Flash Economics

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Is Germany right to stick to free trade?

There is a deep disagreement between France and Germany on how to deal with competition from Chinese products. France advocates imposing tariffs on all European imports from China or else a sharp depreciation of the euro. Germany favors maintaining free trade and efforts to improve productivity. German manufacturers and the German government need to realize that, given China's advantage in terms of production costs, maintaining free trade would lead to a major contraction in European industry, particularly German industry.

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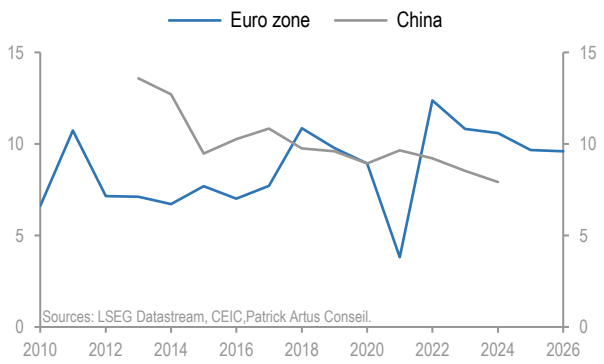
Cost advantages and China's move upmarket

The report by the High Commission for Strategy and Planning[1] in France, published in February 2026, **estimates China's production cost advantage over European countries** (France, Germany in particular) **at 30 to 40%**.

This gap is due to:

- Lower wages (in 2024, the average hourly wage was €43 in Germany, €44 in France, and €7 in China);
- Lower profitability requirements in China (**Chart 1**);

Chart 1
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- Significant government subsidies in China and low electricity prices (the electricity tariff for businesses is 71% of the global average price between 2023 and 2025[2]).

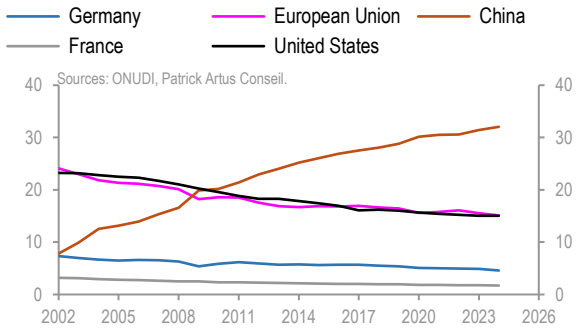
Furthermore, the quality of goods produced in China is comparable to that of goods produced in Germany and France, thanks to research and development efforts (in 2023, research and development spending was $748 billion in Purchasing Power Parity in the United States, $723 billion in China, and $410 billion in the European Union) and the excellent level of science, technology, engineering, and mathematics (China ranks second for excellence in science education, while France and Germany rank below 25th place[3]).

As a result, China gains market share in manufacturing production

China's share of global manufacturing output has grown significantly since 2004 (**Chart 2**).

[1] European industry facing the Chinese steamroller. High Commission for Strategy and Planning, T. Grjbine, P. Levebvre, M. Torres, February 9, 2026.
[2] Global Petrol Prices, www.globalpetrolprices.com
[3] Center for Excellence in Education

Chart 2
Manufacturing value added
(as % of global manufacturing value added)



Germany is suffering greatly from China's increased market share in world trade, with:

- **A decline in manufacturing output** since 2018 (**Chart 3**);
- **A collapse in the production of cars and the decline in air and spacecraft production** (**Chart 4**);

Chart 3
Manufacturing production (2002.M1 = 100)

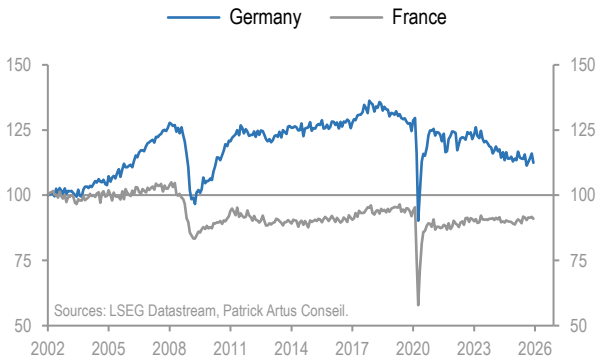
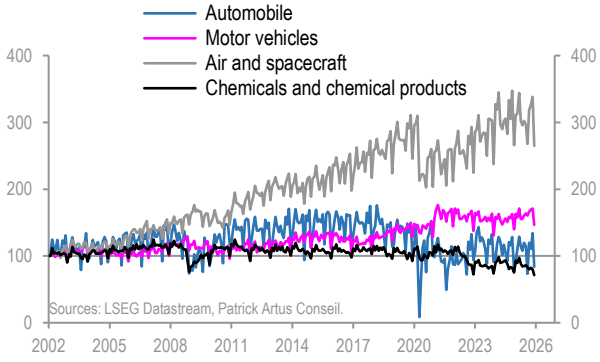


Chart 4
Germany: Manufacturing production (100 : 2002.M1)



