



HAUT-COMMISSARIAT  
À LA STRATÉGIE  
ET AU PLAN

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REPORT  
February 2026

# The Chinese Steamroller: Quantifying the Systemic Threat to Europe's Industrial Base





# THE CHINESE STEAMROLLER: QUANTIFYING THE SYSTEMIC THREAT TO EUROPE'S INDUSTRIAL BASE

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**FEBRUARY 2026**

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## FOREWORD

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For several months now, Europeans have been incessantly reacting to Trumpian fireworks. Faced with this daily distraction, we have almost lost sight of the Chinese economic threat.

Yet, that threat has not receded and must not be minimised. **We are experiencing the second wave of an unparalleled competitive shock, which has intensified at breakneck speed since Covid**, at a time when the most naïve believed the pandemic would weaken China.

**Using an original methodology, our study shows that this Chinese surge now threatens and directly affects the very core of Europe's productive system**, both geographically and sectorally.

The method consists in examining, for all countries of the European Union and across various sectors, **the exposure of European firms to Chinese competition on export markets as well as on their domestic markets**, through a synthetic early-warning indicator (namely, by taking into account Chinese market shares and their recent evolution).

The results unequivocally show **an acceleration of Chinese competition**. China's players are gaining market share both on the European and third markets where we compete. **This competition is now extending to industrial sectors that lie at the heart of Europe's specialisation** (in terms of employment, productivity gains and export weight): automotive, machine tools, batteries, chemicals...

**One quarter of French exports appears directly threatened. In Germany, one third of exports –and even two thirds of domestic production–** are directly threatened by Chinese competitors. This is no longer the issue of a single sector or a single country, such as France in the 2000s-2010s, weakened by its lack of competitiveness: together with the countries of Central Europe (often linked to it through subcontracting), **Germany is today the most exposed country**. In two years, our neighbour across the Rhine has lost 240,000 industrial jobs. **The threat is thus widespread and systemic.**

How can this be explained? We suggest it is by **the combined effect of an improved quality of Chinese products** –electric vehicles being a prime example– **and production costs that remain durably lower** than in Europe (or in the United States). Estimates conducted with the concerned industrial sectors reveal **cost gaps of 30% to 40%**. Put bluntly, Europe risks falling into the trap of producing “less quality for more money,” **confronted with lower production costs, an undervalued currency, and at least equivalent quality on the Chinese side.**

To avoid a **spiral of “destructive destruction”**, in which entire segments of European industry could collapse within a few years, **the EU must rethink its policy framework.** Reforming existing trade defence instruments will not suffice, even if complemented (and this is necessary) by “European preference” in certain areas. **Two shock responses** remain to be discussed and implemented as quickly as possible: **unprecedented trade protection, equivalent to a general tariff of 30% vis-à-vis China; or a depreciation of the euro of 20% to 30% against the renminbi.**

**This is first and foremost an internal European debate – let us open our eyes, from Brussels to Berlin: large-scale protection is urgent and vital.** It also requires a comprehensive “**productivity agenda**”: **protection; simplification; production and labour (pension reform, AI, etc.); investment.** Protection will provide a necessary –and temporary– response, but it will be insufficient to deliver the economic and industrial rebound Europe needs.

**CLÉMENT BEAUNE**

High Commissioner for Strategy and Planning



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## SUMMARY

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China's industrial rise now represents a **systemic shock** for the European economy. Over the past decades, Beijing has built a productive apparatus of unparalleled scale, combining significantly lower costs, massive overproduction and very rapid technological upscaling. China has become the world's leading manufacturing producer and is generating record trade surpluses, durably reshaping the global industrial geography.

The report makes an **original contribution** by objectively assessing the scale and **systemic nature of the Chinese industrial** shock for Europe.

Chinese pressure is no longer confined to low value-added segments. It now affects **the core of Europe's industrial strongholds**: automotive, batteries, industrial equipment, chemicals, and others. On average, nearly a quarter of European exports is currently exposed to Chinese competition that we deem critical. On the domestic market, **up to 55% of European manufacturing output** could be threatened over the medium term if current trends persist. This proportion varies significantly across countries: it reaches around 70% in Germany, 60% in Italy, 50% in Spain and 36% in France. This dynamic is exacerbated by the fact that Chinese competition now directly targets **Europe's comparative advantages**, thereby increasing the risk of structural downgrading.

Cost differentials are a determining factor in understanding the nature of this competition. At comparable quality, they are estimated by interviewed industrial stakeholders at around **30% to 40%**, and sometimes more depending on the sector. The European productive apparatus is thus exposed to an unprecedented form of competition, as China is able to produce at least equivalent quality at markedly lower costs. Such gaps cannot be offset in the short term by upgrading alone, innovation or productivity gains. They expose European industry to a risk of **rapid and irreversible market exit**.

The precedent of the **photovoltaic sector** is a **textbook case**. Within a few years, a European industry that had a competitive edge was marginalised by the rise of Chinese production capacities, before trade defence instruments could produce their effects. Several European

industrial sectors today display characteristics similar to this trajectory, with a risk rapidly tipping toward a lasting loss of productive capacity.

In this context, existing trade defence instruments, while useful, appear **structurally insufficient**. Their sectoral, reactive and fragmented character does not allow them to respond to a global and long-term Chinese strategy. European preference is relevant in supporting certain strategic sectors, but does not constitute a sufficient response to systemic competition.

The report therefore identifies a **strategic choice** for Europe: either pursue an incremental approach, at the risk of accelerated deindustrialisation, or change our paradigm. Two defining levers are discussed: establishing a level of protection equivalent to a general tariff of around 30% vis-à-vis China, or a macroeconomic strategy aimed at achieving a significant depreciation of the euro against the renminbi. These options require, as a prior condition, the construction of dialogue and a **credible negotiating position** with China, notably based on the Union's ability to condition access to its internal market.

Chinese competition no longer constitutes a sectoral shock but a **central issue of economic and industrial sovereignty** for Europe. Without a rapid strategic inflection, the risk is **lasting industrial decline**, with major consequences for employment, territorial cohesion and the Union's capacity to remain a leading economic and technological power.



## INTRODUCTION

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How can Europe remain an industrial power when China produces goods of comparable quality at significantly lower costs? The situation is unprecedented: Europe has already faced such cost gaps in the past, but they were offset by technological advantages or a higher-end market positioning. Today, this is no longer the case.

Over just a few decades, Beijing has built a productive apparatus of unparalleled scale. **China now accounts for nearly one third of global manufacturing production**, compared with around 15% for the European Union, and generates record manufacturing trade surpluses, representing close to 2.5% of global GDP (see Figure 1 on the next page). **This is not a simple process of industrial catching-up anymore, but a structural shift in the global geography of production, challenging the very foundations on which Europe has built its industrial prosperity.**

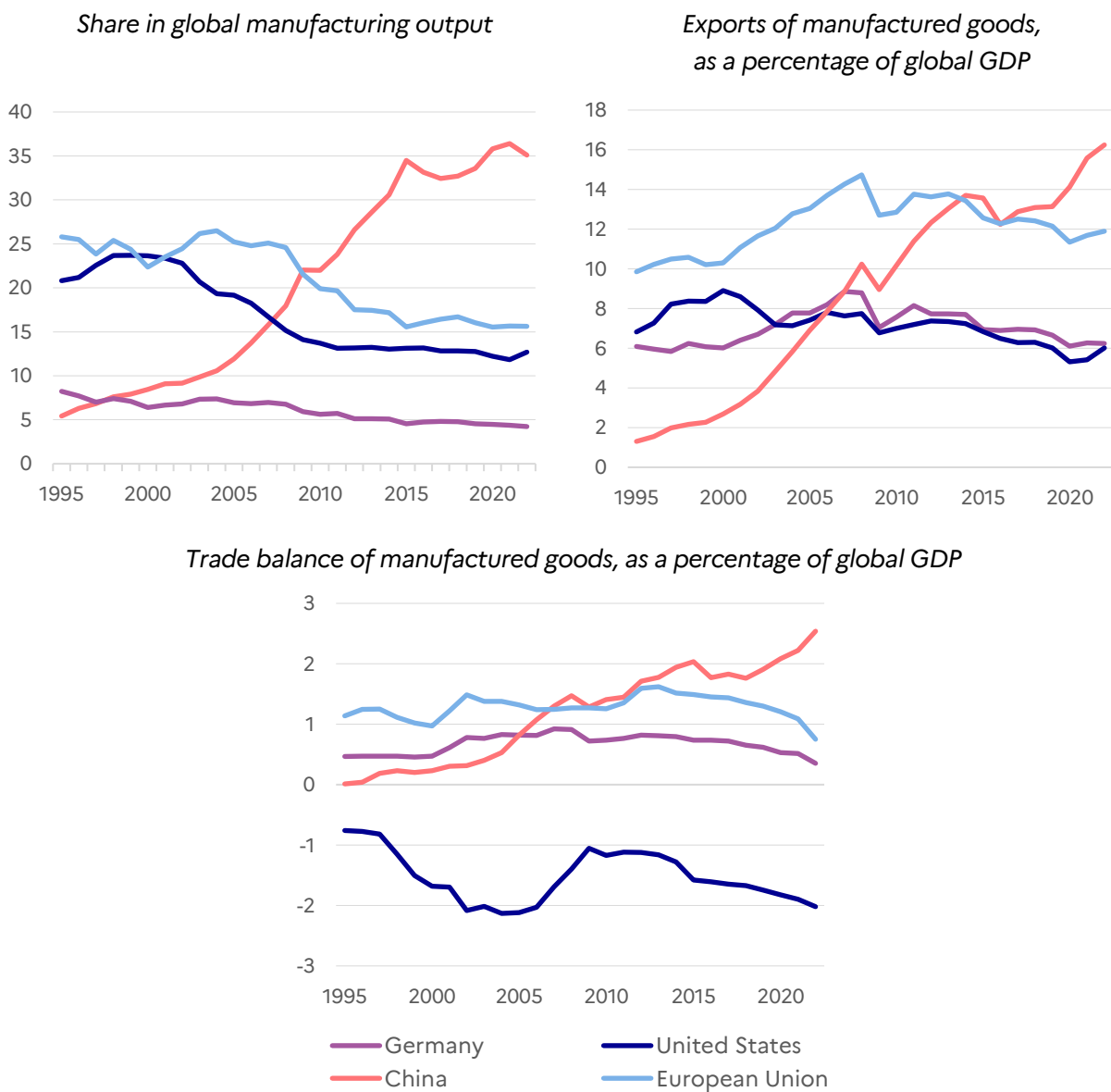
For Europe, **Chinese competition increasingly resembles a steamroller**. It relies on a particularly powerful mix: **massive investment, persistently lower production costs, intense competition on the domestic market, increasingly integrated value chains, massive economies of scale, less stringent regulatory controls, and a persistently undervalued exchange rate, all of which are favorable to Chinese exports.**

This dynamic is further reinforced by a structural asymmetry: international trade rules are strictly applied in Europe, but selectively enforced in China. This combination of massive capital accumulation, low costs, industrial density, intense competition, and asymmetric trade practices explains why Chinese competition now represents **a vital threat to the sustainability of large segments of the European productive apparatus.**

This report offers a new methodology to document Chinese competition, both on export markets and on the European domestic market. It shows that **sectors which have historically been at the forefront of added value production in Europe, and the foundation of its comparative advantages, are now directly threatened.** While Chinese pressure is already

strong on French industry, it is even stronger for some of its neighbours, and particularly for **Germany**,<sup>1</sup> with a risk of a broader systemic fragilization of the European industrial model.

**Figure 1 – China presents record levels of global manufacturing production and trade surpluses**



Source: IMF, authors' calculations

<sup>1</sup> According to our estimates, 32% of German exports are already directly threatened by Chinese competition. Furthermore, there is a potential threat to domestic production, resulting from an increase in Chinese imports to the domestic market at an unprecedented rate, affecting sectors that account for nearly 70% of German manufacturing value added.



## CHAPTER 1

# THE CHINESE STEAMROLLER: AN UNPRECEDENTED FORM OF COMPETITION

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China's development trajectory has been built around a model of state capitalism, in which public authorities closely steer investment, capital allocation, and the expansion of productive capacity. Structured by five-year plans, this strategy was initially aimed at massively expanding capacity in basic industries (steel, cement, chemicals), before gradually extending to the entire industrial spectrum. The rise of state-owned enterprises, combined with a set of direct and indirect support mechanisms, has fostered a rapid accumulation of production capacity. While China's accession to the World Trade Organization in 2001 facilitated a large inflow of foreign direct investment,<sup>1</sup> it was not followed by a thorough convergence of the Chinese market's operating rules with multilateral standards, particularly regarding subsidies, market access, and the protection of intellectual property.

From the 2010s onward, Chinese industrial policy underwent a major shift. **China's strategy was no longer merely about accumulating capacity, but to close the country's technological gap and establish leadership in higher added value sectors.** The 2015 "Made in China 2025" plan epitomises this strategic shift: it explicitly targets the development of priority sectors such as information technologies, pharmaceuticals, machinery and robotics, civil aviation, electric vehicles, and agricultural equipment.

This new strategy is already shifting the center of gravity of global industrial innovation, observable across several technology-intensive sectors. The sectoral hearings conducted as part of this study (see [Annex 5](#)) highlight, for instance in the pharmaceutical sector, a gradual overthrow of innovation trajectories. *"Until a few years ago", expressed an interviewed stakeholder, "development phases and commercial launches primarily took place in Europe and*

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<sup>1</sup> See Poncet, S. (2008), "Les investissements directs en Chine, moteurs de croissance," *Notes de synthèse du SESP*, July.

the United States, before being transferred to China. Today, a growing number of products are developed and launched in China first." This shift poses a risk of qualitative downgrading for European industry, progressively confining Europe to assembly and finishing segments, at the expense of value creation and technological mastery: "The risk is that value creation will increasingly be concentrated in China, while Europe is limited to assembly stages", concluded the same interviewee

This technological catch-up dynamic is affecting an increasing number of strategic value chains. A key European player in the aeronautics and defence systems sector interviewed for the study emphasized that, although Europe still retains a genuine technological lead in certain core segments, this lead is now under pressure: "The Chinese catch-up is following a trajectory comparable to what has been observed in the automotive sector; [the Chinese] are advancing at a very high pace and rapidly closing the gap." This assessment illustrates the change in scale of Chinese competition, which no longer relies solely on cost-related advantages, but also on control of advanced technologies, including in domains historically dominated by European players.

**In this context, the competitive pressure exerted by China has now taken on a systemic dimension for Europe.** It is based on a particularly effective combination: massive investment, persistently lower production costs (notably due to multiple subsidies and an undervalued currency), intense competition on its domestic market, deep integration of value chains, and considerable economies of scale (see [Annex 1](#) for a detailed presentation of the pillars of competitiveness of the Chinese industrial model). This set of factors is strengthened by a favourable regulatory environment and by asymmetries in the application of international trade rules, which are strictly enforced in Europe but selectively applied in China. Under these conditions, **Chinese competition can no longer be understood as a simple sectoral rivalry, but rather as a global industrial challenge, and even a vital one for Europe.**

This rise in competitive pressure now affects Europe's technological and industrial strongholds, including areas that are crucial for its sovereignty. In the nuclear sector, interviewed industrial players point to a very large productivity gap, both in construction timelines and unit costs: "Chinese players are able to build up to four times faster and at costs up to four times lower, with comparable quality and occupational safety standards."

**The automotive sector has become emblematic of China's industrial rise.** As highlighted in the Draghi Report (2024),<sup>1</sup> China now has "a generational lead in almost all electric vehicle-related technologies, while producing at lower costs." A net importer of vehicles until the late 2010s, China has undergone a spectacular reversal in less than five years: whereas its automotive trade balance

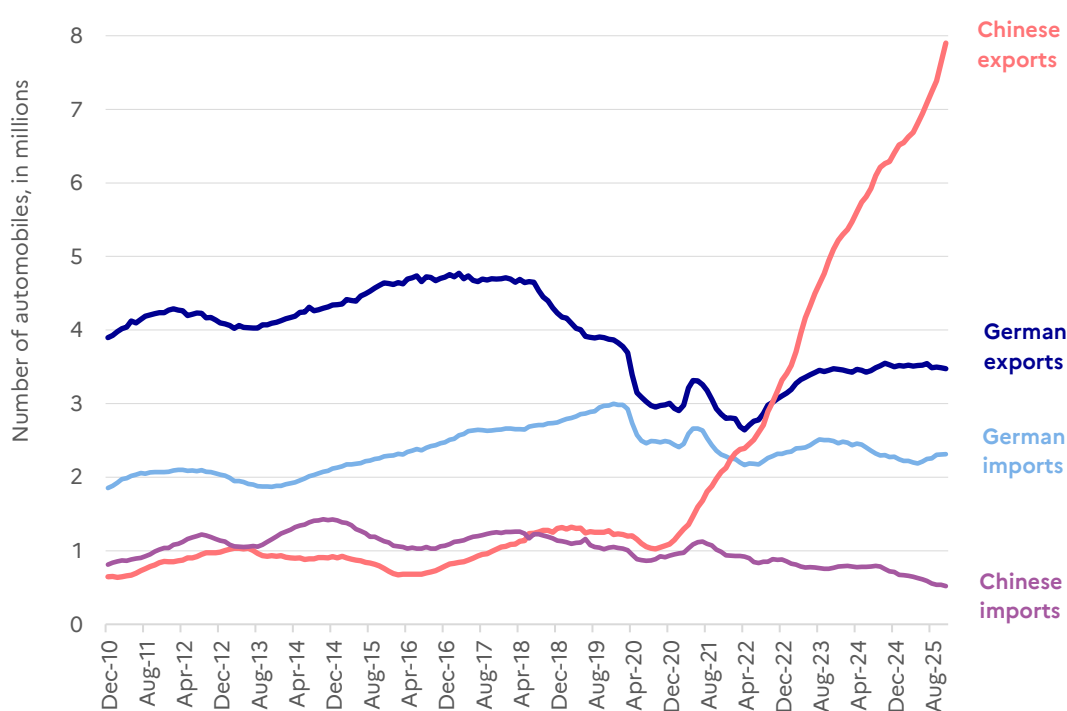
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<sup>1</sup> European Commission (2024), *The Future of European Competitiveness*, Brussels, September.

was still negative prior to the pandemic, China has become the world's leading exporter of passenger vehicles by volume, with a surplus of around five million vehicles (Figure 2). Over the same period, Germany has seen its automotive surplus shrink by half since Covid, falling from nearly two million more vehicles exported than imported to around one million today.

As of today, **nearly 40% of all passenger vehicles produced worldwide come out of Chinese factories**<sup>1</sup> a figure that illustrates the unprecedented reversal of the world's industrial geography.<sup>2</sup>

**Figure 2 – Net automobile exports, Germany and China, 2010-2025**



Source : Tordoir S. and Setser B. (2025), "How German industry can survive the second China shock", Center for European Reform

<sup>1</sup> See IEA (2025), *What Next for the Global Car Industry. An Energy Technology Perspectives*, November.

<sup>2</sup> The other dimension of China's "steamroller effect" lies in the rapid ousting of foreign manufacturers from its own market. In five years, Chinese manufacturers' share of light vehicle sales in China rose from 36% in January 2019 to 60% in January 2024, before continuing to climb to 67% in early 2025. Conversely, non-Chinese manufacturers have seen their positions erode sharply. The market share of Japanese manufacturers has more than halved, falling from 20% in 2019 to 9% in January 2025, while German manufacturers have lost nearly ten percentage points of market share over the period, from 23% to 14% (FIEV, 2025).

