



New CER study: Germany must stop ‘admiring the problem’ as China shock 2.0 hits Europe’s industrial core

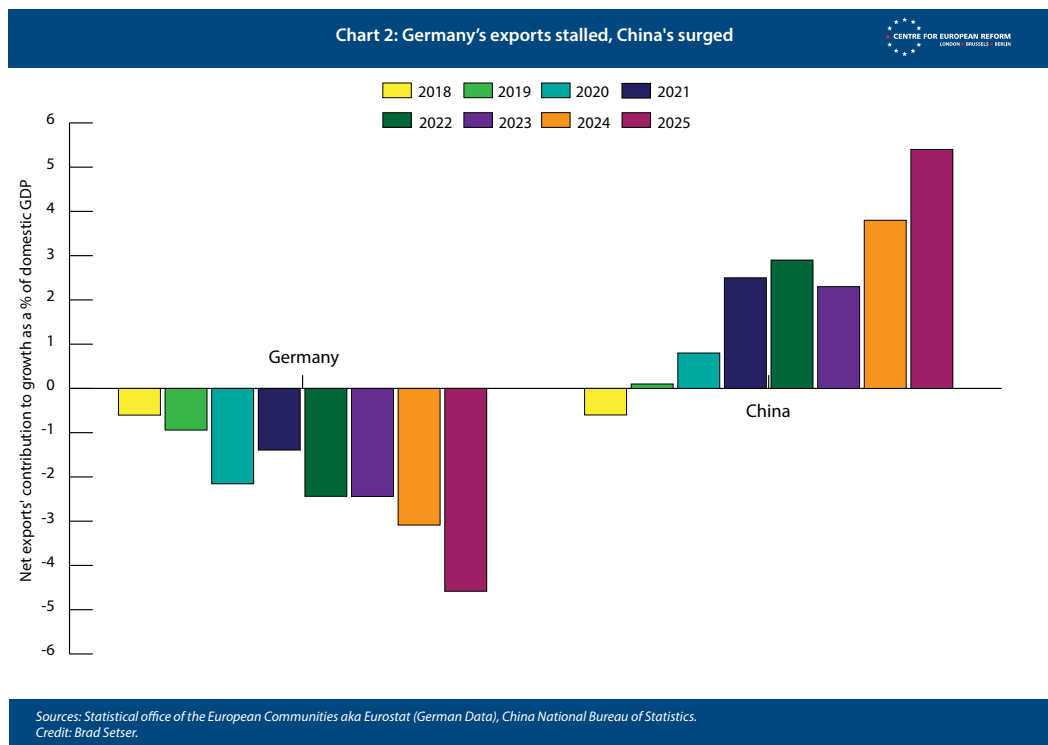
Germany’s industrial model is under mounting pressure from a second China shock – and Berlin can no longer afford to wait for the problem to correct itself. A new study by the Centre for European Reform (CER) and Council on Foreign Relations (CFR), [‘China shock 2.0: The cost of Germany’s complacency’](#), argues that China’s unbalanced, export-driven growth model poses a profound challenge to Germany’s manufacturing economy.

The report comes as the European Commission prepares a high-level debate on economic security and China on May 29th, ahead of a June European Council expected to focus heavily on trade defence and Europe’s response to growing Chinese overcapacity.

Today’s China shock strikes directly at the core of Germany’s economy: cars, machine tools, chemicals, aircraft and clean tech. And China’s industrial surge is accelerating, not slowing. Chinese export volumes grew more than twice as fast as global trade in 2025, with growth accelerating further in early 2026. China’s fourth-quarter 2025 car exports already hit 10 million vehicles on an annualised basis – a level analysts had only expected by the end of the decade.

Germany risks sleepwalking into deindustrialisation. Since 2023 alone, Germany has lost 3 per cent of GDP in net exports, much of it linked to China’s distortions. The drivers of China’s surplus persist, including weak domestic demand dragged down by the property bust, cheap credit for manufacturing, and an undervalued currency. China’s new five-year plan doubles down on manufacturing expansion and technological self-reliance, auguring even more export-led growth ahead.

The report urges Berlin to support broader EU sectoral safeguards and trade-defence instruments, including a European equivalent of America’s Section 301 trade powers, allowing Brussels to respond to economy-wide distortions such as China’s persistent currency undervaluation.



The authors welcome the EU's new local-content rules to curb China-subsidised imports, but warn loopholes could let Chinese content enter through the EU's FTA partners unless Brussels persuades them to enact similar rules.

Retaliation from Beijing is likely, including potential restrictions on critical minerals and industrial inputs. Europe therefore needs a credible deterrence strategy, including investment in alternative supply chains and the ability to respond to economic coercion in kind. Time is running short: Europe's leverage will decline as China captures ever more chokepoints.

Commenting, one of the report's authors, Sander Tordoir, said:

"Germany faces a strategic choice ahead of key EU debates this summer: either support stronger European trade defences and industrial policy, or prepare to absorb the social and economic costs of industrial decline."

Brad Setser, the report's co-author, said:

"China's model increasingly relies on generating demand abroad while suppressing demand at home. Europe cannot preserve its industrial base if it remains permanently open to an economy operating on those terms."

Notes for editors:

To discuss the policy brief or request an interview with Sander Tordoir [@SanderTordoir](#) or [@sandertordoir.bsky.social](#) or Brad Setser [@Brad_Setser](#) please contact Kate Mullineux in the CER press office on pressoffice@cer.eu or +44 (0) 20 7233 1199.

The Centre for European Reform is a think-tank devoted to making the EU work better and strengthening its role in the world. The CER is pro-European but not uncritical.

Follow us on X: [@CER_EU](#) on BlueSky: [@centreeuropeanref.bsky.social](#) on Threads: [@cer_eu](#)