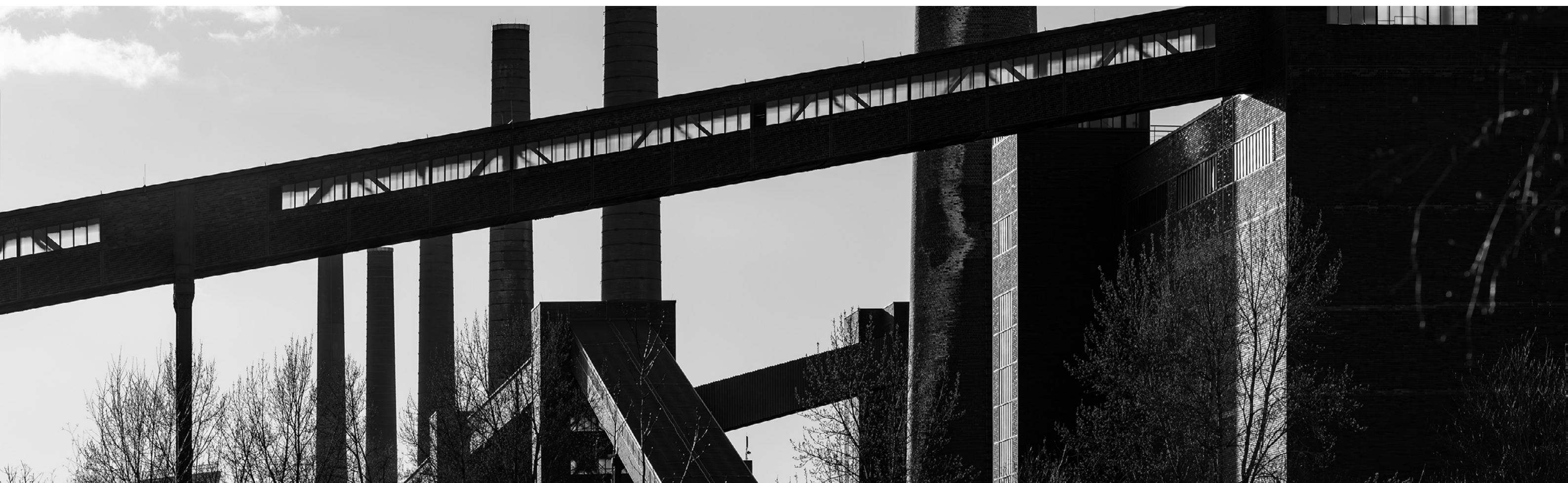


New CER study: To tackle looming deindustrialisation, Germany must finally get tough on China

As it heads to the polls, Germany is gripped with fear of deindustrialisation. A new study by the Centre for European Reform (CER), 'How German industry can survive the second China shock' shows that China's aggressive pivot to export-led growth puts it on a collision course with German manufacturing, a sector employing 5.5 million people and contributing 20 per cent of GDP. US tariffs on Chinese goods are likely to divert even more exports to Europe – putting additional pressure on German industry. The study urges the next German government to rethink its trade and industrial policies.