## 1. A dynamic set to intensify over the medium term

The trends presented in this report do not reflect a cyclical peak, but are part of a strategic trajectory deliberately pursued by Chinese authorities. The fifteenth Five-Year Plan (2026-2030), scheduled for adoption next March, is expected to confirm and reinforce the orientations already underway: priority is given to industrial production, technological upgrading, and innovation, in a context of persistently weak domestic demand in China.

As a consequence, the continuation-and even the intensification-of industrial overcapacity appears likely, particularly in sectors already identified as sensitive for Europe (automobiles, machine tools, chemicals, electronics). The combination of massive public support, heightened competitive pressure on the Chinese domestic market, and an aggressive export-oriented strategy should mechanically intensify the diffusion of Chinese products across European and global markets in the coming years.

In other words, **the vulnerabilities highlighted in this report should be understood as a floor, not a ceiling**, of the risks to which European industry is exposed over the medium term.

## 2. A novel methodology to document Chinese competition

To assess the magnitude of the threat posed by China's industrial rise to the European productive apparatus, a three-step approach is adopted, combining the analysis of dynamics already underway with the identification of future risks.

The first step involves comparing the evolution of China's and European countries' market shares in industrial sectors on export markets. **This makes identifying sectors in which Chinese competition is already translating into a loss of position for European producers on third-country markets possible**, and thereby documenting the competitive pressure currently underway.

Secondly, the analysis focuses on **competition on the European domestic market. The nature of exposed sectors is also examined**, in order to determine whether Chinese competition is now concentrating on sectors in which European economies hold their main comparative advantages. This dimension is decisive: increased pressure on these historically most competitive sectors would signal a qualitative shift in competition, now affecting the very core of European productive specialization.

Finally, this analysis is complemented by **a forward-looking approach aimed at identifying sectors likely to be affected over the medium term**. This approach is based on a quantification of production cost differentials between Europe and China in the main

industrial sectors, as well as on an analysis of technological gaps, drawing in particular on sectoral interviews. This last dimension is essential to **anticipate future vulnerabilities and identify sectors which, although not yet massively affected in terms of market shares, appear structurally exposed.**

The central question thus becomes the following: how can European producers compete over the long term when they face production costs that are around 30% to 40% higher for comparable –or even superior– quality? In such a context, **the absence of a strategic response exposes a significant share of European industry to the risk of rapid disengagement, or even lasting marginalization**, including in sectors historically considered pillars of the European productive fabric.





## CHAPTER 2

# LARGE SEGMENTS OF EUROPEAN INDUSTRY UNDER THREAT

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This chapter aims to document the scale and nature of the threat posed by China's industrial rise to European industry. **It is structured around five complementary steps.**

The exposure of European exports to Chinese competition on third-country markets is first analysed, in order to identify sectors already affected by losses in market share. The diffusion of this competition onto domestic markets is then examined, through the pressure exerted by Chinese exports on European production. The third section focuses on the nature of the affected sectors, assessing the extent to which Chinese competition is now reaching the comparative advantages of European economies. The fourth part deepens this analysis by quantifying production cost differentials between Europe and China, in order to identify structural liabilities over the medium term. Finally, a country-by-country synthesis identifies the most exposed European economies, by combining the export-market, domestic-market, and comparative-advantage approaches.

### 1. What share of European exports is currently threatened by Chinese competition?

To detect abnormally aggressive Chinese dynamics relative to past trajectories on export markets, four complementary indicators are used: **gains in China's market shares, losses of competing European exporters, the multiplicative factor of Chinese market shares,<sup>1</sup> and**

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<sup>1</sup> The multiplier factor for Chinese market shares, for example, measures an increase from 0.5% to 2% of market share, i.e. a multiplier factor of 4.

**acceleration in the dynamics.** Aggregating these signals makes it possible to generate sectoral alert levels<sup>1</sup>. The methodology is further detailed in [Annex 2](#).

These indicators reveal **three main sectoral configurations. Some sectors were already severely affected by the first Chinese shock in the 2000s:** in France, this was particularly the case for the steel industry (manufacture of basic steel products) and, to a lesser extent, machine tools and segments of the pharmaceutical industry. **Other sectors that had so far been relatively unaffected are now subject to very high competitive pressure,** in particular the automotive sector: **more than 70% of French automotive exports are directed towards markets where they face high or very high competitive pressure from China. Finally, certain sectors, such as batteries, have been affected by two successive waves of Chinese competition:** the first in the 2000s, followed by a second, much more intense wave from the late 2010s onwards. The following section illustrates these three scenarios for France and Germany, while the results for all sectors and countries are available online.<sup>2</sup>

## 1.1. The threat to German and French exports: automobiles, machine tools and batteries

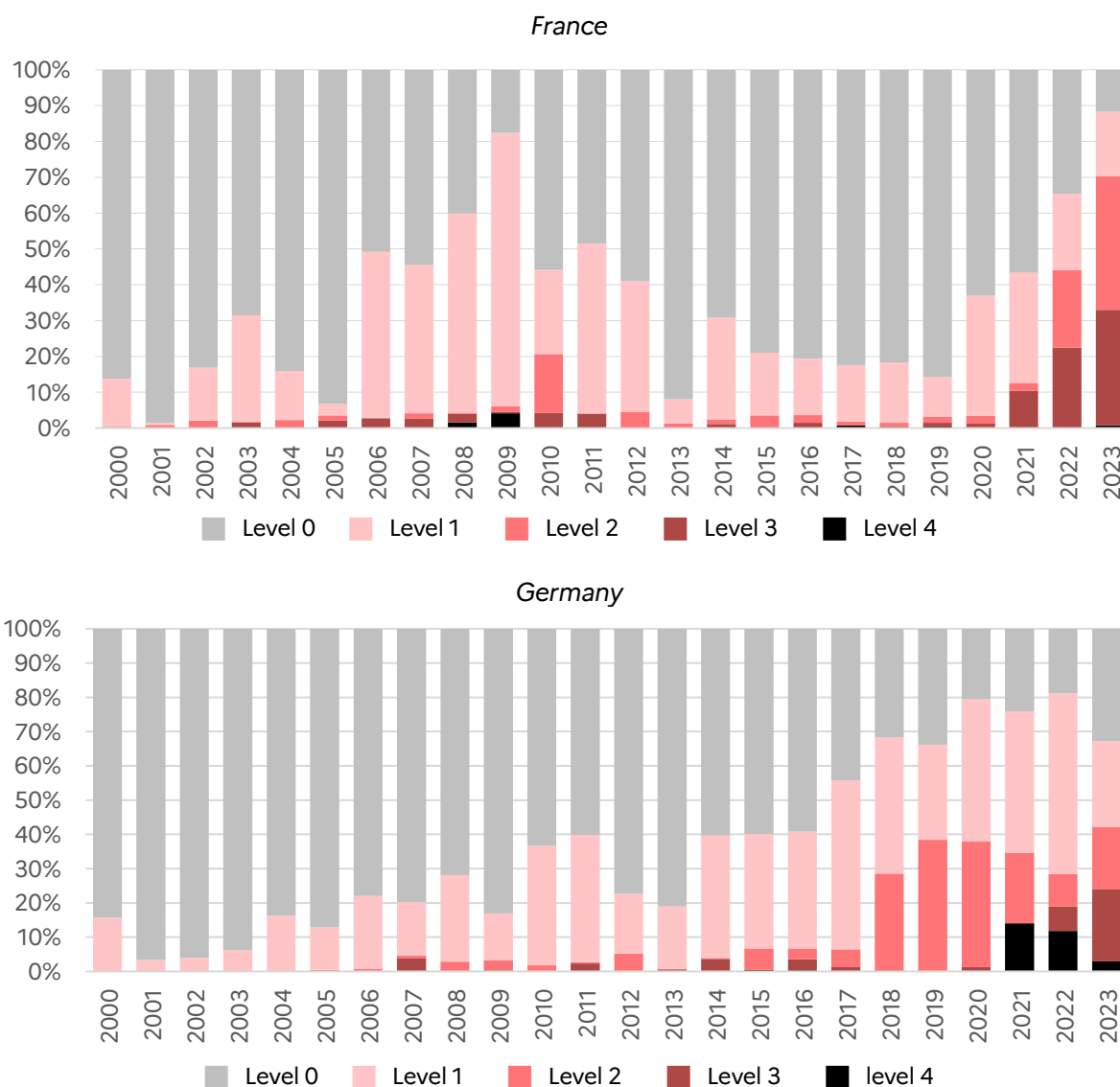
In the automotive sector, long relatively sheltered, the rise of Chinese competition is recent but extremely rapid in both countries. In France, the share of exports exposed to high threat levels increases sharply from the late 2010s onward: **in 2023, more than 70% of French automotive exports are directed toward markets where they face high or very high Chinese competitive pressure. In Germany, the dynamic is comparable, although the deterioration is less advanced:** the share of exports exposed to the highest threat levels, initially more limited, rises rapidly from 2018-2019 onward to reach around one third of German automotive exports in 2023, which reflects a widespread shift in export markets.

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<sup>1</sup> These four indicators aim to capture distinct dimensions of the rise of Chinese competition in third markets. China can gain market share without this automatically translating into a loss of market share for European exporters, which explains the very weak correlation observed between these two indicators (e.g. in the case of Germany,  $\rho=0.12$ ). The third and fourth indicators aim to detect changes in scale (the multiplicative factor of market share) and the acceleration of Chinese momentum. Overall, the bilateral correlations between the four indicators remain weak to moderate (for example, the correlation between the third and fourth indicators is only 0.26 in the case of Germany).

<sup>2</sup> An interactive map displaying threat levels for each European country and manufacturing sector based on the indicators used in this report is available on the [Data.gouv.fr](https://data.gouv.fr) website.

**Figure 3 – A rapid and recent increase in the exposure of auto exports to high levels of threat**

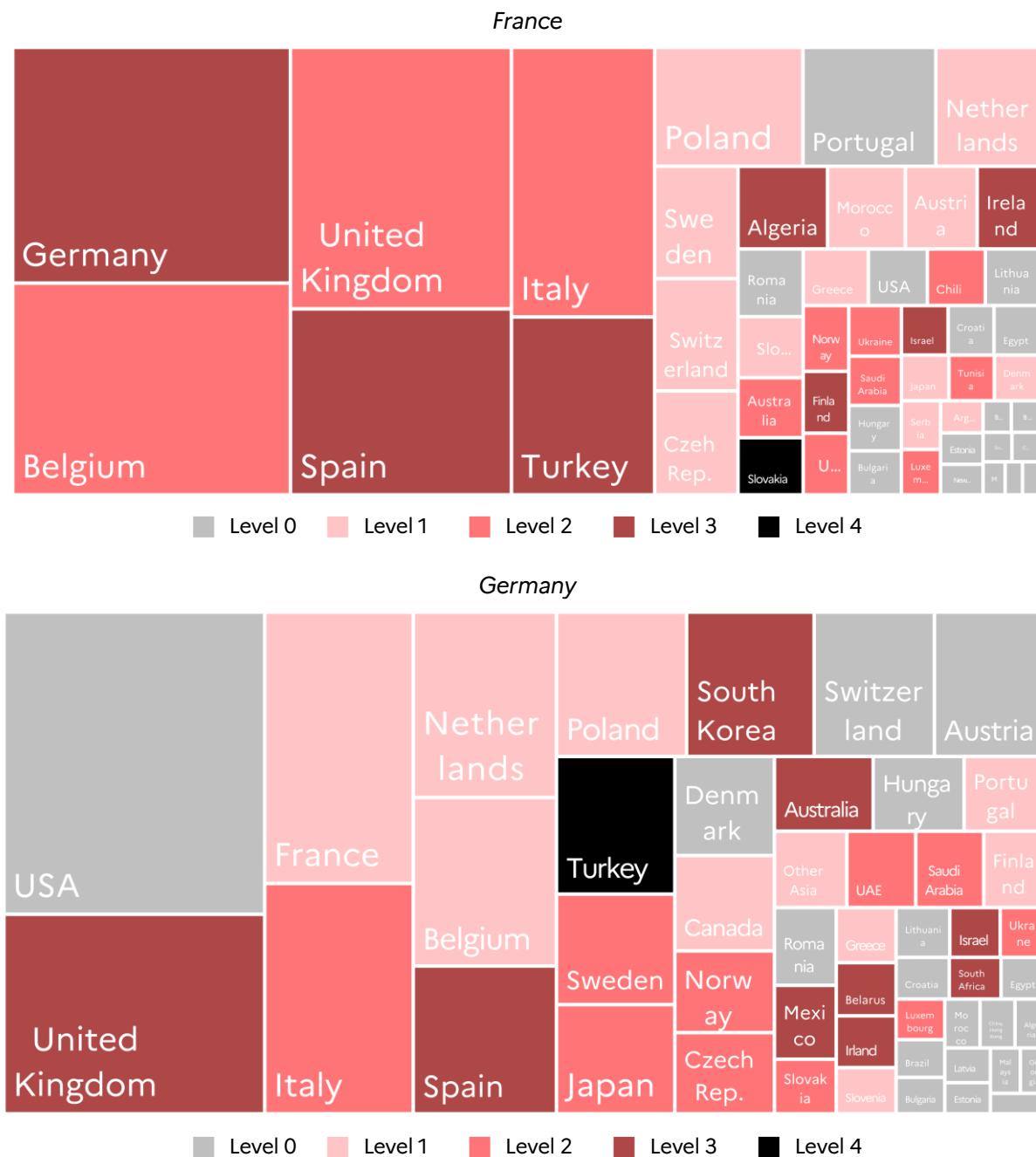


Note: the levels correspond to the number of indicators exceeding the alert threshold. Thus, a level 3 indicates that three indicators exceed the alert threshold (see [Annex 2](#)).

Source: BACI, authors' calculations

This rise on third-country markets can be geographically located (rectangle maps) and reveals, in Germany's case, exposure of a systemic nature: historically very important markets, notably Italy or the United Kingdom, appear highly exposed, with threat levels ranging from intermediate to high. For France, exposure is even more systemic: markets currently characterized by high threat levels represent major outlets, such as Germany, Italy, Spain, Belgium, or the United Kingdom.

Figure 4 – Exposure is now high in major auto export markets



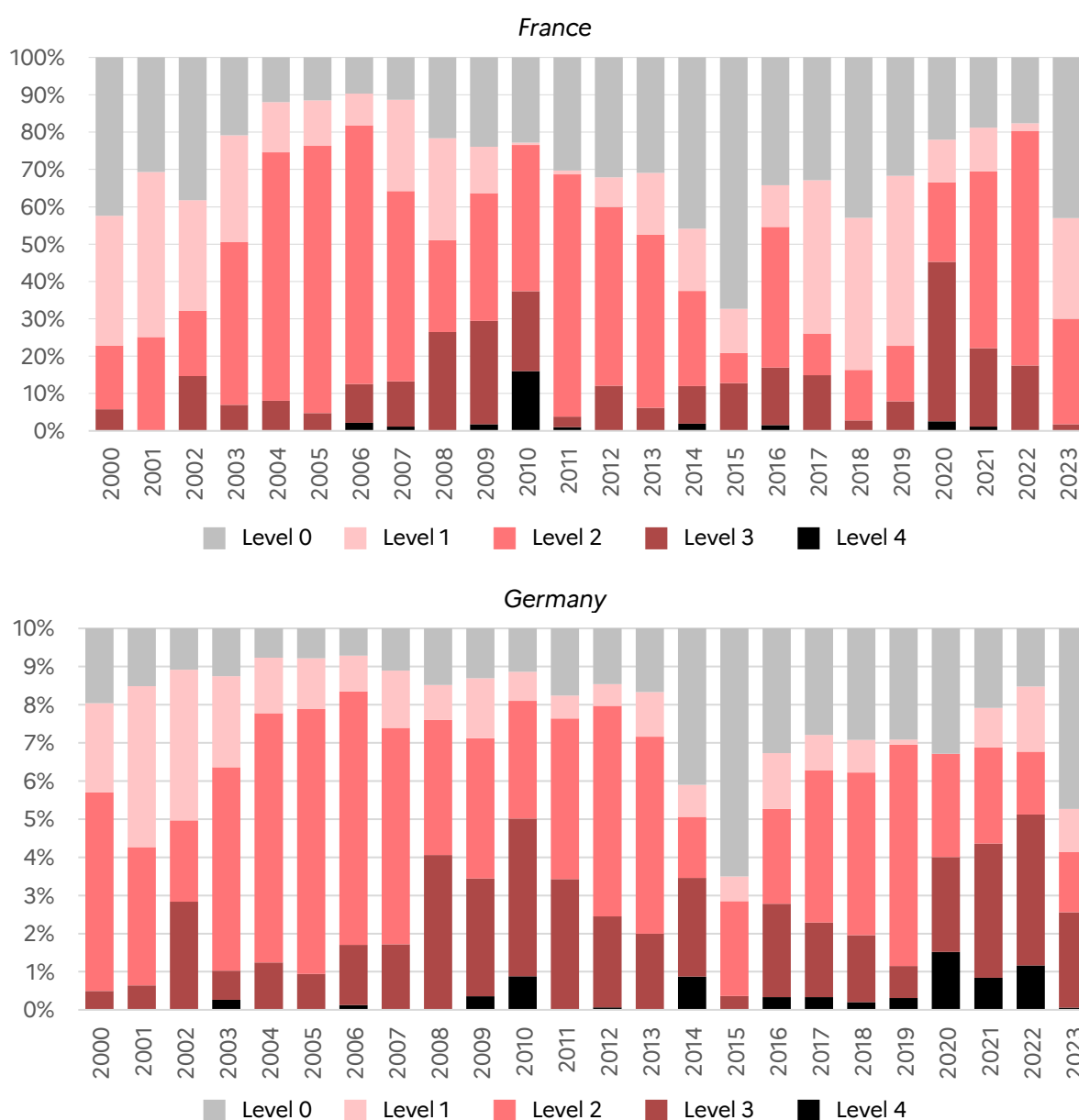
Note: the rectangles represent the various export markets for the sector concerned in 2023. Their size is proportional to the importance of each market in the sector's total exports, while the colours indicate the number of indicators exceeding the alert threshold (see Annex 2).

Source: BACI, authors' calculations

Taken together, these results indicate that the European automotive industry has entered a new phase of competition, characterized by rapid, diffuse, and now systemic Chinese pressure, simultaneously affecting the key markets of France and Germany.

By contrast, the machine tools sector faces an older and more structural exposure, inherited from the first Chinese shock of the 2000s. From the very beginning of the period, a large share of German and French exports has already been exposed to high threat levels.

**Figure 5 – Machine tools: a longstanding exposure to Chinese competition**

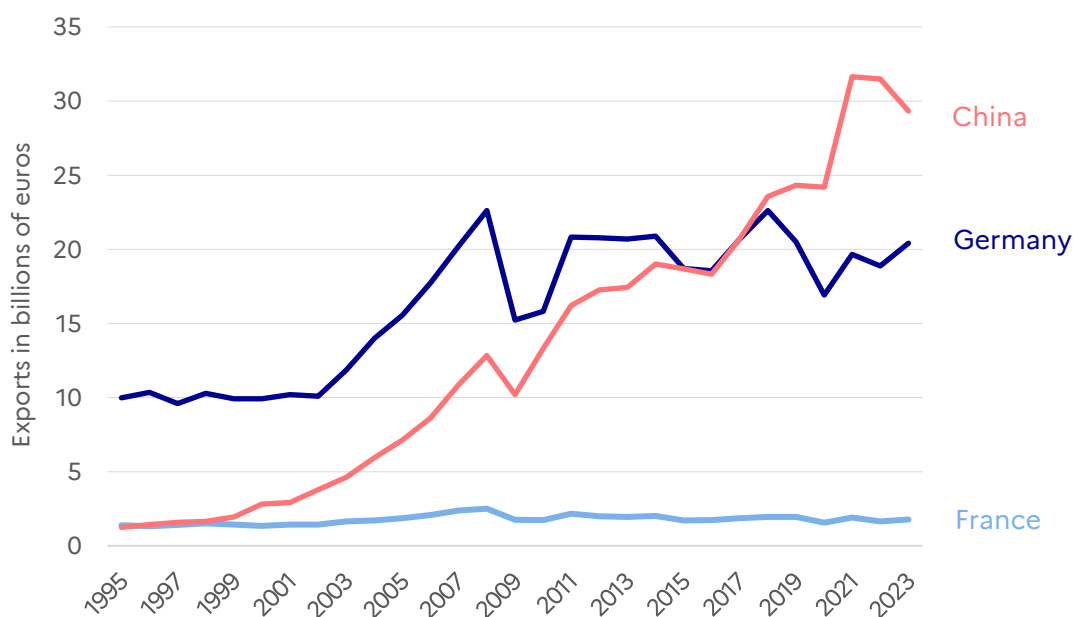


Note: the levels correspond to the number of indicators exceeding the alert threshold. Thus, a level 3 indicates that three indicators exceed the alert threshold (see [Annex 2](#)).

