„Made in Europe”: Ready for Resilience?!

Europe’s Uphill Battle Against Deindustrialisation

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Source: EU Commission, Jennifer Jacquemart, Claudio Centonze

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The **geoeconomic paradigm shift** away from cooperative interdependencies toward the use of **asymmetric dependencies** as an **economic weapon** is clearly accelerating. It has become the defining feature of international competition and poses significant challenges for Europe as a whole. While **China** has come to dominate manufacturing in the cleantech sector and access to critical raw materials through mercantilist strategies, the **U.S.** is the technological leader in digital infrastructure and defence. And Europe in between, facing unfair trading practices, distortive overcapacities, and aggressive subsidy regimes. The result is **a loss of industrial capacity and global market shares**.

Defined by the pursuits of **strategic resilience and economic security**, the global economy is no longer shaped primarily by price considerations and efficient resource allocation, but increasingly by the **industrial policies** that major economies deploy to achieve these goals. **Reshoring** and **friendshoring** are increasingly regarded as necessary measures to **mitigate risks and potential damage**. Therefore, **local content requirements** (LCRs) under a “Made in Europe” label are now actively being explored. Areas of application include preferential treatment of suppliers in **public procurement procedures** and in the **allocation of public funding**. LCRs are a **demand-side-driven alternative** to conventional subsidies and - if designed appropriately in legal, administrative and budgetary terms - can deliver multiple benefits for the European economy.

They can **attract investment** to Europe where market forces alone no longer prove sufficient. In this way, **value chains** can be established and deepened, existing **industrial clusters** stabilized, and critical stages of **production reshored** to Europe. LCRs can also help **offset asymmetric competitive conditions** by protecting European value creation from dumping practices and subsidy-driven imports. They make **public and regulated demand** in Europe more predictable and enhance **investment security**, particularly in capital-intensive industries supported by the scale of the **Single Market**. However, “Made in Europe” can realize its positive effects only if it is applied in a **targeted** manner, **well-coordinated** at the European level, implemented in a **proportionate** way, **demand-driven**, **complemented** by supportive location-based policy measures, and **open to partners**. A geographically broader approach can help mitigate the potential **side effect of higher prices**.

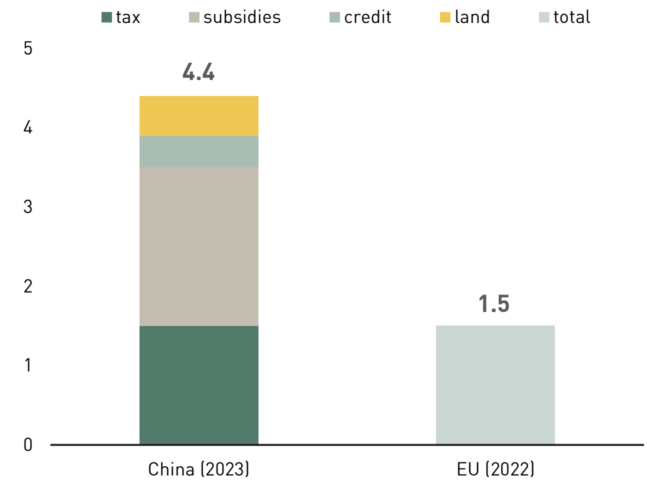
The European Commission is addressing this very issue, following a clear principle: “whenever European public money is used, it must contribute to European production and quality jobs”. Against this backdrop, it has put forward the Industrial Accelerator Act (IAA) to boost **industrial capacity-building** and **decarbonisation** in three strategic sectors: **energy-intensive industries, net-zero technologies** and **automotive supply chains**. While their direct contribution amounts to only 15 % of European production, they generate substantial upstream and downstream effects. By 2035, the Commission seeks to reverse the ongoing decline in overall manufacturing and raise its contribution to GDP from the current 14.3 % to 20 %.

The regulation is built around **three core pillars**. First, Member States shall establish national **single access points for unified permit-granting procedures** for production facilities. Second, **foreign direct investments** in emerging strategic sectors (batteries, EVs, solar, and raw materials) require prior approval when exceeding EUR 100 million and the investor’s home country holds over 40 % of global capacity (esp. China). Approval is granted only if at least **5 of 6 criteria** are met: foreign ownership ≤ 49 %, joint ventures with EU participation, intellectual property licensing arrangements, minimum 1 % of annual revenue invested in R&D in the EU, at least 50 % EU workforce, and at least 30% EU inputs in products. Third and most importantly, **access to public procurement procedures and public support schemes is conditional on Union origin and/or low-carbon requirements** for steel, cement, aluminium, battery technologies, solar, wind, car components and nuclear fission. Investments and operators covered by **trade agreements are generally exempt** where reciprocal treatment is granted.