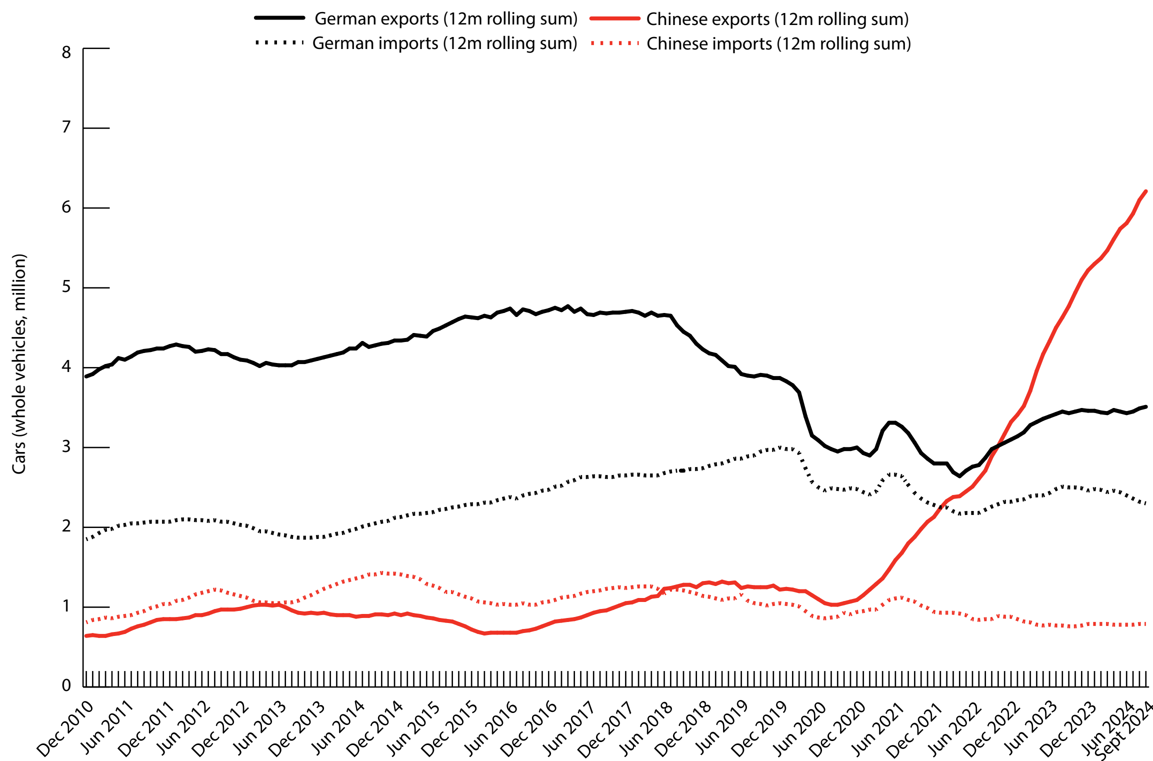
After its property bubble burst in 2021, China doubled down on export-led growth, driven by industrial subsidies and weak domestic demand. When China became a World Trade Organisation (WTO) member in 2001 its exports also soared. But then, China's exports were in consumer electronics, furniture, apparel and household appliances – not the automotive and engineering sectors at the heart of the German economy. For example, Chinese vehicles exports, roughly in balance with imports just four years ago, have skyrocketed to 6 million in 2024, and the surge shows no sign of abating.

Today's China shock is also much larger: China is now a $18 trillion economy that accounts for over a third of the world's manufacturing production. And it is cutting Germany's export opportunities, not just flooding the EU with imports. The CER shows that China's renewed export-driven growth model poses a risk to Germany's strong comparative advantage in growing markets for 200 greentech technologies.

The report outlines a strategy for Germany to weather the second China shock. It recommends working with international partners to press China to raise domestic demand and it urges the International Monetary Fund to investigate underreporting of China's $900 billion goods surplus. Germany should back EU efforts to impose WTO-compliant tariffs on more key sectors affected by China's industrial subsidies, like it did for electric vehicles. The EU can also encourage member-states to adopt (de facto) 'buy European' policies, for example by linking European subsidies to environmental and labour standards which China cannot meet.

The study also proposes a novel funding mechanism for a common EU industrial policy, as advocated by Mario Draghi. Member-states do not want to hand over more of their own money to Brussels. But they could agree to use the revenues from the growing EU tariffs on Chinese products to boost important EU and German industries.

Chart 5: Exports and imports of cars, Germany and China



Source: German federal statistics office (Destatis), Chinese customs data.
Note: China reported passenger vehicle subcategories only as of 2020.

Commenting, one of the report's authors, Sander Tordoir, said: *"German firms will struggle to compete with Chinese state-backed competitors in increasingly saturated markets. Without profits to fuel new investment, they risk falling behind the technological frontier."*

Brad Setser, the other author, said: *"The German economy will not thrive if its car companies conclude that the only way they can compete globally with the Chinese EV producers is by becoming, in effect, Chinese car companies themselves – with design, engineering, software, batteries and production all in China."*

Notes for editors:
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