Source: BACI, authors' calculations

The export trajectories confirm that China's growth has occurred over a long period, with a gradual rise, as China even started exceeding Germany in export value starting from the mid-2010s.

Figure 6 – Strong and continuous growth in Chinese exports of machine tools since the 2000s

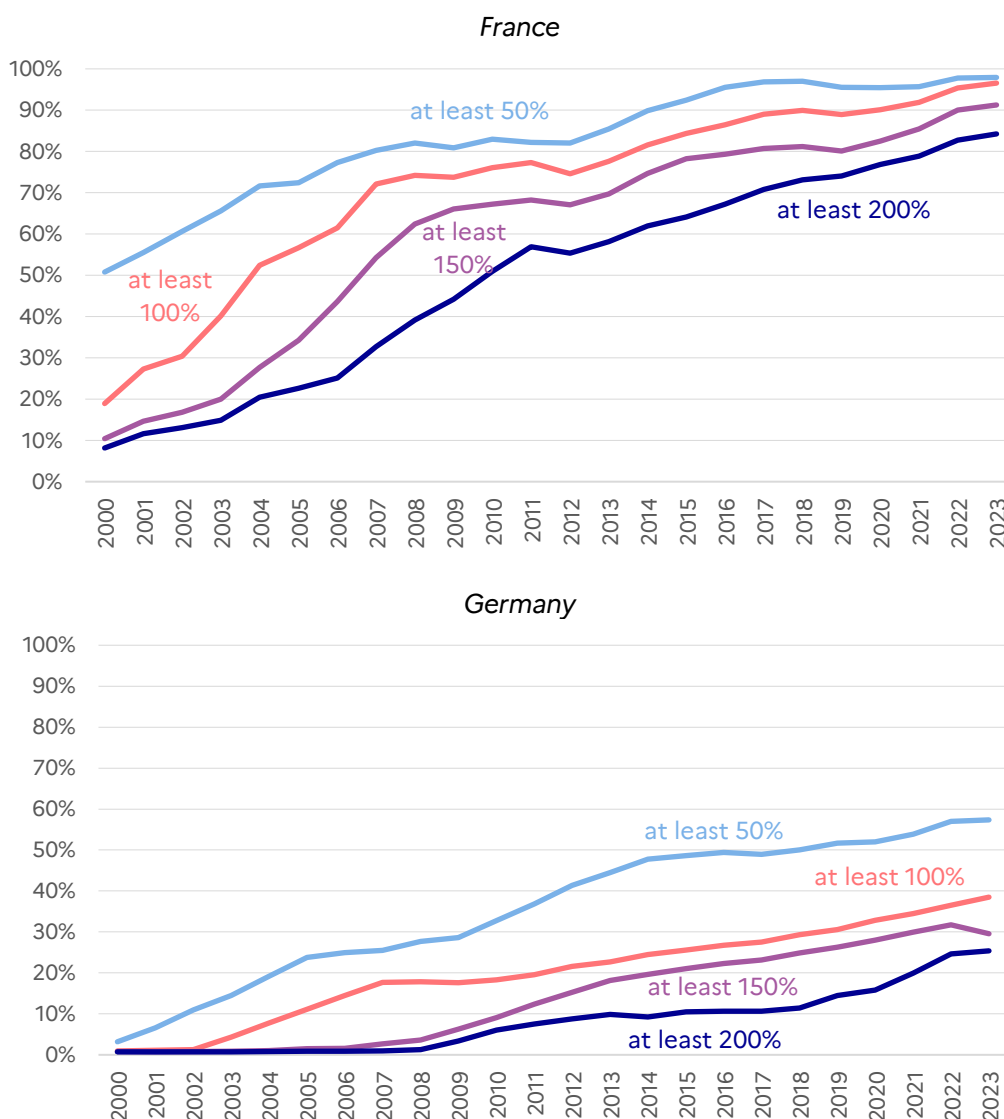


Source: BACI, authors' calculations

This increase in exports has been followed by a sharp rise in China's market shares relative to French and German machine tool exporters. Whereas in 2000 China already exported twice as much as France on around 10% of markets, this situation concerned nearly 80% of markets by 2023, signalling a generalized competitive pressure. This dynamic goes beyond a simple catch-up: the share of markets in which Chinese exports reach or exceed 50%, 100%, 150%, or 200% of the level of French exports increases continuously over the entire period, reflecting a growing gap.

For Germany, the progression is more gradual but nonetheless marked, with a clear increase in the number of markets where Chinese exports exceed those of Germany. Taken together, these developments highlight a rise in Chinese competition that is both extensive and intensive, currently exerted across a large fraction of markets and with increasingly pronounced differentials.

**Figure 7 – Machine tools: widespread gains in Chinese market share at the expense of French and German exporters**



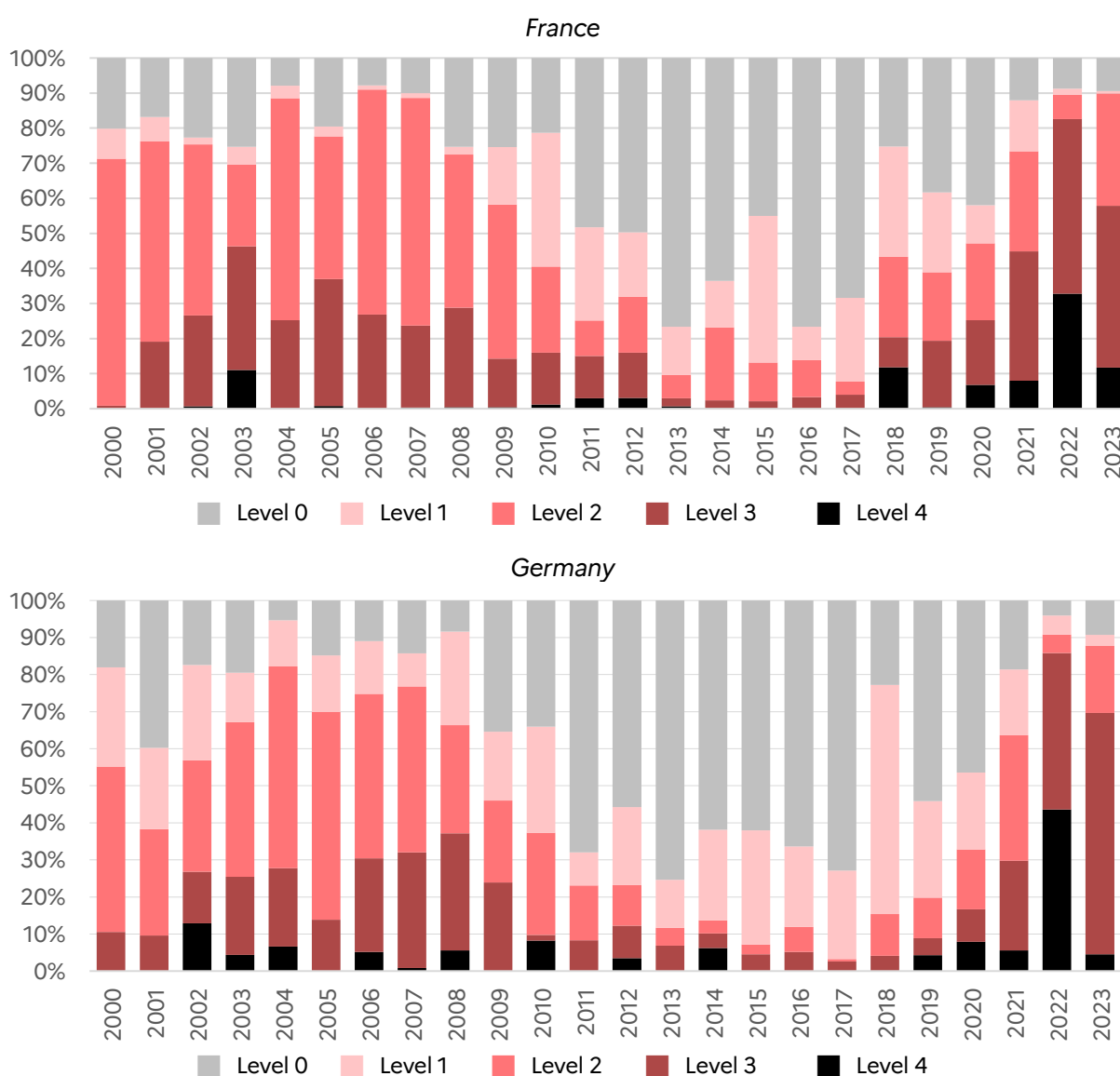
Note: for each year, the graph shows the share of export markets where Chinese exports of machine tools exceed those of France and Germany, according to different relative thresholds. These thresholds correspond to situations where Chinese exports reach at least 50%, 100%, 150%, or 200% of the level of French and German exports to the same destination country.

Source: BACI, authors' calculations

The battery sector (the manufacturing of accumulators, primary cells, and batteries) stands out, as it has seen a rise in Chinese competition occurring in two clearly identifiable waves, particularly visible in Germany. A first wave appears as early as the 2000s: the sector is already in heavy competition with China, notably in the most standardized segments, resulting in a high and persistent exposure of exports from intermediate to high threat levels.

A second, much more pronounced wave begins from 2018-2019 onward. It indicates a rapid and generalized rise in Chinese competition across all export markets. This dynamic is particularly visible in Germany, where, after a phase of relative respite in the early 2010s, the share of exports exposed to the highest threat levels rises very sharply from 2019 onward, reflecting a structural shift in the sector's export markets. In France, the trajectory is similar, with a rapid intensification of exposure from the late 2010s.

Figure 8 – Two waves of increased Chinese competition in the battery sector

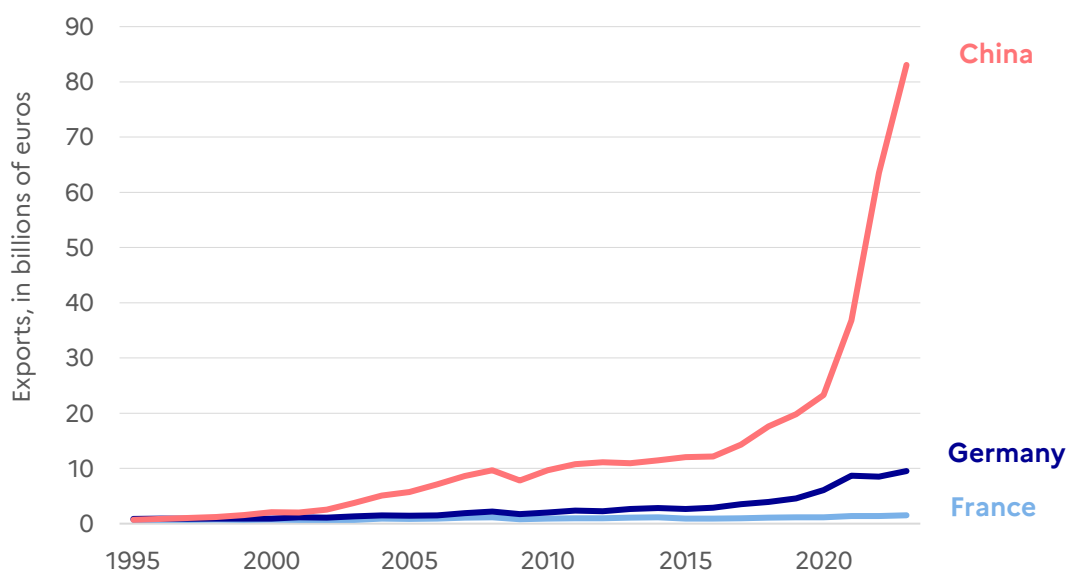


Note: the levels correspond to the number of indicators exceeding the alert threshold. Thus, a level 3 indicates that three indicators exceed the alert threshold (see Annex 2).

Source: BACI, authors' calculations

Export trajectories confirm that China's rise in the battery sector is part of a long-term trend preceding the sharp acceleration from the 2010s onward.

**Figure 9 – The acceleration of Chinese battery exports since the late 2010s**

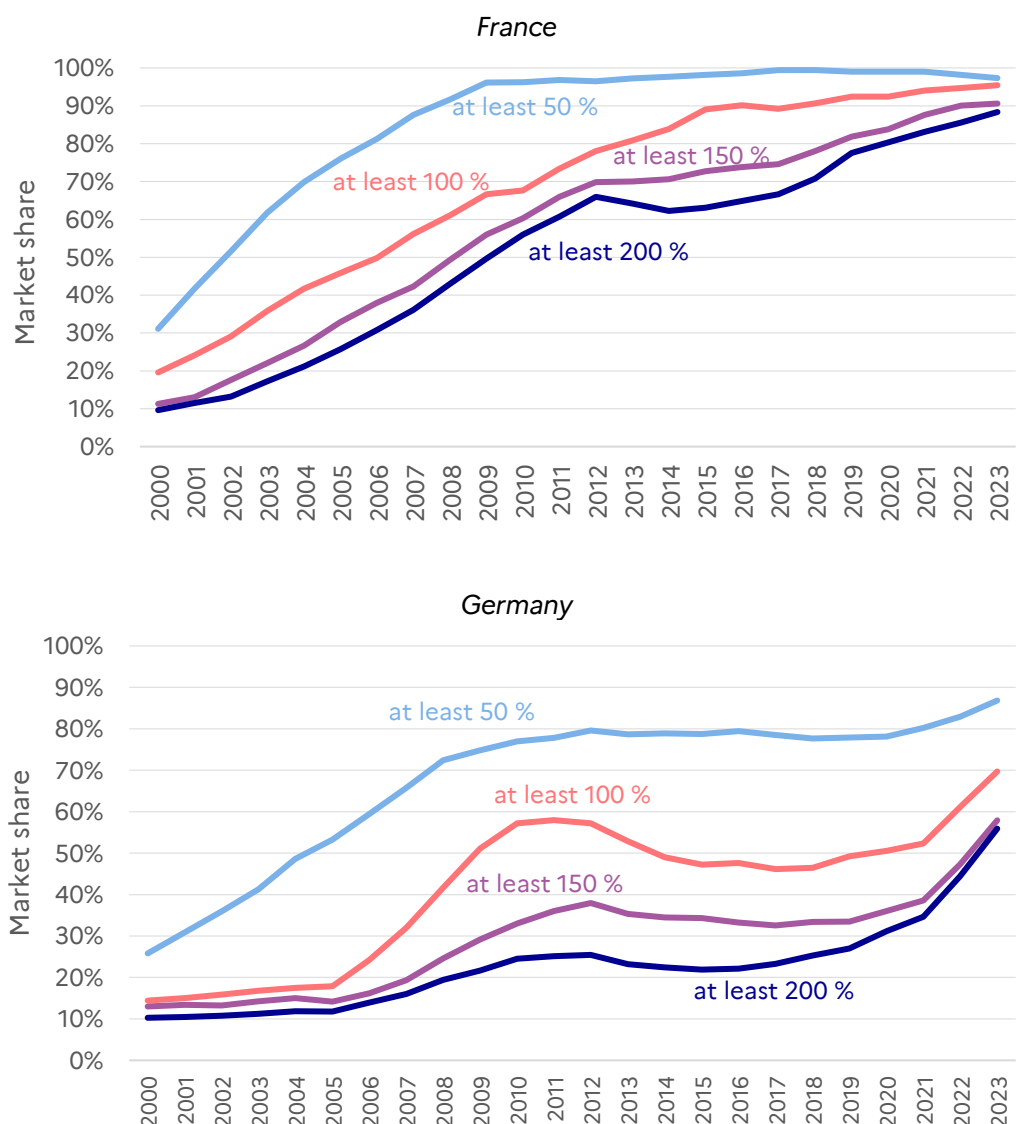


Source: BACI, authors' calculations

The increase in Chinese battery exports is accompanied by a conspicuous rise in its market shares relative to French and German exporters. In France, the dynamic is particularly pronounced: whereas in the early 2000s China clearly exceeded French exports on only a limited share of markets, by 2023 this situation applies to a very large majority of markets, sometimes by wide margins. The share of markets in which Chinese exports reach or exceed by 50%, 100%, or 150% the level of French exports increases continuously.

In Germany, the progression is more gradual but nonetheless significant. From the 2010s onward, the share of markets in which China exceeds German exports increased noticeably, including for the highest thresholds toward the end of the period.

Figure 10 – Widespread gains in Chinese market share in the battery sector



Note: for each year, the graph shows the share of export markets where Chinese battery exports exceed those of France and Germany, according to different relative thresholds. These thresholds correspond to situations where Chinese exports reach at least 50%, 100%, 150%, or 200% of the level of French and German exports to the same destination country.

Source: BACI, authors' calculations

All in all, which sectors are the most exposed in France and Germany?

- In France, the threat is concentrated primarily in sectors with high intensity of industrial and chemical inputs (batteries, plastics, rubber, chemicals), but it also affects sectors with large export volumes, in particular the automotive sector: more than 70% of its exports are now exposed (see Table 1).

- In Germany, the most threatened sectors are more closely aligned with the core of industrial specialization (machinery, industrial equipment, plastics), reflecting a noteworthy exposure of historically competitive value chains, associated with high levels of affected export values.