Indicators to watch

Industrial policy support in China and the EU

In percent of GDP



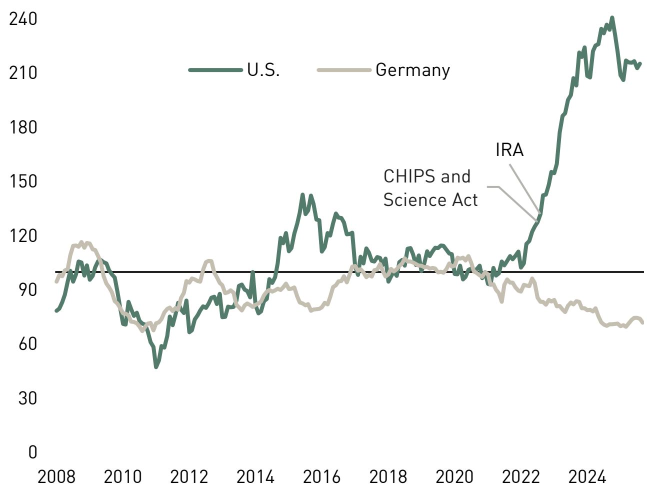
Source: IMF.

China spends ~3 times more on IP measures than the EU

Industrial policy (IP) measures are notoriously difficult to quantify as many are not captured as specific transactions but instead take the form of implicit transfers via preferential regulatory treatment or below-market-rate credit via a state-directed banking system. Calculations by the IMF, based on financial reports from listed firms and land transaction registries, suggest that China's industrial policy equated to 4.4% of GDP in 2023, compared with 1.5% in the EU the previous year. Moreover, unlike in the EU, China's IP is widely intertwined with local-content requirements. Informal steering in favour of domestic companies in public procurement, selective enforcement of rules and market-access restrictions all contribute to a policy environment that favours domestic producers while discriminating against imports and foreign producers within China.

Manufacturing construction investment in comparison

Index: 2020=100, real



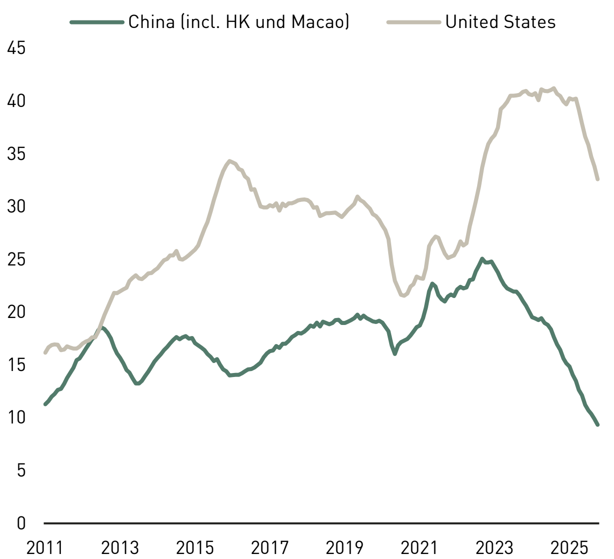
Source: FRED, Destatis.

"Made in the U.S." subsidies crowded in private investment

While there has been an extensive debate among economists about whether IP can be used to enhance welfare or productivity, there is little doubt that targeted IP can steer the economy towards certain strategic or otherwise prioritised sectors, with China being a prime example. China has long used a range of IP instruments to support priority economic sectors, with significant economy-wide effects and a strong track record in fostering specific industries and technologies. With the introduction of the Inflation Reduction Act (IRA) as well as the CHIPS and Science Act in 2022, the U.S. also entered the race to build domestic manufacturing capacities in key industries. Although the new administration has already repealed large parts of it, the IRA demonstrates how targeted, predictable public support can crowd in private investment.

EU car exports to the U.S. and China

In billion euros based on 12-month-sums



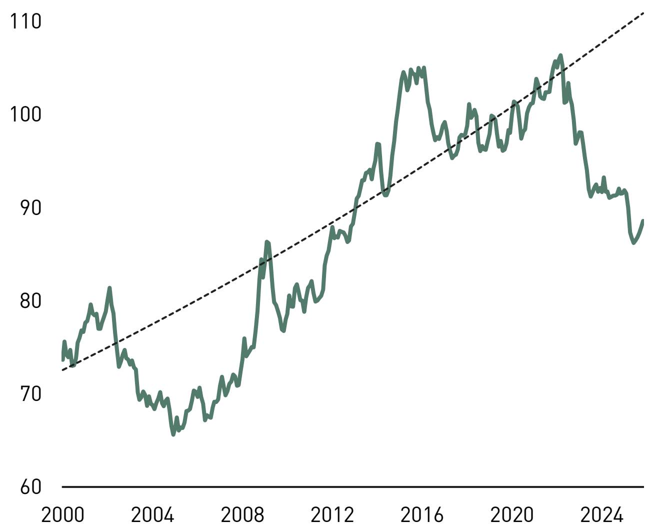
Source: Eurostat.