- **The deterioration of Germany's trade balance with China** (**Charts 5A/B**);

Chart 5A
Germany: trade with China (monthly, EUR bn)

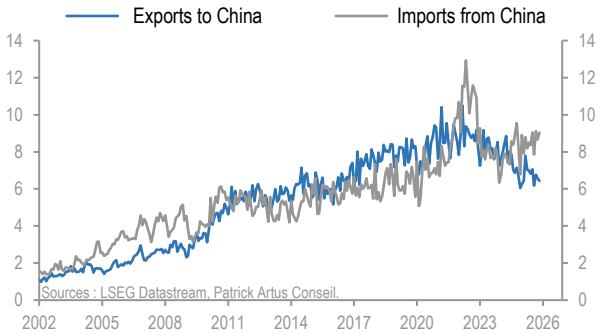
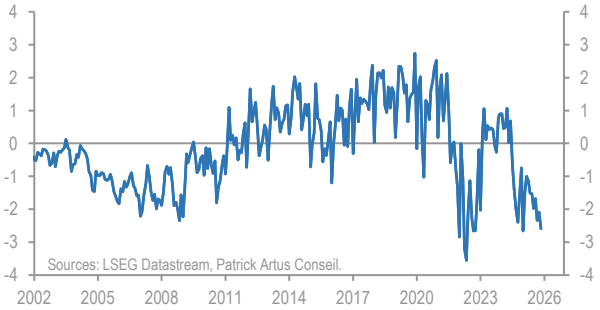


Chart 5B
Germany: trade balance with China
(monthly, EUR bn)



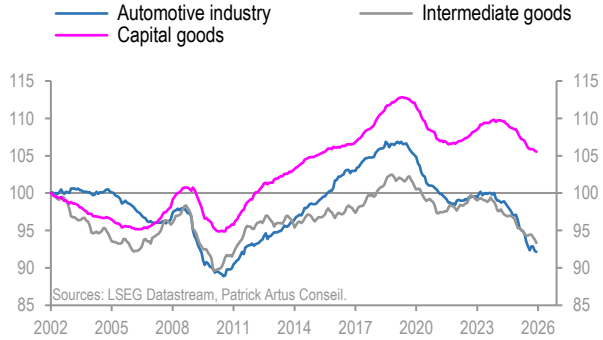
- **A decline in manufacturing employment** (**Chart 6**).

Chart 6
Germany: Manufacturing employment
(in millions of persons)



Germany's productive specialization in automobiles, intermediate goods and capital goods (Chart 7) makes it particularly vulnerable to competition from Chinese products.

Chart 7
Germany: Employment in the automotive industry, intermediate goods, and capital goods (2002.M1 = 100)

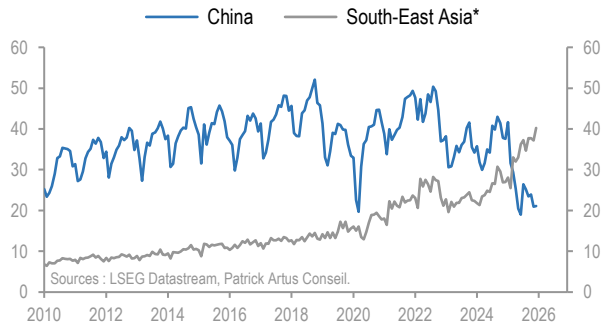


Summary: The strategic disagreement between Germany and France is difficult to understand

France is now prioritizing protection against imports from China, either by imposing tariffs (the High Commission for Strategy and Planning is proposing uniform tariffs of 30% on imports from China) or by pursuing an aggressive policy of euro depreciation.

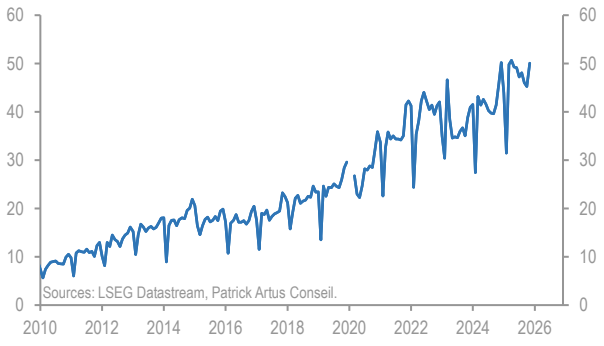
It is important to note the dangers of imposing tariffs: retaliation by China, circumvention of tariffs by Chinese manufacturers, with exports transiting through third countries (as observed between China and the United States, Charts 8A/B).

Chart 8A
United States : Imports from China and South-East Asia* (monthly, USD bn)



(*) Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

Chart 8B
China: Exports to the South-East Asia* (monthly, USD bn)



(*) Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

Germany favors maintaining free trade and improving competitiveness and productivity.

But German manufacturers and the German government need to understand that, with the strong cost competitiveness of Chinese industries and the high quality of Chinese products, **Germany will continue to lose market share and industrial jobs if it persists with this free trade-based strategy**.

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