Table 1 – Exports sectors most exposed by country

Country	Export category	Percentage of export risk	Export value (\$ billion)
France	Manufacture of accumulators, primary cells and primary batteries	89,9%	1,5
	Manufacture of plastics in primary forms and of synthetic rubber	82,3%	11,1
	Manufacture of domestic appliances n.e.c.	77,6%	2,7
	Manufacture of other chemical products n.e.c.	73,9%	14,1
	Manufacture of other rubber products	71,5%	2,7
	Manufacture of motor vehicles	70,3%	45,3
Germany	Manufacture of accumulators, primary cells and primary batteries	87,8%	8,8
	Manufacture of plastics in primary forms and of synthetic rubber	77,5%	30
	Manufacture of other articles of paper and paperboard	66,6%	5,3
	Manufacture of industrial process control equipment	65,6%	4,1
	Manufacture of machinery for mining, quarrying and construction	63,1%	13,3
	Manufacture of domestic appliance n.e.c.	62%	11,5

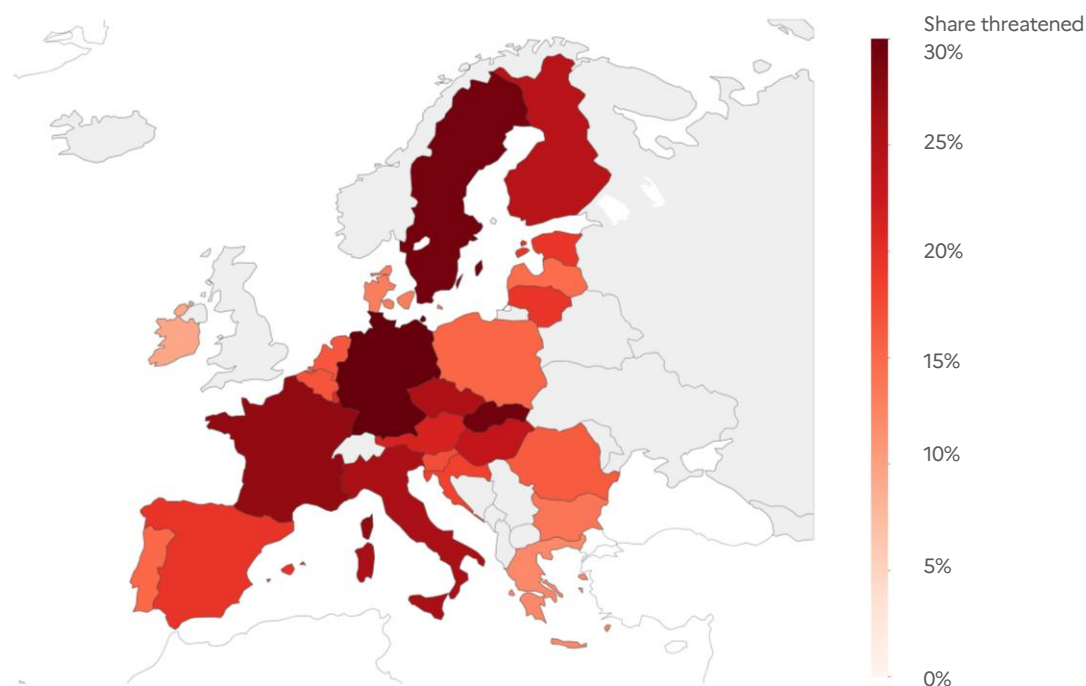
Note: the export risk percentage corresponds to the share of exports in the sector concerned that are exposed to high Chinese competition (at least two indicators above the alert threshold; see [Annex 2](#)). These are the most exposed export sectors, not the most important in terms of export value (see Figure 3 for a representation of all export sectors, weighted by value).

Source: BACI, authors' calculations

## 1.2. A geography of Europe's most exposed sectors to Chinese competition

Sectoral threats are then aggregated to estimate, for each country, the total share of exports exposed to high Chinese competition<sup>1</sup> (Map 1). **The results show that no European country is spared by this dynamic.**

Map 1 – Share of European exports threatened by Chinese competition (in %)



Note: sectoral threats, identified when at least two indicators exceed the alert threshold (see [Annex 2](#)), are aggregated at the country level.

Source: BACI, authors' calculations

Industrial economies at the core of Europe's productive system –especially Germany, France, and Italy– as well as several Northern and Central European countries, exhibit the highest shares of threatened exports, frequently exceeding 25%. By contrast, Southeastern European countries and certain peripheral economies display more moderate exposure levels. On average, **the share of threatened exports for European Union countries is close to 24%** (weighted by export value).

<sup>1</sup> Exposure to high Chinese competition is defined as exceeding the alert threshold for at least two indicators (see [Annex 2](#)).

**This geography of risk reflects countries' degree of integration into industrial value chains and their sectoral specialization, with the most industrialised economies mechanically being more exposed to international competitive pressures.<sup>1</sup>**

For countries that underwent earlier deindustrialisation, a lingering high share of exports at risk is explained by a dual dynamic. On the one hand, China has gradually occupied the industrial segments abandoned by European economies; on the other, it is now strengthening its presence in the markets of trading partners historically linked to Europe, thereby intensifying competitive pressure on the remaining exports.

While exposure to Chinese competition varies across countries, it is nonetheless broadly generalized. Even the least exposed economies still conduct nearly 10% of their exports in markets where competitive pressure from China is particularly high.

By way of comparison, in the 2000s, when France experienced a marked deterioration in its competitiveness vis-à-vis Germany, the share of French exports threatened by German competition on third-country markets (defined, as for Chinese competition, by at least two indicators exceeding the alert threshold) rose from 8% in 2000 to 19% in 2007. This exposure particularly affected the automotive sector.<sup>2</sup>

Finally, it should be emphasized that this exposure is not specific to European economies: **the United States is also particularly exposed to Chinese competition on third-country markets, with a share of threatened exports reaching 36%.**

## **2. What share of European production is exposed to Chinese competition?**

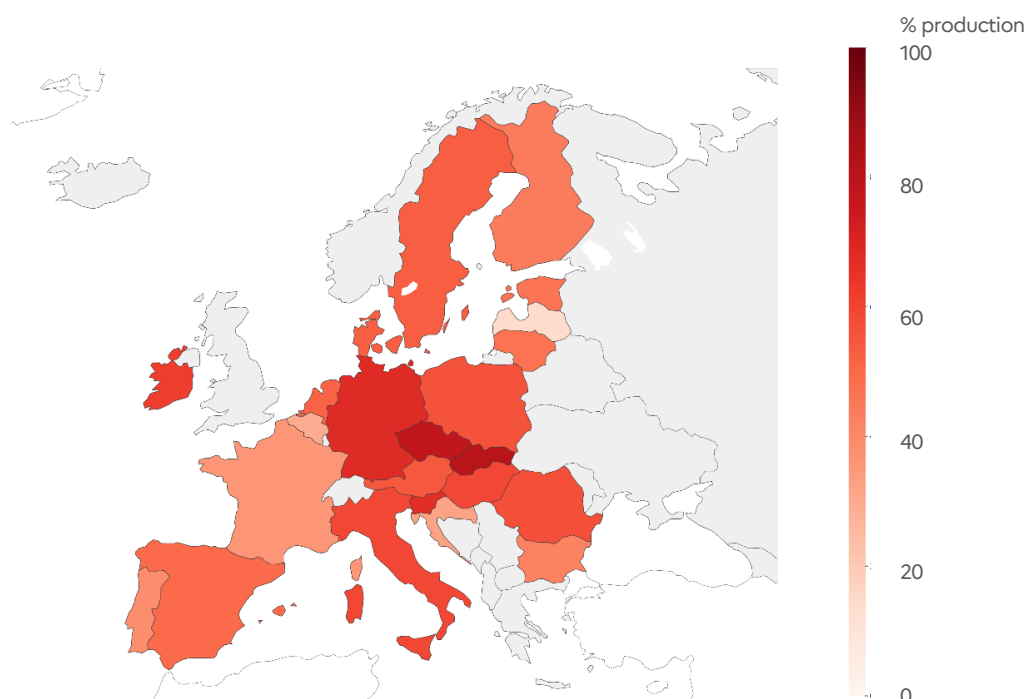
China's growing presence at the core of European industry is also reflected in the increasing pressure exerted by Chinese exports on the European domestic market, as evidenced by a set of indicators capturing both the rise in imports of Chinese origin, their relative penetration, and their growing weight relative to European production (see Map 2 on the next page; the methodology is detailed in [Annex 3](#)).

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<sup>1</sup> Manufacturing accounts for nearly 20% of GDP in Germany and the Czech Republic, compared with around 10% in France and an average of around 14% in the European Union, which helps to explain the differences in exposure observed.

<sup>2</sup> See the online visualization available [on the Data.gouv.fr website](#).

Map 2 – Share of manufacturing output potentially threatened by Chinese imports, by European country



Note: sectoral threats, identified when at least two indicators exceed the alert threshold, are aggregated at the country level. See [Annex 3](#) for a detailed presentation of the indicators used.

Source: Eurostat and BACI, authors' calculations

In several countries, this dynamic has now reached a systemic scale. **In Germany, the rise in Chinese imports on the domestic market is occurring at a rapid pace in sectors representing nearly 70% of manufacturing production, reflecting massive exposure of the national productive core. High levels are also observed in Italy, where nearly 60% of manufacturing production is now exposed to abnormally strong Chinese competitive dynamics.** Comparable situations appear in several industrial economies of Central and Eastern Europe, notably Czechia, Slovakia, Slovenia, or Hungary, where more than 60% of manufacturing production lies in sectors characterised by strong Chinese competitive pressure.

By contrast, some countries display more moderate shares, without being spared. **In France, nearly 36% of manufacturing production is exposed to abnormally strong Chinese dynamics on the domestic market,** while this share approaches 40% in Spain and remains above 30% in several Southern European and Benelux economies.

### 3. A systemic threat to Europe's industrial strongholds

Beyond the scale of exposure, the key question is whether Chinese competition is concentrating on the sectors in which European economies hold their main comparative advantages.

European comparative advantages now appear particularly exposed to Chinese competition. For each country, a large share of revealed comparative advantages<sup>1</sup> (RCAs), measured as a percentage of the corresponding production, is exposed to strong Chinese competition<sup>2</sup> (see Map 3 on the next page).

The findings are striking for the major industrial economies. **In Germany, the entirety of revealed comparative advantages is exposed, on the domestic market, to high Chinese competitive pressure.** This means that Chinese competition is no longer confined to peripheral segments, but **directly affects the core of German industrial specialization.** Very high levels are also observed in several Central and Eastern European countries deeply integrated into European industrial value chains, notably Czechia, Slovakia, Poland, or Hungary, where a majority share of comparative advantages is now exposed.

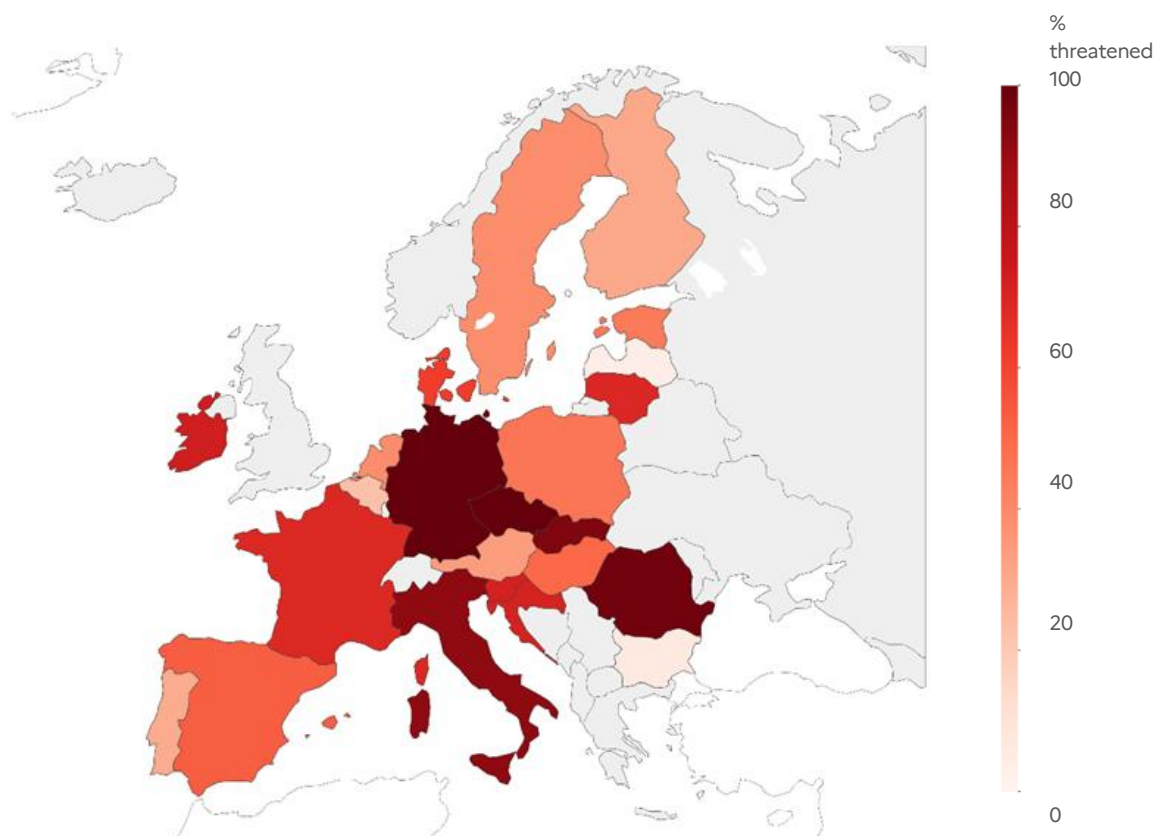
Other major industrial economies also display significant exposure levels. **France, Italy, and Spain exhibit a high share of their comparative advantages under threat,** reflecting the diffusion of Chinese competition toward sectors that have historically underpinned European competitiveness. By contrast, certain Northern or peripheral European countries appear relatively less exposed, not because Chinese pressure is weaker, but because of more limited specialization in the manufacturing sectors directly concerned.

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<sup>1</sup> The definition of revealed comparative advantages used is the one used by CEPII: *"The trade balance for a product is compared to a 'theoretical balance', which is the result of distributing the overall balance observed among the various products in proportion to each product's share of the country's total trade."* This formula produces a score between -1 and 1. A positive score corresponds to a revealed comparative advantage, while a negative score corresponds to a revealed comparative disadvantage. The absolute value of the score corresponds to the magnitude of the advantage or disadvantage. See CEPII (2023), *"Les Profils Pays du CEPII : indicateurs, bases et nomenclatures," Panorama du CEPII*, No. 2023-01, July, p.14.

<sup>2</sup> The sectors considered to be at risk are those that are highly exposed to Chinese competition, as identified using the domestic production approach (see previous subsection and [Annex 3](#)).

Map 3 – Share of comparative advantages under threat, by European country

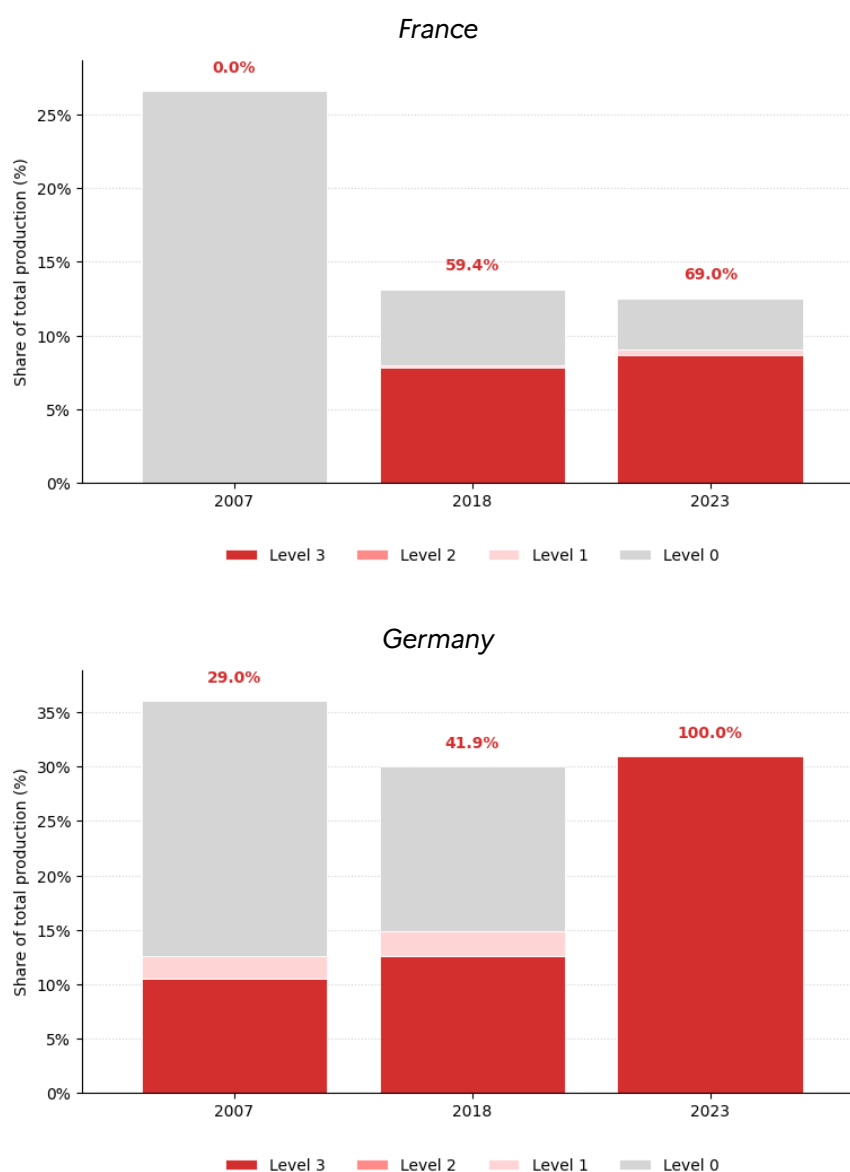


Note: the map shows, for each European country, the share of revealed comparative advantages exposed to strong Chinese competition, as identified using the domestic market approach. This share is measured by the percentage of manufacturing output corresponding to the country's ten main revealed comparative advantages, for which at least two indicators of Chinese competition exceed the alert threshold (see [Annex 3](#)).

Source: Eurostat, BACI, authors' calculations

Chinese competition has progressively shifted toward the core of the comparative advantages of European economies, as shown by the evolution of exposure of the top ten RCAs in France and Germany since the mid-2000s (see Figure 11 on the next page).

**Figure 11 – Chinese competition increasingly affecting French and German comparative advantages**



Note: comparative advantages are calculated for the manufacturing sector as a whole. The height of the bars indicates the share of total manufacturing output represented by the ten main comparative advantages revealed (TOP 10 RCA), for example nearly 25% in France in 2007. The colored segments correspond to increasing levels of risk related to exposure to Chinese competition, identified using the domestic production approach. Risk levels reflect the number of alert thresholds exceeded (a level 2 means that two indicators exceed the threshold). The annotation indicates the share of ACRs classified as threatened (level  $\geq 2$ ). Thus, in France in 2018, nearly 60% of production supported by the main comparative advantages was already in sectors subject to strong Chinese competitive pressure.

Source: Eurostat, BACI, authors' calculations

In France, in the mid-2000s, revealed comparative advantages still appeared largely preserved: in 2007, the share of RCAs exposed to a significant threat was almost nil.<sup>1</sup> The situation changed markedly from the late 2010s onward. In 2018, nearly 60% of the production carried by the main French revealed comparative advantages already lay in sectors exposed to high Chinese competitive pressure. This dynamic intensified further in 2023: nearly 70% of French RCAs are now threatened. This progression reflects a rapid diffusion of Chinese competition toward sectors that have historically been key drivers of French productive specialization (such as cosmetics).

**The diagnosis regarding comparative advantages is even more worrying for Germany**, whose economy also relies more heavily on exports. As early as 2007, a non-negligible share of German revealed comparative advantages was exposed to Chinese competition. This exposure intensified sharply over time: in 2018, more than 40% of German RCAs were threatened, before **an almost total shift in 2023, when all of the main German revealed comparative advantages were in sectors characterised by high or very high Chinese competitive pressure**. In both cases, these developments confirm **a change in the nature of competition**. China is no longer merely competing with Europe in peripheral segments or in areas of low comparative advantage, but is now directly targeting the industrial strongholds that structure the competitiveness and productive specialisation of the major European economies. This shift gives Chinese competition a fully systemic dimension, likely to durably affect Europe's industrial trajectory.

## 4. A direct threat to European industrial employment

The progressive marginalisation of large segments of European industry is not only a matter of market shares or value added: it also **has direct and massive consequences in terms of employment**. Industry offers wages that are higher on average, with more skilled staff, and powerful spillover effects across the entire productive fabric.<sup>2</sup>

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<sup>1</sup> Revealed comparative advantages (RCAs) do not identify the sectors with the highest export volumes, but rather those in which a country performs relatively better in terms of exports. Therefore, the exposure of RCAs to Chinese competition depends directly on the structure of national productive specialisation. In France, the sectors corresponding to RCAs account for only a relatively limited share of total production. The share of total production exposed via these sectors therefore remains moderate, at around 10%. Furthermore, France is highly specialised in activities such as luxury goods, which are not particularly exposed to Chinese competition. In Germany, on the other hand, CRVs correspond to sectors at the heart of the productive system and therefore account for a much larger share of production.

