jobs-and-value-creation_September-2025.pdf

⁵ <https://www.iea.org/reports/world-energy-investment-2025/china>

one⁶, Europe faces a new global reality: China is aggressively outspending and out-building the West to monopolize the clean systems of tomorrow.

- **Rising Economic Coercion:** China is increasingly threatening the EU with retaliation whenever countermeasures against Chinese overcapacities are discussed. Recently, Beijing explicitly threatened countermeasures against the EU's planned Industrial Accelerator Act (IAA), viewing it as an investment barrier. Furthermore, the Chinese government has deployed new legal instruments (such as Regulation No. 834⁷) designed to retaliate against foreign regulations, creating severe legal and economic uncertainty for European businesses operating in China.

2. The Core Messages

- **The "China Shock 2.0" is not the result of a lack of European innovation**, but is driven by China's strategic state steering, massive subsidies, currency manipulation, and domestic overcapacities: The old growth guarantor, China, has become an existential threat to Europe's industrial core.
- **We cannot deregulate our way out of this crisis:** simplification, cutting red tape, supporting skills development and fostering innovation are important measures, but they are wholly insufficient answers to systemic market distortions. Securing our industrial base requires looking beyond domestic reforms and actively establishing robust protections for the European single market.
- **Germany must abandon its role as a blocker** and instead become a driving force for effective protection of the internal market and a resilient European industrial policy: The German government must urgently transition from passive observation to an active, defensive trade policy.
- **Time is Running Out:** The current approach of gradual de-risking and relying on bilateral dialogues or diplomatic visits is structurally insufficient. The speed of Europe's industrial decline is vastly outpacing our political response. We can no longer afford to manage this crisis with slow, incremental adjustments while our industrial foundation collapses; the "China Shock 2.0" demands a radical and comprehensive economic defense strategy immediately. Whoever shies away from necessary measures out of nostalgia or fear of retaliation risks the irretrievable loss of our industrial foundation.

3. Steps to Take (Policy Demands & Instruments)

- **Deploy Rapid Sectoral Safeguards:** The EU must utilize immediate safeguards to allow action at the level of whole sectors rather than individual products,

⁶ <https://www.forbes.com/sites/we-dont-have-time/2026/06/07/clean-energy-is-outspending-fossil-fuels-nearly-two-to-one/>

⁷ <https://www.gvw.com/en/news/blog/detail/state-council-order-no-834-chinas-new-regulation-on-industrial-and-supply-chain-security>

buying breathing space against broad import surges. Brussels could impose 30 to 50 percent out-of-quota tariffs on Chinese sectors like cars, chemicals or machine tools without getting bogged down in firm-by-firm subsidy calculations. To preserve open trade with allies, the EU should actively exempt its 76 free trade agreement partners and focus these safeguards primarily on China.

- **Develop Broad-Based Instruments to address systemic distortions:** The European Commission must propose a new instrument responding to systemic distortions - such as persistent currency undervaluation and macroeconomic policies that suppress domestic demand - that fall outside traditional trade defense frameworks built for market economies. This instrument would allow Brussels to impose targeted, non-time-bound tariffs on entire sectors rather than imposing anti-dumping or anti-subsidy duties one product at a time. Special emphasis must be put on preventing circumvention via Chinese investments in third countries.
- **Prioritize Strategic Sectoral Tariffs over Blanket Flat Tariffs:** While the French proposal for a broad 30 percent tariff on all Chinese imports highlights the scale of the problem, the EU should prioritize flexible, targeted sectoral tariffs. Defending the most strategic sectors (e.g. autos, machinery, chemicals, batteries, clean tech, and semiconductors) makes it far easier to maintain political unity among member states and businesses than raising prices on strategically irrelevant consumer goods like toys.
- **Forge a "Middle Powers" Alliance:** At the upcoming G7 summit, Germany must build a coordinated alliance with middle powers like Japan, Canada, the UK and others like Korea to bring China to the negotiating table and stop economic blackmailing. Germany must practicalize the "Middle Power" strategy by forming a powerful anti-dumping partnership with trusted allies. By including the UK, Japan, and South Korea under the IAA umbrella, for example, the EU can protect deeply integrated supply chains and maintain mutual market access among traditional automotive nations while forming a united front against Chinese overcapacities.
- **Secure a Strong European Mandate:** At the European Council, the European Commission must be given a clear political mandate to swiftly and strictly apply existing defense instruments, specifically safeguards in strategic sectors, and start to legally implement far-reaching new regulations to protect the single market.