Export demand for EU cars has been hit by a double shock

The sector most affected by the second China shock is undoubtedly the global automotive industry. Car exports from China have surged from 1 million units before the pandemic to over 7 million, leaving a net surplus of around 6.5 million. Meanwhile, EU car exports to China have fallen by more than half since early 2023, reflecting weak domestic demand and rapidly rising production capacity in China. In recent years, a bright spot for European producers has been the U.S. market. Prohibitive tariffs on Chinese EV imports gave EU producers a competitive edge, while the U.S. domestic market grew substantially following the introduction of the IRA. This changed after the "Liberation Day" tariffs and the rollback of the tax incentives introduced by the IRA. The EU is now facing a double hit to its export demand from two of its main trade partners. This highlights the need for Europe to better utilise its own internal market, providing firms with the necessary scale to remain competitive in the future global car market.

Real Broad Effective Exchange Rate for China

Index 2020 = 100, dotted line = 2000-2021 trend



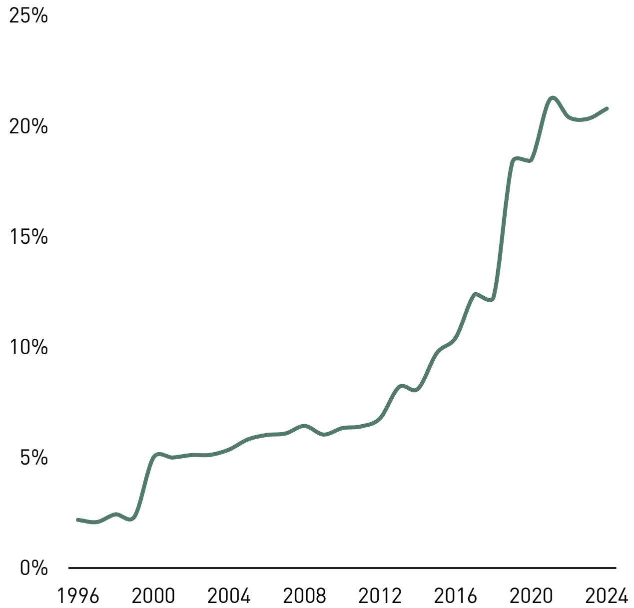
Source: FRED.

The yuan has depreciated significantly in recent years

China's 2025 trade data show a record surplus of USD 1.2 trillion for the year, despite exports to the U.S. falling by almost 20%. This reflects a significant redirection of trade flows. Exports to ASEAN countries accounted for much of the increase, rising by 13.4%. However, a significant proportion of these exports ultimately went to Europe, with exports to the EU growing by 8.4%. As a result, China's trade surplus with the EU rose by 18 %, and its surplus with Germany alone by 108 %. A key driver of China's rising surplus is its weak currency, which makes the country's exports cheaper in foreign markets and its imports more expensive. China is also experiencing deflationary pressures, caused by widespread factory overcapacity and weak domestic demand. Consequently, China's export growth has outpaced global trade growth, while import volumes have lagged significantly behind reported GDP growth. If these trends persist, further trade tensions are all but guaranteed.

Share of countries the EU has a trade agreement in force

In % of world GDP



Source IMF, European Commission.

The EU now has FTAs with over 1/5 of the global economy

In terms of trade policy, the EU got off to a good start in 2026 by finally agreeing on the EU-Mercosur deal, paving the way for the creation of the world's largest free trade area in terms of population. By 2024, the EU had already concluded free trade agreements (FTAs) with countries representing 20.8% of global GDP. Adding Mercosur would raise this share to 23.5%, bringing it close to one quarter of the global economy. Including India – where the EU is currently in the final stages of negotiating an FTA – would increase this figure by a further 3.5 percentage points. India's contribution could also rise rapidly in the coming years if it remains on its impressive growth trajectory. Moreover, as the multilateral trading system represented by the WTO continues to erode, FTAs are becoming increasingly important for keeping international markets open to EU producers. The central challenge for EU trade and industrial policy is to protect its internal market from unfair competition while remaining open to imports from genuinely reciprocal countries.

TAKE: In the face of unfair competition from abroad and a crumbling international trading system, preventing **deindustrialisation** in the EU will require a wide range of pragmatic policy measures. This should include offering incentives for foreign producers to establish manufacturing operations in Europe – for instance through **well-designed (!) "Made in Europe" rules as proposed in the IAA** – and encouraging them to cooperate with EU firms via joint ventures. Other measures should include urging China to allow its currency to appreciate and, as a last resort, a more strategic use of **targeted trade-defence measures**. **Lowering trade barriers with like-minded countries** is essential to provide European producers with the market size needed to scale up efficiently, while also enabling emerging economies, such as India, to build their own industrial capacities in the face of Chinese dominance. By supporting market-based actors grow and making it more difficult to **gain market share through "beggar-thy-neighbour" policies**, the EU has the potential to foster a more **balanced, diversified and stable global economy** – one that would ultimately benefit everyone.

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