<sup>2</sup> See Esratty, F., Hecquet, V. and Loaec, N. (2025), "Les entreprises industrielles en 2023 : diverses par leurs activités, plus grandes, productives et internationalisées que les autres," *Insee Première*, No. 2084, December ; Jehan, A. and Rocca É. de (2025), *Prélèvements obligatoires et réindustrialisation. Caractéristiques du secteur industriel et structure des prélèvements obligatoires pesant sur l'industrie*, Conseil des prélèvements obligatoires (CPO), September.

**The automotive sector represented, in 2025, 13.6 million direct and indirect jobs in Europe,<sup>1</sup>** which are today directly exposed to the rise of Chinese competition. The weakening of the automotive sector would therefore not be limited to a few industrial players, but would affect entire industrial basins that are pillars for employment and social cohesion in many Member States.

**Already observable signals confirm this dynamic. In Germany, Europe's industrial heartland, nearly 240,000 manufacturing jobs have been destroyed since 2023,<sup>2</sup> reflecting the advent of new a phase of brutal adjustment of the productive apparatus.** These losses are no longer a matter of cyclical restructuring, but of accelerated deindustrialisation, linked to the structural difficulties of European industry (weak demand, higher energy prices) and to the intensification of international competition in key sectors.

In this context, Chinese competition threatens not only competitiveness or Europe's trade balance: it poses a major risk to industrial employment, the stability of productive territories, and ultimately to the social acceptability of Europe's economic model.

## 5. How can European industry compete with 30% to 40% cost gaps?

Beyond market-share dynamics, assessing the Chinese threat must be complemented by a quantification of production cost differentials between European industry and its Chinese competitors. **The aim is to identify what is structurally exposed over the medium term rather than what is already heavily threatened.**

These cost differentials were assessed based on interviews and data collected from industries, administrative sources, and existing publications (see [Annex 5](#)).<sup>3</sup> This work made it possible to establish orders of magnitude by broad sector of activity. Despite the diversity of sources used, the estimates obtained prove convergent by sector, which supports the robustness of the diagnosis.

The distribution of European manufacturing value added by cost-gap bracket reveals a particularly alarming situation. **Nearly two thirds of European manufacturing value added lies**

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<sup>1</sup> Commission européenne (2025), "[Stimuler le secteur automobile européen](#)," mars.

<sup>2</sup> DeStatis (s.d.), "[Employment/National Accounts](#)".

<sup>3</sup> The literature on the subject remains relatively fragmented. The analysis is based in particular on the study by Goldman Sachs (2025), which documents, using a similar methodology, substantial price differences between China and its global competitors for ten major categories of manufactured goods: industrial robots, batteries, excavators, electric vehicles, refrigerators, smartphones, shoes, LED screens, heavy trucks and solar panels. See: Goldman Sachs Global Investment Research (2025), *Sizing the Foreign Manufacturing Spillovers from China's Overcapacity*, Global Economics Analyst, 18 September 2025, Jan Hatzius, Joseph Briggs, Hui Shan, Sarah Dong, Megan Peters.

**in sectors where the cost differential is estimated at more than 20%, a gap that is difficult to sustain over time.**

A non-negligible share of this value added is even concentrated in sectors where estimated cost gaps reach 40%, or even 50% or more, at comparable quality. **On average, the cost gaps estimated by industrial players are hover around 30% to 40%. Under these conditions, the hypothesis that European industry could sustainably offset these gaps through productivity gains, upgrading, or price adjustments appears unrealistic.**

**The undervaluation of the renminbi, estimated at around 20% to 25% by several assessments, contributes to these cost gaps.**<sup>1</sup> While there is no universally recognised method that allows one to establish clearly that a currency is significantly over- or undervalued, the diagnosis of significant undervaluation of the renminbi now tends to be widely shared, including within international institutions.<sup>2</sup> The value of a complementary approach based on cost gaps is that it provides a more direct lens than the exchange-rate channel alone to assess the risk facing European industry, by capturing the effective ability of Chinese firms to offer lower prices than their competitors.<sup>3</sup>

This analysis of cost gaps illustrates the central risk Europe now faces: **a large share of its productive apparatus is exposed to an unprecedented form of competition, insofar as China**

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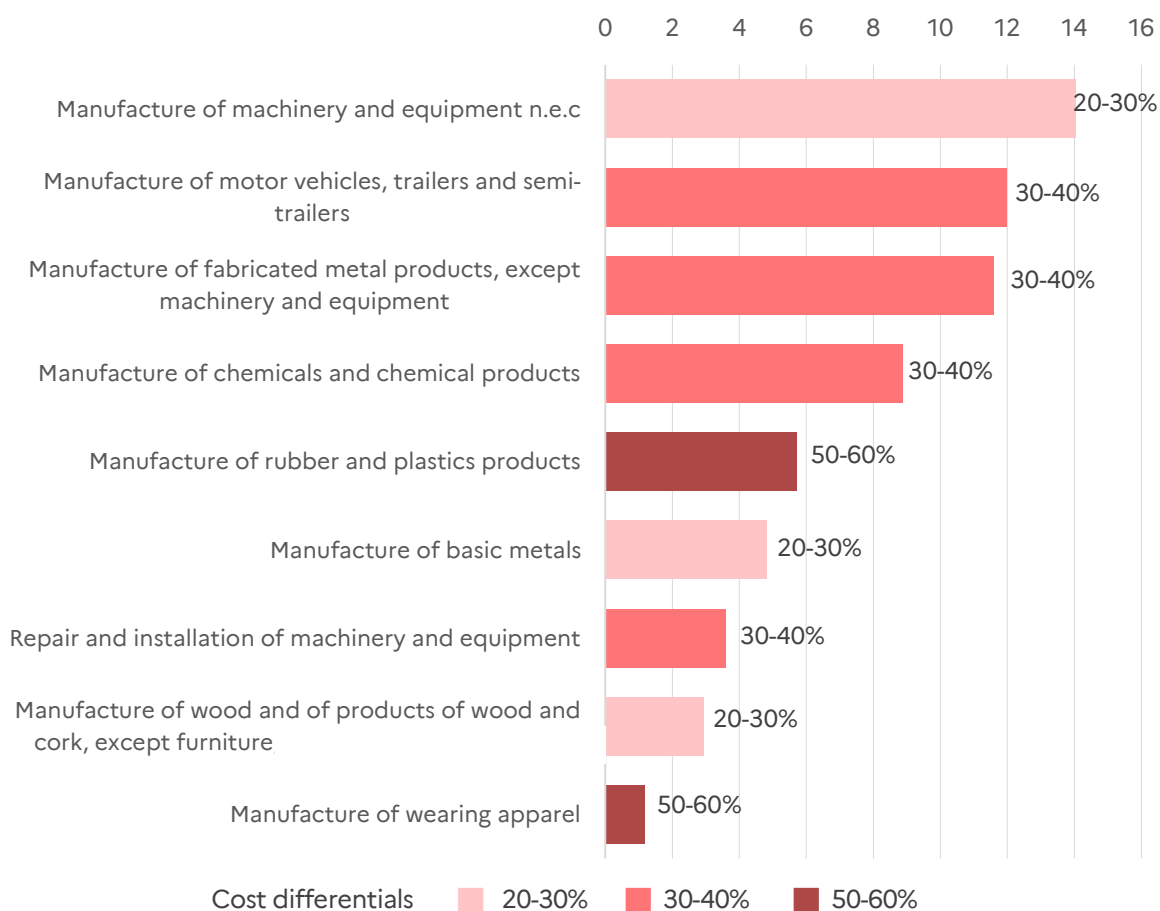
<sup>1</sup> Several recent estimates converge in this direction. Brooks (2025) shows that the renminbi appears to be substantially undervalued when the real effective exchange rate is adjusted to bring China's current account back to a level considered "normal". Assuming a moderate current account surplus of around 0.5% of GDP, this approach leads to an undervaluation of more than 20% by 2025. Goldman Sachs (2025) arrives at a similar estimate, valuing the yuan's undervaluation at around 25%. Matthes (2025) highlights a significant undervaluation of the yuan against the euro, which gives China "a considerable and unfair price advantage on world markets, to the detriment of eurozone companies competing with Chinese firms". Furthermore, several recent studies suggest that China's current account surplus is significantly underestimated in official statistics, particularly due to persistent discrepancies between customs data and the balance of payments (Setser, 2026; Setser, 2025). As a result, estimates of the renminbi's undervaluation based on these data are themselves likely to be significantly underestimated. See Brooks, R. (2025), "[Quantifying China's substantial RMB undervaluation](#)," Brookings, March 28; Sivabalan, S. (2025), "[China's Yuan Is 25% Undervalued on Trade Basis, Goldman Says](#)," Bloomberg, December 10; Matthes, J. (2025), "[Yuan undervaluation against the Euro: Unfair cost advantages for China?! Evidence for Germany and the Euro area](#)," German Economic Institute (IW), July 23; Setser, W. B. (2026), "[China's currency is now facing substantial appreciation pressure](#)," Council on Foreign Relations, January 8; Setser, W. B. (2025), "[China's data still doesn't add up](#)," CFR, August 19.

<sup>2</sup> See in particular [the statements by the IMF mission chief for China, Sonali Jain-Chandra](#), at the conclusion of the Fund's latest mission, December 2025.

<sup>3</sup> In China, cost differentials result from a coherent set of public policies that sustainably reduce factor costs (see [Annex 1](#)) and, in many sectors, combine with low or even negative margins. They thus enable targeted and persistent under-pricing, particularly in exports, which real exchange rate indicators struggle to capture. In this sense, the cost differentials assessed here are a more direct – albeit imprecise – measure.

is able to produce at least equivalent quality with much lower costs (see Figure 12). Without a change in industrial, trade, and macroeconomic strategy, these gaps are a major threat factor to the sustainability of European industry.

**Figure 12 – Significant production cost differentials between European and Chinese producers by manufacturing sector**



Note: Cost gaps in the machinery and equipment manufacturing sector are estimated by industry representatives to be in the range of 20% to 30%. This sector accounts for nearly 14% of the European Union's manufacturing output.

Sources: These cost gaps were established on the basis of hearings and data collected from industry representatives, administrative sources, and existing publications (see [Annex 5](#))

### Box 2 – What industries are telling us: a converging diagnosis

Hearings conducted with representatives of European industry and administrative sources reveal a remarkably convergent diagnosis, that goes beyond sector-specific differences.<sup>1</sup>

First, that Chinese competition is no longer confined to upstream industrial segments or low value-added products. **Stakeholders across all sectors that we interrogated point to a rapid catch-up, and in some cases outright takeover, including in areas which were historically dominated by Europe (chemicals, machine tools, robotics, pharmaceuticals, nuclear energy).**

Second, **production cost gaps, as assessed by industry players themselves, have now reached levels incompatible with sustainable competition, as they average 30% to 40%**, and exceed 60% in some areas (robotics, mechanical components). At such levels, manufacturers are unequivocal: neither moving up the value chain, nor increased productivity gains, nor organisational adjustments can durably offset gaps of this magnitude.

Third, **industry representatives describe a situation of global overcapacity, particularly in the chemicals and intermediary goods sectors**, where the issue is no longer who will invest, but who will be closing shop. In this context, the openness of European markets directly exposes existing productive capacity to the risk of rapid displacement.<sup>2</sup>

Fourth, **the competitiveness gap is amplified by regulatory asymmetries**. Several hearings point to the fact that a non-negligible share of European firms' value added (estimated by some stakeholders at somewhere between 10% and 15%) is absorbed by regulatory and fiscal constraints that are not imposed on imports.

Finally, **all consulted stakeholders stress the inadequacy of a strictly sectoral response**. Product-by-product, or value-chain-centred approaches are deemed too slow and ineffective **in the face of a coherent, long-term, system-wide Chinese strategy**. They call instead for a European response of comparable scope and strategic coherence.

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<sup>1</sup> See [Annex 5](#).

<sup>2</sup> Hearings conducted with representatives of the French chemicals sector, for example, highlight the now structural nature of global overcapacity across several segments of basic and intermediate chemicals. Installed capacity is expected to durably exceed anticipated demand, including over the long term, making adjustment through plant closures inevitable. According to these stakeholders, this dynamic is likely to translate into a rapid intensification of competitive pressure on European capacity, with the volume of capacity considered at risk doubling within a year – from around 11 million to nearly 20 million tonnes.

## 6. Which European countries are most threatened over the medium term?

In short, European economies are subject to a strong but heterogeneous exposure to Chinese competition, depending on whether one adopts an export-market approach on third-country markets or a domestic-market exposure approach (via domestic production). These two perspectives are complementary: the former sheds light on the immediate vulnerability of external outlets, while the latter highlights deeper risks weighing on the core of national productive systems.

With regard to exports, several major European economies already rank among the most exposed countries (see Table 2). Germany stands out with a high share of directly threatened exports (32%), ahead of France (26%) and Italy (25%). Smaller but highly specialised economies, such as Slovakia (28%), Czechia (25%), or Sweden (27%), also appear highly vulnerable.

**Table 2 – Countries currently most at risk: an export-based approach**

Rank	Country	Share
1	United States	36%
<b>2</b>	<b>Germany</b>	<b>32%</b>
3	Slovakia	28%
4	Sweden	27%
<b>5</b>	<b>France</b>	<b>26%</b>
6	Czechia	25%
<b>7</b>	<b>Italy</b>	<b>25%</b>
8	Finland	24%
9	Hungary	23%
10	Cyprus	22%
11	Austria	21 %
12	Luxembourg	20%
13	Lithuania	19%
14	Estonia	19%
15	Spain	19%
16	Croatia	17%
17	Slovenia	16%
18	Romania	15%
19	Poland	15%
20	Portugal	15%

Note: This table ranks countries according to the share of their exports exposed to high Chinese competition in third markets. See [Annex 2](#) for the methodology used.

Source: BACI, authors' calculations

The domestic-market approach (via domestic production) reveals a potential threat of even greater magnitude (see Table 3 on the next page). **In several Central and Eastern European countries (Slovakia, Czechia, Slovenia, Hungary, or Romania) more than half, and in some cases nearly 80%, of manufacturing production is exposed to a significant rise in Chinese imports on the domestic market.**

**Germany is also in a critical position, with nearly 70% of its manufacturing production potentially concerned,** due to a strong concentration of revealed comparative advantages in sectors now directly targeted by China's industrial upgrading.

By contrast, **countries such as France or Portugal appear relatively less exposed, but nevertheless remain affected at significant levels.**

Given very large production cost gaps, at equivalent or even superior quality, no major structural brake on the continued diffusion of Chinese products on European domestic markets can be identified at this stage. As a result, and absent a change in trajectory, the percentages shown in Table 3 can be interpreted as orders of magnitude for the share of domestic production threatened over the medium term. **Nearly 55% of manufacturing production in the European Union could thus be exposed to unsustainable Chinese competition over the medium term.**<sup>1</sup>

Finally, the strong correlation between domestic production exposure and the weight of threatened revealed comparative advantages underscores that the most exposed countries are also those whose productive core relies heavily on industrial value chains directly rivalled by China (automobiles, industrial equipment, chemicals, electronics). In this context, Chinese competition no longer represents an isolated sectoral shock, but a systemic threat, likely to durably affect the industrial and macroeconomic trajectories of many European economies.

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<sup>1</sup> This figure corresponds to a weighted average of domestic production exposure, calculated across 144 sectors and 22 countries in the European Union.

**Table 3 – Countries most exposed over the medium term: domestic market approach**

Rank	Country	Share of production exposed (%)	Share of production carried by endangered ACRs (%)
1	Slovakia	80,9	95
2	Czechia	78,4	100
<b>3</b>	<b>Germany</b>	<b>68,2</b>	<b>100</b>
4	Slovenia	67,1	71,6
5	Ireland	62,0	72,9
6	Hungary	59,4	50,2
<b>7</b>	<b>Italy</b>	<b>59,2</b>	<b>91,8</b>
8	Romania	57,3	97,8
9	Poland	56,4	46,4
10	Austria	54,8	34,3
11	Sweden	53,3	38,8
12	Denmark	52,8	61,9
13	Netherlands	52,0	39
14	Spain	49,7	53,2
15	Lithuania	47,2	69,1
16	Estonia	46,8	44,7
17	Finland	44,3	30,8
18	Bulgaria	42,4	6,3
19	Portugal	38,9	29,7
<b>20</b>	<b>France</b>	<b>36,4</b>	<b>69</b>
21	Croatia	32,2	71,2
22	Belgium	29,5	23,1

Note: this table ranks countries according to the share of their manufacturing output exposed to a significant increase in Chinese imports on the domestic market. See [Annex 3](#) for the methodology used.

Source: Eurostat, BACI, authors' calculations



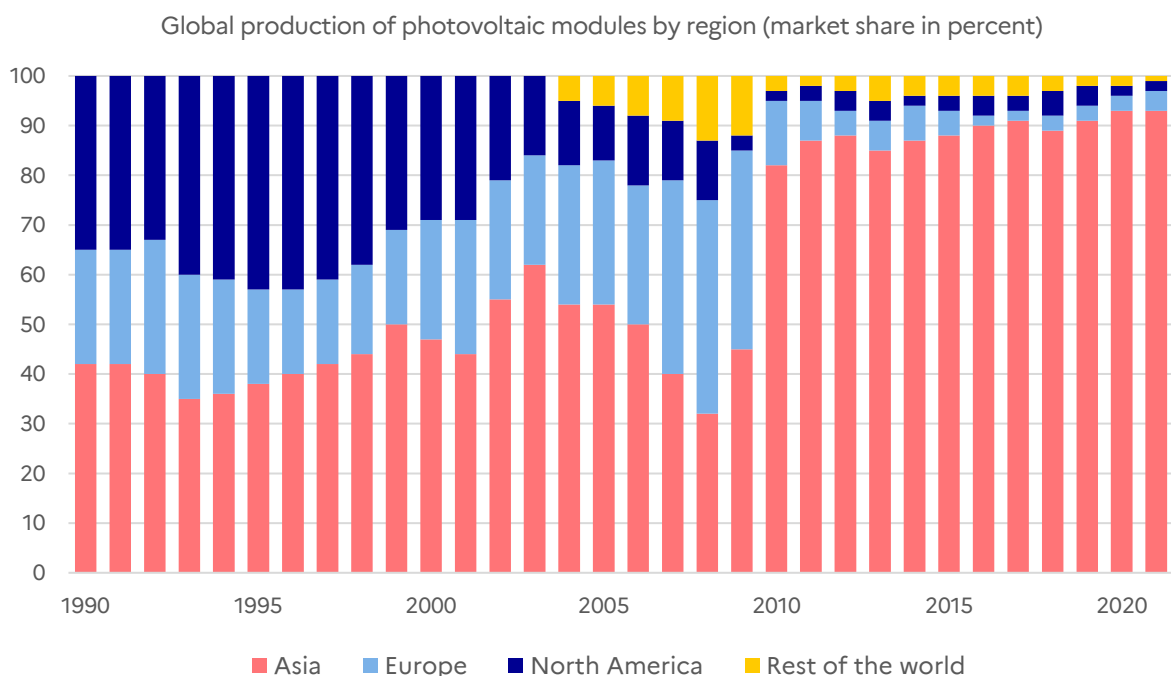


## CHAPTER 3

# WHAT RESPONSE FOR EUROPE?

The rise of China’s productive apparatus confronts Europe with a major strategic choice. We are now facing the very real risk that entire segments of European industry could suffer the same fate as the photovoltaic sector some fifteen years ago: a sector in which Europe held a strong position in global production in the early 2000s, and in which it became a marginal player within just a few years (see Figure 13).

**Figure 13 – When the precedent of solar panels threatens to repeat itself across the European industry**



Source: Fraunhofer Institute for Solar Energy Systems ISE

In this regard, the photovoltaic sector serves as a textbook example of the dynamics currently at play (see [Annex 4](#) for a description of this episode). It foreshadows a sequence of events that could repeat itself: rapid capacity expansion supported by the Chinese state,<sup>1</sup> the build-up of global overcapacities, brutal price compression, and then the accelerated marginalisation of European producers – before any trade defence instruments, triggered once the damage has already occurred, can produce any effect.

**Several lessons** can be drawn from this example. **First, when cost gaps become significant at comparable quality, industrial adjustment does not occur gradually or through upgrading, but through rapid and often irreversible exits from the market. Second, a delayed or insufficiently calibrated response to the Chinese steamroller does not allow this dynamic** to be halted and risks instead to translate into higher prices for consumers, without durably preserving domestic production. **Third, the timeline is particularly short:** in photovoltaics, just a few years were enough to push a previously competitive European industry into a marginal position, revealing the existence of genuine industrial points of no return.

Statistical trends, sectoral interviews, and collected data converge to suggest that several European industrial segments today exhibit characteristics close to those observed in photovoltaics in the early 2010s (see [Annex 4](#)). In these sectors, **the risk is not one of gradual downgrading, but of rapid industrial displacement**, potentially leading to marginalization or even durable market exit within less than a decade, in the absence of a strategic response commensurate with a threat of such systemic dimensions.

The reproduction of such a scenario across entire segments of the industrial fabric, located at the heart of European value creation, would constitute a shock of a wholly different magnitude, carrying the risk of lasting economic downgrading and increased strategic dependence for Europe.

### **What options are currently on the table for Europe to regain control?**

In the absence of effective protection of the European market, it appears scarcely credible that European industry could rapidly offset average cost gaps estimated at around 30% to 40%, at comparable or even lower quality in Europe. The issue is therefore no longer merely one of improving competitiveness, but of preserving the very existence of an industrial base in an environment of profoundly unbalanced competition. Two broad paths thus emerge: intensifying existing trade defence and industrial policy tools, or a more profound change in approach in the face of a systemic threat.

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<sup>1</sup> OECD (2026), "Subsidies and the solar panel industry. Too close to the sun," *Policy Brief*, January 13.

It should nevertheless be emphasised that measures aimed at protecting the European market constitute necessary but insufficient conditions to confront the Chinese steamroller. On their own, they cannot address long-term challenges related to technological and industrial competition, notably on third-country markets,<sup>1</sup> and **must be complemented by an ambitious strategy of innovation, upgrading, and investment, such as that proposed in particular in the Draghi Report.**<sup>2</sup> This paper focuses on the indispensable short- and medium-term responses required to avoid the marginalization of European industry in the face of the Chinese competitive shock, without pulling the long-term innovation levers that are essential to a comprehensive European productivity agenda (protection, simplification, innovation, and investment).

Confronted with the Chinese steamroller, Europe thus faces a clear strategic choice: extend a parametric response, or change its entire policy framework.

## 1. Strengthening current policy tools

A first response involves more actively deploying the tools already available in trade and industrial policy. The European Union possesses traditional trade defence instruments –anti-dumping duties, anti-subsidy measures, safeguard measures– which have been strengthened in recent years. These instruments make it possible to respond to unfair practices, but their scope remains often sectoral and reactive, with investigation timelines incompatible with the speed and scale of the competitive shocks currently facing European industry.

### 1.1. A more active use of trade defence instruments, with structural limitations

In practice, the European response today relies primarily on the mobilization of the traditional trade defence arsenal.

The European Union first resorts to anti-dumping duties, triggered when imported products are sold on the European market at a price lower than their “normal” value, that is, the price charged on the exporter’s domestic market. It also deploys anti-subsidy measures, activated when a third country provides targeted support to an exporting industry. The most emblematic example concerns the duties imposed on Chinese electric vehicle manufacturers from 30 October 2024 for a period of five years, with differentiated rates by company (35.3%

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<sup>1</sup> Protecting the European market would not spare Member States’ exports, but its impact would be mitigated by the high volume of intra-European trade, which accounts for the majority of manufacturing outlets. Thus, 53% of Germany’s manufacturing exports, 52% of France’s and 49% of Italy’s are within the EU; this share reaches 69% in Belgium and 60% in Spain. On a weighted average, 58% of the European Union’s manufacturing exports are intra-EU.

<sup>2</sup> European Commission (2024), *The Future of European Competitiveness*, Brussels, September.

for SAIC, 18.8% for Geely, 17% for BYD). Finally, the EU can activate safeguard measures, i.e. temporary duties introduced when a surge in imports exceeds a critical threshold and seriously threatens a European industry. This mobilisation has intensified sharply: in 2024, out of the 191 anti-dumping and anti-subsidy measures enforced, 85 concerned China, illustrating its growing centrality in the trade tensions faced by the EU.<sup>1</sup>

However, these instruments suffer from major structural limitations. Procedures remain lengthy and legally complex.<sup>2</sup> Reactive by nature, **these measures typically come into play only after much of the damage has already occurred, resulting in sector-specific and partial responses, whereas the Chinese strategy follows a global and long-term approach.**

These limitations also apply to the new instruments that entered into force in 2023.

The Anti-Coercion Instrument (ACI) allows the Union to react when a third country exerts explicit pressure— through a measure or a threat— aimed at forcing the EU or a Member State to modify a sovereign decision. It is designed to address targeted acts of coercion, such as those observed in the case of Chinese pressure on Lithuania in 2021. By contrast, the ACI is largely ill-suited to the Chinese “steamroller.”<sup>3</sup>

As for the Foreign Subsidies Regulation (FSR), it aims to correct distortions of competition caused by public subsidies granted by third countries. The FSR allows the Commission to investigate, including *ex officio*, the effects of such support in the context of acquisitions, concentrations, or public procurement, and to impose corrective measures or prohibitions where appropriate. This instrument nevertheless remains essentially reactive and case by case.

In a different area, the extension of the Carbon Border Adjustment Mechanism (CBAM) represents an attempt to restore a form of competitive fairness by internalising differences in

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<sup>1</sup> In order to respond more quickly to rapid increases in low-cost imports, on 7 April 2025 the Commission also set up an import monitoring task force responsible for the early detection of abnormal flows. This task force uses an automated monthly dashboard to identify products requiring a targeted and proportionate response, while limiting collateral effects on other sectors.

<sup>2</sup> The Commission now has the power to initiate investigations *ex officio*, which may reduce the system's dependence on formal complaints from companies – but not its dependence on the positions of Member States.

<sup>3</sup> The ACI is an instrument designed for exceptional situations, whereas China's strategy is based on structural, continuous and multidimensional practices: massive subsidies, industrial overcapacity, prolonged price compression, credit support and vertical integration of value chains. It also requires the clear identification of an act of political coercion, whereas most Chinese practices fall under state capitalism without legally constituting acts of coercion within the meaning of the regulation. Finally, the instrument is reactive rather than preventive: it is activated following an investigation and a vote by the Council, which makes it ineffective in the face of a diffuse and gradual increase in imports or a widespread deployment of industrial capacity.

environmental standards. Its limited sectoral scope and gradual implementation timeline nevertheless restrict its effectiveness in the face of the scale of current imbalances.<sup>1</sup>

Overall, while the European Union does possess tools to respond to certain unfair practices or isolated shocks, they are not calibrated to counter a systemic competitive dynamic characterised by persistent cost gaps and a long-term offensive industrial strategy.

## 1.2. European preference: securing demand to favour European producers

Faced with the existing instruments' limitations, the European Union is now exploring levers aimed not only at correcting distortions *ex post*, but at steering demand allocation *ex ante* in favour of European producers. The debates around **European preference** or **local content clauses**, namely in public procurement or strategic projects, fall within this category.

While European preference instruments may appear relevant, their effectiveness and modalities depend heavily on the sectoral perimeter in which they are deployed. Recent experience already shows that they are more easily implemented in well-defined sectors that are relatively highly regulated and already widely supported by public funding. This is notably the case for defence, green industries that fall under the Net-Zero Industry Act, and the automotive sector, where the package recently announced by the European Commission introduces "made in Europe"<sup>2</sup> criteria. These criteria no longer apply solely to public subsidy schemes, but increasingly tend to be embedded in regulation itself, through conditionality or bonus mechanisms favouring production located in Europe, particularly in strategic and heavily regulated sectors. **This shift is far from trivial: it shows that European preference can become a cross-cutting regulatory instrument.**

However, extending this approach may raise other implementation challenges when one seeks to apply it to less structured or less intensely regulated sectors, such as industrial capital goods. In these domains, the very definition of "made in Europe" must either rely on pre-existing rules (in particular customs rules of origin, which already underpin international trade) or becomes technically complex, politically sensitive, and costly to implement in the absence of established technical levers and clearly identified political interests. More fundamentally, European

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<sup>1</sup> According to recent announcements by the European Commission, certain sectoral extensions and a broadening of the scope of the CBAM could come into force by 2028, subject to legislative decisions and ongoing impact assessments. These extensions relate in particular to products downstream of the sectors currently covered, as well as broader consideration of indirect emissions, in order to limit the risks of circumvention and carbon leakage. See European Commission (2025), "[La Commission renforce le mécanisme d'ajustement carbone aux frontières](#)," December 17.

<sup>2</sup> See European Commission (2025), "[Automotive Package](#)," December.

preference relies on regulation of the internal market based on ex post controls, often under the responsibility of national authorities, which significantly restricts its scope. It neither enables systematic coverage of all incoming flows, nor does it address phenomena at an aggregate scale.

Under these conditions, **European preference should above all be understood as a tool for targeted industrial policy.** It is relevant to accompany value chains undergoing transitions, provide temporary protection for strategic sectors, or send clear signals to productive investment. Used selectively, it can cover a significant share of the European market, particularly in automotive, green technologies, or cloud services, which are expected to be affected by future legislative initiatives. By contrast, **its extension cannot constitute an adequate response to imbalances of a macroeconomic nature.**

### 1.3. The limits to a siloed approach

Taken together, the instruments currently mobilised outline a more assertive European response, but one that remains fundamentally fragmented. Whether one considers trade defence tools, the CBAM, or European preference, each operates according to a sectoral, reactive, or regulatory logic, without an overall articulation. This silo-based approach contrasts with the Chinese strategy, which is integrated and anchored in the long term.

More importantly, these instruments correct certain effects – unfair practices, differences in standards, sectoral vulnerabilities – without addressing the underlying macroeconomic dynamic, marked by Chinese industrial overcapacities facing a largely open European market.

## 2. Changing the policy framework in the face of a systemic threat

The second path implies a profound change in paradigm. Faced with Chinese state capitalism and the systemic nature of the competition it exerts, Europe can no longer rely exclusively on intellectual and institutional frameworks inherited from China's accession to the World Trade Organization, which were based on the assumption of gradual convergence toward a market economy. Recognizing this systemic dimension has to lead to a deep rethinking of European industrial and trade policy, in order to break with a fragmented logic and better protect European value chains.

**It appears scarcely credible that cost gaps of the order of 30% to 40% can be offset in the short term by simple productivity gains or innovation for entire value chains exposed to Chinese competition.** In such a context, persisting with the current approach would amount to accepting a progressive but lasting downgrading of large segments of the productive apparatus. Reversing the logic therefore involves asking **not how to sanction potential non-**

**competitive practices for a given product, but how to offset these massive cost gaps, which affect entire portions of the productive apparatus.** This question is further warranted by the fact that China tightly controls its exchange rate (see [Annex 1](#)), meaning no automatic adjustment can be expected.

Within this framework, two broad options can be considered to neutralise such cost gaps.

## 2.1. First option: the equivalent of a general customs duty of around 30% on China

A first option would be to introduce a level of protection equivalent to a tariff across-the-board of about 30%, based on an extensive interpretation of current international trade law<sup>1</sup>.

- **Article XIX of the GATT (“safeguard clause”).** This article authorises the temporary introduction of import restrictions when an unforeseen and massive increase in imports causes or threatens to cause serious injury to domestic industry, irrespective of any unfair trade practice. It thus offers a legal instrument to respond to exceptionally large competitive shocks, though its scope is limited and conditional.
- **Article XXI of the GATT (“national security exception”).** Article XXI allows a state to take any measure it deems necessary for the protection of its essential security interests. While the text explicitly mentions certain cases (fissile materials, armaments, situations of war or serious international tensions), the notion of “essential security interests” is deliberately open-ended. In practice, it has been interpreted broadly, including considerations of economic security, as illustrated for example by Sweden’s use in the 1970s to restrict shoe imports. Rarely used for a long time, this exception has seen growing use since the late 2010s, notably following U.S. measures on steel and aluminium. This evolution suggests that Article XXI now constitutes a credible–though politically sensitive– legal lever to justify restrictive trade measures in the face of systemic imbalances.

In both cases, mobilising these instruments would imply a substantial shift in European trade doctrine, traditionally attached to a restrictive interpretation of these mechanisms.

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<sup>1</sup> Even a 30% tariff would only partially offset the cost-driven competitiveness gap and should therefore be seen as a lower bound. Indeed, a 30% cost differential would imply a countervailing duty of around 43% under full cost pass-through to prices (67% for a 40% cost differential).

## 2.2. Second option: a depreciation of the Euro of around 20% to 30% against the renminbi

A second option would be to seek a significant depreciation of the euro, of around 20% to 30%, similar to what the United States obtained under the Plaza Accord (1985).<sup>1</sup> Such a strategy would help restore part of the price competitiveness of European industry. It would, however, raise major issues of international macroeconomic coordination among central banks, in a context marked by the absence of a shared diagnosis regarding exchange-rate misalignments, notably on China's side. The issue of macroeconomic imbalances is moreover at the heart of the agenda promoted by the French G7 presidency, reflecting a willingness to bring these issues back to the centre of international debate.

Implementing such a strategy would also pose institutional difficulties, as exchange-rate policy is not an autonomous objective of the European Central Bank and can only be mobilised as an auxiliary objective, in compliance with its primary price stability mandate. Finally, such an option would face significant political obstacles, given the heterogeneity of Member State' preferences. It should be noted that these exchange-rate issues can be discussed within European governance bodies, notably within the Eurogroup. Reviving a substantive internal discussion on this crucial global issue would be indispensable, for example on the margins of euro area summits involving the ECB.

## 2.3. Building credible leverage to reach a comprehensive agreement

**Such options cannot be activated immediately. At the outset, they require building credible bargaining power vis-à-vis China, based on Europe's ability to condition access to its internal market, which remains one of the largest, most solvent, and most attractive in the world.**

In this context, an “escalate to negotiate” strategy appears key: it would involve progressively strengthening pressure instruments in order to create the kind of leverage capable of opening substantive discussions with China on overcapacities, subsidies, and reciprocal market access. This logic was notably implemented by the United States in the 1980s and led to the Plaza

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<sup>1</sup> Concluded in New York between the United States, Japan, West Germany, France and the United Kingdom, the Plaza Accord aimed to organise a coordinated depreciation of the dollar, which was considered excessively strong at the time. It was part of a context of significant macroeconomic imbalances, characterised by large US external deficits and surpluses in Japan and Germany. The agreement was based on concerted interventions in the foreign exchange markets and is one of the most emblematic examples of international macroeconomic coordination.

Accord (1985).<sup>1</sup> It is also critical for addressing the issue of **technology transfers**, which never occur spontaneously and by definition require the existence of a structured balance of power.

Such a strategy requires prioritising a **unified and global approach in order to limit sectoral retaliation**. Given the dynamics documented above, a fragmented response, by value chain or by product, would expose Europe to targeted retaliatory measures without correcting the underlying macroeconomic imbalances. In this context, the European Union's main strength lies in its capacity to condition access to its internal market. This implies unified action, indispensable for credible leverage. Hence the value of a comprehensive negotiation, grounded in the credibility of generalised tariffs of around 30%, capable of creating the conditions for an overall agreement with China. **Such a "macroeconomic" strategy could complement an approach based on selecting so-called critical or strategic value chains** that would receive specific protection (industrial, technological, or energy-related). While the latter can be relevant for securing certain inputs, steering investment, or accompanying targeted transitions, it nonetheless entails a risk: concentrating public effort on a limited number of emblematic segments, notably green industries – already at the core of China's industrial strategy and directly exposed to the competitive steamroller (as illustrated by the battery case). More broadly, an overly selective approach can weaken the competitiveness of the productive apparatus by preserving a few production islands without benefiting from the complementarities and economies of scale associated with controlling more complete value chains.

Such a global strategy would translate into a **showdown, which must be prepared for**. This requires an **active diversification of supply sources, a reduction of critical dependencies, and the development of partnerships with countries sharing convergent economic and geopolitical interests**, within a **friendshoring** framework. **The objective is not autarky, but resilience**: being able to withstand external shocks and strategies of industrial destabilisation.

Moreover, imposing such high tariffs would create **circumvention risks** against which a unified strategy must be established. This implies strengthening trade monitoring mechanisms in order to detect more rapidly rerouting through third countries. This could put **Europe's posture in the Asian region**<sup>2</sup> under strain and become a source of tensions between the Union

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<sup>1</sup> Japan, although reluctant given its heavy dependence on exports, accepted the agreement under explicit pressure, with the United States brandishing the credible threat of unilateral protectionist measures. The US Congress was already engaged in a protectionist escalation, with plans for quotas and tariffs specifically targeting Japanese exports.

<sup>2</sup> In addition to traditional instruments for combating trade circumvention, which will be quickly implemented by Chinese exporters, the regulation on foreign subsidies may be used to address circumvention through investment in the longer term, where this is based on foreign public support that neutralises the effect of existing trade measures or distorts competition in the domestic market.

and certain partners.<sup>1</sup> Beyond the European agenda, these aspects could also be addressed in the G7 and G20.

Finally, it should be emphasised that this strategy of protecting the internal market, while indispensable to prevent a massive competitive shock from sweeping away European industry, constitutes **only a necessary condition, but in no way a sufficient one**. It helps **rebalance industrial competition, stabilise highly exposed sectors, and recreate room for manoeuvring in the short term**, but does not, on its own, guarantee European firms' ability to face competition durably, especially on third-country markets outside the European Union.

**The sustainability of European industry depends on the reconstruction of competitive productive value chains located on European soil**, capable of generating productivity gains, innovating, and upgrading. This requires reducing critical dependencies throughout value chains, both upstream (raw materials, inputs, key components) and downstream (assembly, integration, and diffusion capacities). The density and coherence of these value chains directly condition innovation capacity, technological diffusion, and ultimately export competitiveness.

**The issue is therefore not only to protect the internal market, but to rebuild a robust industrial ecosystem**, in which control of value chains constitutes a central lever of competitiveness, resilience, and innovation. This requires a massive effort of productive investment in Europe, better mobilisation of private savings to finance companies, a lasting reduction in energy costs for industry, and a more strategic use of the internal market to enable European firms to scale up.<sup>2</sup>

## 2.4. The short-term cost of a strategic rebalancing vis-à-vis China

This industrial reconstruction would nonetheless entail a short-term cost that should not be underestimated. It would require accepting **significant short-term costs for European economies**, for both consumers and producers alike. **It would translate into higher import prices, generating a temporary negative effect on affordability and on the competitiveness of European exports, particularly outside the Union**. This cost is, however, the necessary counterpart for preserving, over the medium and long term, wealth creation in Europe –and

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<sup>1</sup> Chinese industrial investments announced in Europe paint a picture in which peripheral countries and “gateway” countries (Morocco, Turkey, Tunisia), which provide access to the European market, account for a significant share of these investments (see [Annex 6](#) for a map of these investments). The six founding countries account for only 25% of announced Chinese investments (in value) in the European Union between 2016 and 2025 (43% in number of projects) (source: Trendeo). This configuration also creates differing economic interests within the EU, fuelling the risk of fragmentation and complicating the construction of a unified European position in a potential trade and industrial standoff. It therefore reinforces the need to better coordinate European mechanisms for regulating extra-European investments in strategic sectors in order to preserve the EU's capacity for collective action.

<sup>2</sup> European Commission (2024), *The Future of European Competitiveness*, Brussels, September.

ultimately purchasing power– by enabling the maintenance and development of a value-creating productive fabric and productivity gains.

The social acceptability of such an adjustment therefore requires the establishment of **targeted compensation mechanisms**, which could notably be financed by tariff revenues, in order to support the most vulnerable households and the sectors most dependent on Chinese inputs. It also implies that the European Union equip itself with mechanisms to **mutualise the cost of pressure exerted by China**, for example through specific tools in the EU budget, in order to avoid internal divisions in the face of asymmetric retaliatory measures and to render the European strategy credible<sup>1</sup>. The most affected sectors and Member States could thus benefit from compensation mechanisms, helping to limit divergences of interest within the Union and preserve a common front over time.

It should be emphasised that **the cost of adjustment tends to increase as dependence on Chinese imports deepens, reinforcing the value of (i) early and gradual action and (ii) an urgent and determined diversification strategy**. And it should be recalled that the cost of inaction, notably in terms of job losses, would be very high.

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<sup>1</sup> Recent experience shows that China can resort to targeted and asymmetric retaliatory measures, targeting specific sectors or Member States. The investigations launched into cognac and dairy products, following European measures in the electric vehicle sector, illustrate this logic. This type of response increases the risk of fragmentation of European positions, exposing certain countries to concentrated costs. This calls for in-depth reflection on ways of pooling the risk of trade retaliations at European level in order to preserve the Union's strategic unity in the face of differentiated bilateral pressures.





## CONCLUSION

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China's productive rise no longer represents a sectoral or cyclical shock, but rather a systemic industrial and macroeconomic imbalance. Faced with production cost gaps estimated by industrial players at around 30% to 40% for comparable or even superior quality products, current European trade instruments appear far too insufficiently calibrated to prevent European industry from falling behind. Without a change in strategy, the risk is that the predatory dynamics observed in the photovoltaic sector could be repeated on a much larger scale, with rapid and often irreversible exits from the market.

**This risk is exacerbated in Europe by the fact that its industrial structure remains relatively static. Whereas "creative destruction" has largely been a driver of renewal of the productive structure in the United States, Europe seems more exposed to a form of "destructive destruction",** marked by the erosion of existing industrial positions without the sufficient emergence of new growth engines. As highlighted by the Draghi Report (2024),<sup>1</sup> **Europe remains locked into a rigid industrial structure, with very few new firms capable of disrupting incumbents or creating new engines of growth.** No European group with a market capitalisation exceeding €100 billion has been created from scratch over the past fifty years, whereas the six U.S. companies today valued at more than \$1 trillion were all founded over the same period.

Moreover, **productivity gains observed in Europe remain largely concentrated in the manufacturing sector. The sectors that drive productivity are primarily traditional industries** (automotive, transport equipment, telecommunications, or pharmaceuticals).<sup>2</sup> This concentration underscores the persistent difficulty of European economies in generating broad and lasting productivity engines outside the manufacturing core.

In this context, the marginalisation of European industry in the face of the Chinese steamroller would not be a simple sectoral loss, but a lasting –and potentially irreversible– weakening of Europe's capacity to innovate, export, and sustain its growth trajectory. **The issue is therefore**

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<sup>1</sup> European Commission (2024), *The Future of European Competitiveness*, Brussels, September.

<sup>2</sup> See ING (2025), "Stuck in the mid-tech trap: Why Europe needs more disruptive digital innovations," January 13.

**not only to correct short-term trade imbalances, but to preserve the very foundations of European wealth creation and the sustainability of its economic model.** This requires moving beyond a fragmented, sectoral, and largely reactive approach, **to embrace an industrial and macroeconomic strategy commensurate with a systemic threat**, founded on effective protection of the internal market and the deliberate use of this lever to halt the marginalisation of the European productive apparatus. This will require vigorous efforts of persuasion and preparation, at the European level and beyond – provided that, in parallel, Europe invests, innovates, and responds to the demographic shock, which also represents a massive productive challenge.



# ANNEXES

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## ANNEX 1

# WHY THE COST GAPS OBSERVED TODAY ARE LONG-LASTING AND SELF-REINFORCING?

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The cost gaps observed between Chinese and European production sites do not stem from a temporary advantage or a simple wage differential inherited from the past. They result from a set of interlocking mechanisms that reinforce one another and generate a cumulative dynamic, making these gaps both persistent and self-reinforcing.

### *A generalised compression of factor prices*

The first element relates to the configuration of factor markets in China, which leads to a **simultaneous compression of their costs**. While the wage catch-up observed over recent decades is very real,<sup>1</sup> it has not been accompanied by a proportional increase in the prices of other production factors.

The **cost of capital thus remains structurally low**, due to limited profitability requirements and privileged access to credit through the banking system. Local banks are in particular encouraged to support firms located in their jurisdiction by granting financing under preferential conditions, contributing to a lasting reduction in the cost of capital for industrial actors.<sup>2</sup>

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<sup>1</sup> According to *The Economist* (March 3<sup>rd</sup>, 2023), between 2010 and 2022, the hourly labor cost in China's manufacturing sector rose from around \$3 to over \$8.

<sup>2</sup> Boullenois, C., Kratz, A., and Rosen, D. H. (2025), *Far From Normal: An Augmented Assessment of China's State Support*, Rhodium Group, March.

Extending these mechanisms, **industrial land in China constitutes a central instrument of local economic policy**, playing a decisive role in reducing the cost of installing and expanding productive capacities. Local governments largely control the allocation of industrial land and can offer particularly favourable conditions –low-price transfers, long-term leases, or subsidized rents– in order to attract investment and support industrial development. Industrial land is thus frequently allocated at prices far below those observed in residential markets, which amounts to an implicit investment subsidy provided by local authorities.<sup>1</sup>

**Another factor are industrial energy prices which are significantly lower than those observed in Europe, as well as secure and low-cost access to numerous critical inputs**, further strengthening the cost competitiveness of Chinese production sites. Electricity prices for industry in the European Union remain structurally much higher than in competing economies. In 2024, they were more than **twice as high as in the United States and 50% to more than 100% higher than in China**, depending on the sectors considered and the price definitions used.<sup>2</sup> This energy cost differential, combined with secure and often cheaper access to critical inputs, further reinforces the cost competitiveness of Chinese production sites relative to their European counterparts.

**This cost compression is further amplified by a less constraining social and environmental framework than that prevailing in Europe.** The Chinese labour market is characterized by high flexibility, limited social protection, and persistent duality, notably through **the hukou system**, which restricts rural migrant workers' access to social services and labour rights.<sup>3</sup>

**The carbon price signal is in particular much weaker:** while the average price of allowances under the EU ETS stands at around €75 per ton of CO<sub>2</sub>, that observed on the Chinese carbon market is on the order of €10-12, i.e. six to seven times lower. More broadly, reporting and emission-reduction obligations remain, at this stage, well below European standards, reducing the regulatory cost borne by industrial firms.

Finally, **the Chinese economy has largely benefited from its integration into global trade without applying multilateral rules symmetrically on its own market.** Non-tariff barriers, distortive subsidies, and certain practices regarding intellectual property have contributed to

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<sup>1</sup> Li, K. and Li, K. (2025), "Government Intervention in Land Markets: The Role of Industrial Policies in Shaping Land Use Costs," *Australian Economic Papers*, vol. 64(2), June, pp. 267-268; He, Z., Nelson, S., Su, Y., Zhang, A. L., and Zhang, F. (2022), "Industrial Land Discount in China: A Public Finance Perspective," Working Paper, No. 2022-24, September.

<sup>2</sup> International Energy Agency (2025), *Electricity Mid-Year Update 2025*, July; CLEPA (2025), "Industry under Pressure: Europe's Shrinking Global Role," July.

<sup>3</sup> Chen, Z., Shang, Q., and Zhang, J. (2024), "Recent Progress in Hukou Reform and Labor Market Integration in China: 1996-2022," *China Economic Review*, vol. 87, October; Bertrand, B., Carré, T., Gaumont, F., and Gianella, C. (2025), "Internal Migration: A Cornerstone of China's Economic Model," *Trésor-Economics*, No. 357, January.

restricting access to the Chinese market for foreign firms, while accentuating the structural disadvantage of European production sites. **Subsidies have continued to rise since 2015<sup>1</sup>** and now reach levels well above those observed in European countries, representing nearly 4.5 percentage points of GDP in China, compared with 2.2 percentage points of GDP on average in the European Union.<sup>2</sup>

**These elements do not merely add up: they reinforce one another**, by lowering the profitability threshold of industrial projects and enabling low-margin production strategies incompatible with European conditions.

### ***A structural bias toward capacity accumulation and demand compression***

The second factor lies in **the macroeconomic orientation of the Chinese model, characterised by an exceptionally high investment effort and structurally constrained domestic demand**. In 2024, total investment accounted for 43% of Chinese GDP, a level without equivalent among major economies (compared with 21% in Germany, 24% in France, and 22% in the United States).

This strategy entails a sustained suppression of demand, exacerbating macroeconomic imbalances and exerting downward pressure on wages and prices. **Some countries –most notably China– have adopted policies that systematically favour producers over consumers**, restraining domestic demand while supporting export-led manufacturing, at the expense of deficit countries such as the United States and France.<sup>3</sup>

Michael Pettis<sup>4</sup> summarises this logic by **noting that when certain countries expand manufacturing output faster than GDP while allowing consumption to grow more slowly, they mechanically force the rest of the world into the opposite model, in which consumption grows faster than manufacturing production**. The structural weakness of consumption in China is a direct illustration: household final consumption represents less than 40% of GDP, compared with 68% in the United States, 50% in Germany, and 53% in France, fuelling persistent industrial overcapacities whose repercussions extend far beyond the Chinese market.

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<sup>1</sup> Xiang, S., Yin, X. and Zi, Y. (2025), “Two decades of Chinese industrial subsidies”, Vox-Eu/CEPR, 7 January.

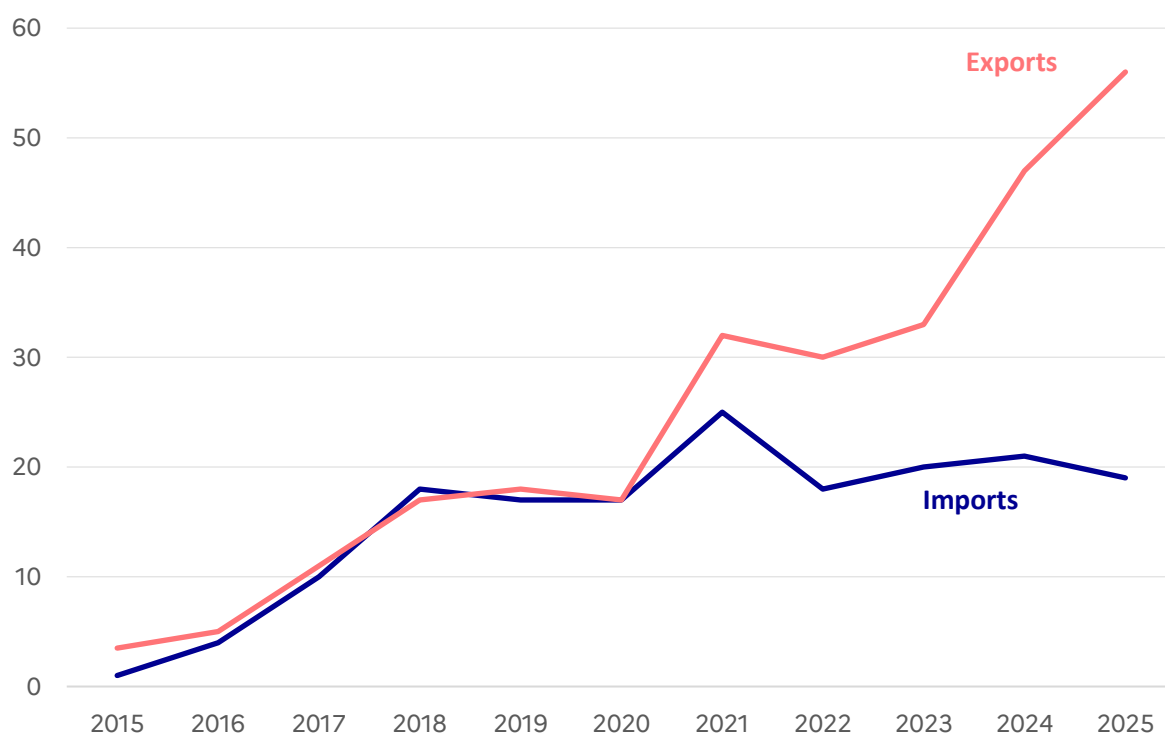
<sup>2</sup> International Monetary Fund (2025), *World Economic Outlook*, October. See Chapter 3, “Industrial Policy: Managing Trade-offs to Promote Growth and Resilience.”

<sup>3</sup> Grjebine, T. and Grekou, C. (2022), “Déficits commerciaux et désindustrialisation : la faute de la demande ?”, *La Lettre du CEPII*, No. 426, April.

<sup>4</sup> FT Podcast – The Economics Show (2025), “China’s economy vs the world. With Michael Pettis,” September 24.

This demand compression, combined with the rise of manufacturing production on Chinese soil, also translates into a compression of imports, whose value has been quasi-stagnant, while exports have risen rapidly. This divergence feeds trade surpluses at historically high levels.

**Figure A1 – Cumulative change in China's import and export volumes, 2015-2025, in percentage terms**



Sources: IMF, authors' calculations

### ***Intense domestic competition and cumulative scale effects***

The functioning of the Chinese domestic market constitutes a third key mechanism. **The combination of low entry barriers for Chinese actors and intense rivalry between firms and territories generates hyper-competition that exerts continuous downward pressure on prices.** The price war in the automotive sector illustrates this dynamic: in spring 2025, BYD launched price cuts of up to 34%, forcing competitors to follow suit and weakening margins and supply chains. The *People's Daily* even denounced a "destructive spiral".

In this context, competition helps maintain permanent pressure on costs and margins. These dynamic favours actor capable of producing at very large scale and absorbing low returns, thereby reinforcing the advantages of already most competitive sites.

**The density of value chains plays a central role here:** in many sectors, geographic proximity between suppliers, assemblers, and R&D actors allows rapid cost adjustments, accelerated diffusion of innovations, and reduced coordination costs. **These scale and agglomeration effects** are cumulative and **difficult to replicate in more fragmented economies such as those of the European Union.**

### ***A spectacular technological and quality upgrading***

**To all these factors must be added a spectacular technological and quality upgrading.** China has, in just a few years, established itself as a central –and now dominant– actor across a wide range of critical and emerging technologies. Data on high-impact scientific publications show that **it now ranks first worldwide in the majority of major strategic technological domains, including artificial intelligence, advanced information and communication technologies, industrial materials and processes, energy, quantum technologies, and dual-use technologies related to defence, space, and robotics.** This dynamic reflects a rapid shift of the global technological frontier: while China dominated only 3 out of 64 critical technologies between 2003 and 2007, it became the leading country in 57 of these technologies over the period 2019-2023, attesting to both the quantitative and qualitative upgrading of its research apparatus.<sup>1</sup>

**This upstream leadership is matched by a growing ability to capture the economic value of innovation and rapidly translate it into industrial capacity.** China today possesses an unparalleled reservoir of skills: in 2020, it produced **around 3.6 million STEM graduates**, more than India (2.6 million), more than four times the United States (0.8 million), and nearly fifteen times that of countries such as France or Germany (around 0.2 million each).<sup>2</sup> This critical mass of human capital is also reflected in the structure of the global scientific elite: **nearly half of the top 20% of AI researchers worldwide obtained their undergraduate degree from a Chinese university in 2022**, compared with around 18% in the United States and 12% in Europe.<sup>3</sup> Combined with **massive industrial automation– with nearly 280,000 industrial robots installed in China in 2023**, more than all major advanced industrial economies combined– and a **patent stock now exceeding that of all other major economies**, this dynamic translates into increasingly efficient industrial processes.

The rapid deployment of so-called “smart factories,” integrating artificial intelligence directly into production processes, makes it possible to simultaneously increase productivity, quality,

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<sup>1</sup> Australian Strategic Policy Institute, [Critical Technology Tracker](#).

<sup>2</sup> See Deutsche Bank Research; Peterson Institute.

<sup>3</sup> See Deutsche Bank Research.

and speed of industrial scale-up, further widening the competitiveness gap with the rest of the world (International Federation of Robotics; WIPO Statistics Database).

### ***The absence of an external correction mechanism***

Finally, the macroeconomic adjustment mechanisms that could, in theory, limit the persistence of these gaps play only a limited role. **Capital controls restrict adjustment via the exchange rate<sup>1</sup>**, while domestic demand compression helps contain internal inflationary pressures. In this context, **since early 2020 one observes a very sharp real appreciation of the euro relative to the renminbi, measured on the basis of producer prices, exceeding 40% for Germany and for the euro area between early 2020 and spring 2025**, mechanically strengthening the external competitiveness of Chinese industry<sup>2</sup> (Matthes, 2025; Setser, 2025; Pettis, 2025).

This results in an ability to maintain –or even strengthen– external price competitiveness of Chinese industry despite the scale of internal imbalances.

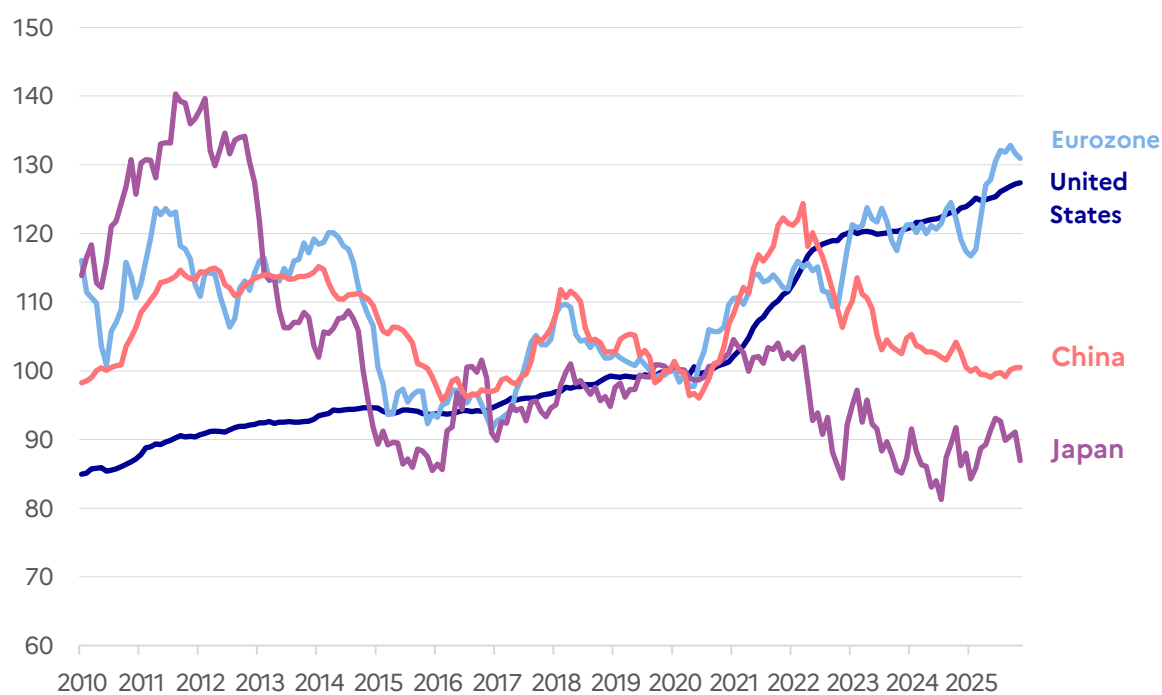
Ultimately, the cost differences between China and Europe do not result from a single advantage, but rather from **a coherent system in which the structure of factor markets, macroeconomic orientation, intensity of domestic competition, technological upgrading, and the absence of corrective mechanisms combine to produce a cumulative and massive dynamic**. This configuration explains why these differences are now particularly difficult to close and why they constitute a structural rather than a cyclical challenge for European production sites.

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<sup>1</sup> Wright, L. (2025), “[20 years of missed opportunities in China’s exchange rate policy](#),” Rhodium Group, July 23.

<sup>2</sup> Matthes, J. (2025), “Yuan undervaluation against the Euro: Unfair cost advantages for China?! Evidence for Germany and the Euro area,” German Economic Institute (IW), July 23 ; Setser, W. B. (2025), “[China’s data still doesn’t add up](#),” CFR, August 19; The Economics Show (2025), “[China’s economy vs the world. With Michael Pettis](#),” op. cit.

Figure A2 – Producer prices, in dollars, base 100 in December 2019



Note: excluding the energy sector.

Sources: Eurostat, BLS, Bank of Japan, NBS, Rexecode calculations





## ANNEX 2

# IDENTIFYING ABNORMAL CHINESE DYNAMICS ON THIRD-COUNTRY MARKETS

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To objectively identify a concerning dynamic in the progression of Chinese exports on third-country markets, four monitoring indicators were selected over the period from 1995 to 2023:

1. Gains in China's market shares, measured in percentage points.
2. Losses of market shares by competing European exporters.
3. Multiplicative factor of Chinese market shares (for example, an increase from 0.5% to 2%, i.e. a x4 factor).
4. Accelerating gains in China's market share, enabling the identification of a structural break in the dynamics.

### ***An approach based on internal dynamic comparison and a rolling window***

In order to establish objective and robust alert thresholds, the chosen approach relies on each exporting country's own dynamics, rather than on a comparison with an external reference country.

Concretely, for each European country, each sector, and each third-country market, the dynamics observed at a given date are compared with the distribution of changes recorded by that same country over the previous five years, using a rolling time window. For example, the dynamic observed in 2020 is assessed against that observed over the 2015-2020 period, and the window is then shifted forward by one year for each subsequent observation. This method makes it possible to account for heterogeneity in export performance across countries and sectors, and to identify abnormal developments relative to each exporter's own historical trajectory.

## ***Identification of statistical breaks***

For each of the four indicators, the evolution observed for China is compared, year by year, with the historical distribution derived from the corresponding rolling window. An exceedance of at least half a standard deviation constitutes the alert threshold. Such a configuration is interpreted as a statistically significant break relative to the past dynamics of the exporting country considered. The choice of a half-standard deviation threshold allows weak signals to be captured as well. These tests are conducted sector by sector and country by country, for all four indicators.

## ***Aggregation and alert levels***

Finally, for each sector, European exports are aggregated according to the number of indicators exceeding the alert threshold:

- Level 1: one indicator above the  $\frac{1}{2} \sigma$  threshold;
- Level 2: two indicators above the  $\frac{1}{2} \sigma$  threshold;
- Level 3: three indicators above the  $\frac{1}{2} \sigma$  threshold;
- Level 4: four indicators above the  $\frac{1}{2} \sigma$  threshold.

This grid makes it possible to estimate, for each sector, the share of European exports exposed to abnormally strong Chinese dynamics, taking into account both the intensity and the convergence of signals.

## ***A “predictive” indicator***

The predictive nature of the indicator is assessed by examining whether high levels observed in the past are associated, in subsequent years, with greater losses of market share by European exporters, in particular when they are exposed to markets where Chinese competition is especially aggressive.

The Table A1 on the next page presents the results for German exporters. It compares, for each year since China's accession to the World Trade Organization, the level of the threat indicator with subsequent changes in German market shares on third-country markets, at five- and ten-year horizons.

Reading of the table: for German sectors in which between 30% and 60% of exports are directed toward markets characterized by high Chinese commercial aggressiveness, the average loss of market share relative to China reaches 2.7 percentage points at five years and 5.8 percentage points at ten years. Results are calculated as export-value-weighted averages.

**Table A1 – Decline of German manufacturing sectors compared to China, by exposure, over a five- and ten-year horizon**

Risk slice	Dropout rate over a five-year horizon (in percentage points)	Dropout rate over a ten-year horizon (in percentage points)
0-30%	- 1.3 pt	- 2.7 pts
30-60%	- 2.7 pts	- 5.8 pts
60-100%	- 4.0 pts	- 7.0 pts

Note: for German sectors in which between 30% and 60% of exports are directed towards markets characterised by strong commercial aggression from China, the average loss of market share relative to China reaches 2.7 points over five years and 5.8 points over ten years. The results are calculated as averages weighted by export value.

Source: BACI, authors' calculations

These results show that German manufacturing sectors historically most exposed to Chinese competition are also those that have experienced the most pronounced trade declines vis-à-vis China.





## ANNEX 3

# IDENTIFYING ABNORMAL CHINESE DYNAMICS ON EUROPEAN DOMESTIC MARKETS

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To identify a concerning dynamic in the progression of Chinese imports on European domestic markets, three monitoring indicators were selected:

- Increase in China's presence within the country's competitive space (ratio between the country's imports from China and its total import and export flows).
- Increase in the penetration of Chinese imports (ratio between the country's imports from China and its total imports).
- Increase in the ratio between imports from China and the country's domestic production.

### ***An internal dynamic statistical break assessment approach***

As for export markets, we retained an approach based on each country's internal trade dynamics in order to obtain objective and robust alert thresholds.

Concretely, for each European country and each sector, the dynamics observed at a given date are compared with the distribution of historical data for the three indicators, using a rolling time window. As with exports, this method makes it possible to account for heterogeneity in production performance across countries and sectors, and to identify abnormal developments relative to each sector's own historical trajectory.

In order to capture trends rather than temporary fluctuations in production, for each sector we compared the average of the last three years with that of the preceding five years. Concretely, this amounts to comparing the average over years N to N-2 with the average over years N-3 to N-7.

We then measured, for each country and each sector, whether a statistical break had occurred, yielding three alert thresholds. As with exports, an alert level of N corresponds to N indicators exceeding the  $\frac{1}{2}\sigma$  threshold.



## ANNEX 4

# THE SOLAR PANEL PRECEDENT THREATENS TO BE REPEATED AT THE SCALE OF EUROPEAN INDUSTRY

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The photovoltaic sector illustrates the case in which a European industry that was initially dominant was progressively marginalised within just a few years when confronted with a rapid and heavily state-supported rise in Chinese production and with a late and insufficient European response.

### ***A dominant European industry in the 2000s***

In the early 2000s, the large-scale deployment of photovoltaic panels was driven by European demand-support policies, primarily based on high guaranteed feed-in tariffs. Germany, followed by Spain, played a leading role: Europe then accounted for more than half of global installed capacity and global demand until 2012. These mechanisms kept prices above production costs, enabling European and U.S. manufacturers to generate significant profits and rapidly expand their capacities. European countries also held a central position in production equipment, particularly for crystalline photovoltaics.

### ***A highly offensive Chinese industrial strategy***

From 2004 onward, China launched massive investment in the sector, while it had previously been a marginal player.<sup>1</sup> By relying on the acquisition of foreign production equipment, the recruitment of skilled managers, and substantial public support –notably through preferential financing and various subsidies– it rapidly progressed across all accessible segments of the

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<sup>1</sup> OECD (2026), "Subsidies and the solar panel industry. Too close to the sun," *Policy Brief*, January 13.

value chain. This rise was largely export-oriented, with the vast majority of Chinese production destined to foreign markets by the late 2000s.

### ***A late and insufficient European response***

**The build-up of overcapacity and the sharp fall in prices from 2011 onward led to a brutal restructuring of the sector, marked by numerous bankruptcies among producers in advanced economies. Trade responses came late: an anti-dumping investigation in the United States in 2012, followed by one in the European Union in 2013, which resulted in an agreement on a minimum price. By that stage, the European productive base had already been largely weakened, severely limiting the effectiveness of these measures, especially as they were accompanied by targeted Chinese retaliation.**

### ***A European production base reduced to the margins***

**These developments resulted in a near-monopoly situation for China in photovoltaics, with market shares today exceeding 80% across all segments of the value chain. European solar panel production has become marginal, illustrating the risk that an external competitive shock, when poorly anticipated and addressed too late, leads not to gradual industrial adjustment, but to a durable exit from the market.**



## ANNEX 5

# HEARINGS: SCOPE, METHOD, AND MAIN FINDINGS

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A series of targeted interviews with European industrial actors and experts from the public sphere was conducted between November 2025 and January 2026 in order to complement the quantitative analysis with field-based insights into ongoing industrial dynamics.

These interviews covered the following sectors: **agri-food, chemicals, energy (electricity and nuclear), electrical and electronic equipment, mechanical engineering and capital goods, automotive, pharmaceuticals, textiles, luxury goods, and aerospace**. They were conducted with representatives of industry federations, major European groups, and French companies producing both in Europe and in China. The discussions were held under confidential conditions, and contributions are presented in anonymised form to allow interviewees to speak freely about sensitive information.

The objective of these exchanges was threefold:

- to document production cost gaps observed by industrial actors at comparable quality;
- to characterise dynamics of overcapacity, technological upgrading, and competitive pressure on European and global markets;
- to collect industrial actors' assessments of the adequacy of existing European instruments (trade defence, regulation, industrial policy) in the face of China's strategy.

The interviews were conducted in the form of semi-structured discussions, enabling the cross-checking of quantitative elements, operational feedback, and forward-looking analysis. They do not constitute a statistical survey in the strict sense, but rather a complementary qualitative

input designed to contextualise and illuminate the results derived from international trade and production data used in the note.

Despite the diversity of sectors and business models represented, the interviews reveal a largely convergent diagnosis regarding the systemic nature of Chinese competition, the magnitude of cost gaps, and the structural character of industrial overcapacity (see **Box 2**).



## ANNEX 6

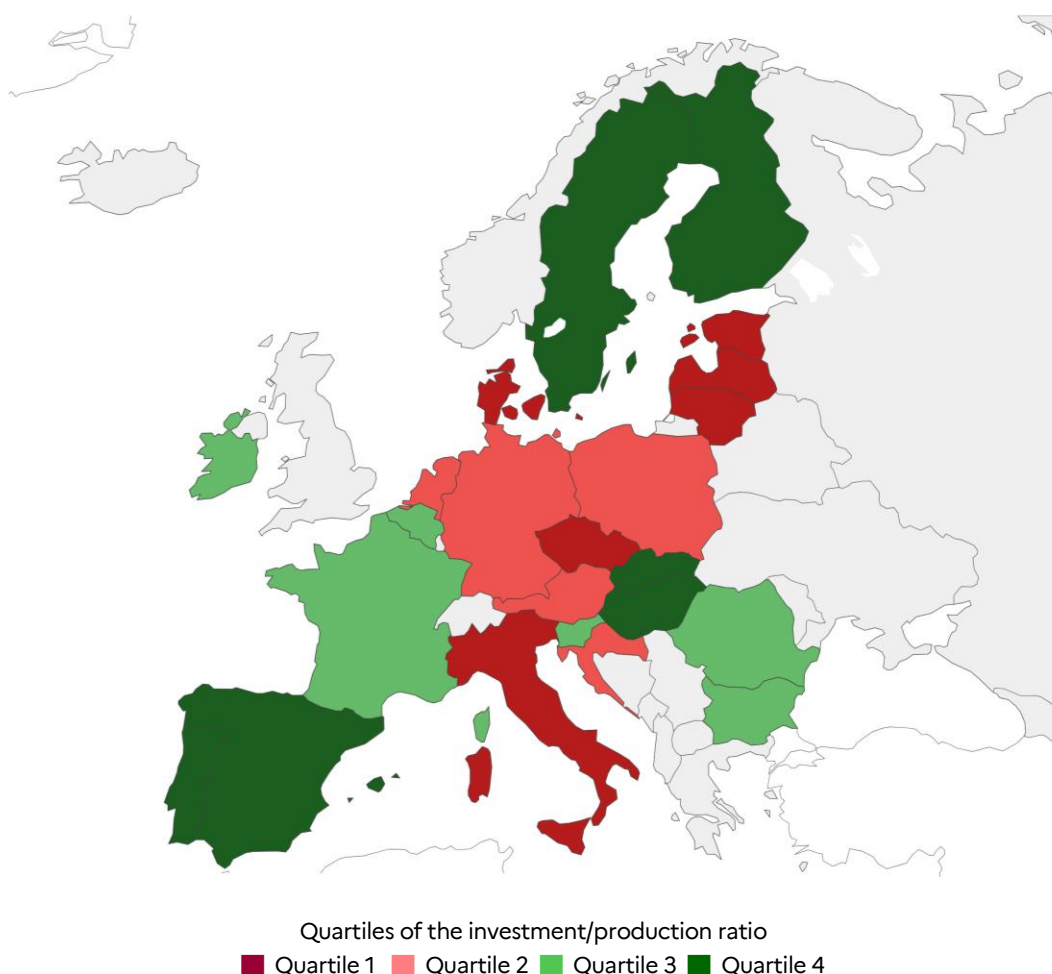
# CHINESE INVESTMENTS IN EUROPE

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China's advance on European markets also operates through the channel of direct investment. These Chinese investments are concentrated mainly in manufacturing and energy sectors, and their distribution within the European Union is highly uneven across countries. The announced amounts are also extremely heterogeneous, ranging from projects worth a few million euros to emblematic mega-investments, such as the future Hungarian gigafactory of the world's leading battery producer Contemporary Amperex Technology (CATL), whose value is estimated at USD 9.1 billion and which is expected to generate nearly 2,600 jobs.

Chinese investments announced in Europe over the 2016-2024 period display strong geographical heterogeneity when expressed relative to the size of national productive economies (see Map A1 on the next page). Some countries show high investment-to-production ratios, reflecting large announced amounts relative to their industrial base, while others –particularly large industrial economies– exhibit more moderate ratios. Relative to the size of the productive fabric, announced Chinese investments in France appear higher than those observed in Germany, and even more so than in Italy. Announced investments in Spain are even larger relative to the size of its productive base, reflecting a high intensity of announcements relative to national industrial capacity. This distribution suggests a differentiated location of projects, possibly related to national host conditions (costs, public subsidies, etc.). These results are based on announced investments, whose actual realization may be partial or delayed over time.

Map A1 – An uneven geography of Chinese investment in Europe (2016-2024)



Note: we calculate an investment/production ratio for each country, then rank these ratios in quartiles based on the distribution observed within European Union countries. The first quartile corresponds to the 25% of countries with the lowest ratios, and the fourth quartile to the 25% with the highest ratios.

Source: Trendero data, authors' calculations based on investment announcements for the period 2016-2024.

Chinese investment announcements also appear to be particularly concentrated in so-called “gateway countries”.<sup>1</sup> Taken together, these countries account for nearly one quarter of Chinese investments recorded over the 2016-2025 period, across all sectors, amounting to approximately USD 40 billion.

<sup>1</sup> So-called “gateway countries” are countries with strong economic proximity to the European Union, maintaining preferential trade relations with it and for which Chinese investments have been reported. In this regard, we include Turkey, Morocco, Tunisia, and Serbia. These relationships take the form of either free trade agreements (Morocco, Tunisia, Serbia) or a customs union covering most industrial products (Turkey), thereby facilitating access to the European market.

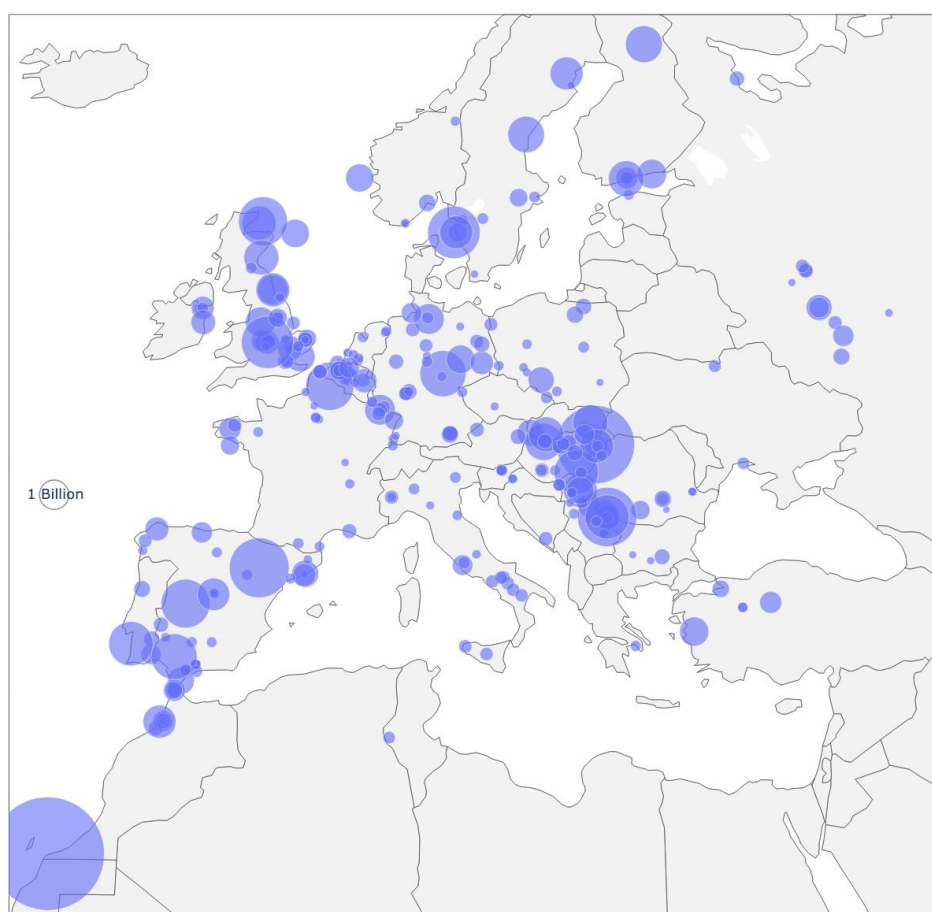
**Table A2 – Significant Chinese investments on the borders of the European Union**

	European Union	Gateway countries	Others
All sectors combined	48%	24%	28%
Manufacturing	53%	22%	25%

Note: the table shows that announced Chinese investments at the EU's borders are heavily concentrated in gateway countries, which account for nearly a quarter of the amounts announced over the period 2016-2025, all sectors combined.

Source: Trendeo data, authors' calculations based on investment announcements for the period 2016-2025

**Map A2 – Chinese investments in Europe (in billions of constant dollars)**



Note: the size of the circles corresponds to the size of the investment, in billions of dollars (constant). This marked heterogeneity of Chinese investments within the European Union is likely to fuel non-cooperative strategies between Member States, each seeking to attract as much investment as possible to its territory.

Source: Trendeo data, authors' calculations based on investment announcements for the period 2016-2025



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