



**Tamás MATURA:
The Second China Shock:
A New Challenge for European Industry and the Global Economic Balance¹**

Executive Summary

- The second China shock is not simply another wave of Chinese exports, but rather the expansion of Chinese industrial and technological competition into higher-value-added sectors.
- China's high savings and investment rates, weak domestic consumption, and the resulting excess production capacity are generating increasing export pressure. This pressure is reinforced by technological progress, economies of scale, highly integrated supplier networks, and state-led industrial policy.
- This development poses a particular challenge to the European economic model, which relies heavily on manufacturing. The risk extends beyond the loss of market share to the erosion of industrial value chains, technological capabilities, and economic autonomy.
- The EU's trade-defence and economic-security instruments are important but insufficient on their own. Without improvements in competitiveness, innovation, energy costs, and financing conditions, market protection can only buy time rather than address the underlying structural challenges.
- Chinese investment offers significant short-term opportunities for Hungary, but it can generate lasting benefits only if it strengthens domestic technological capabilities and value added rather than merely creating additional assembly capacity.

The "second China shock" marks a new phase in global economic competition, as Chinese firms increasingly challenge established industrial powers in technology-intensive sectors. Unlike the first China shock, which primarily affected labor-intensive manufacturing, this new wave of competition threatens industries central to Europe's industrial base and technological capabilities. Its drivers extend beyond state subsidies to include China's investment-led growth model, weak domestic demand, excess production capacity, technological upgrading, and integrated supplier networks. This analysis examines the mechanisms behind the second China shock, Europe's vulnerabilities, and the European Union's policy responses. It also explores the implications for Hungary, where Chinese investment offers opportunities for industrial upgrading but may deepen existing dependencies.

1. Introduction

A few years ago, at a closed-door professional discussion in Paris, researchers and representatives of leading European automotive companies discussed the anticipated consequences of rapidly growing Chinese vehicle exports. To my surprise, a representative of Airbus was also among the participants. During the coffee break, I

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asked why an aircraft manufacturer considered the event relevant. The answer was, in essence, that although China was at the time primarily emerging as a competitor to the European automotive industry, if it succeeded in establishing a global competitive advantage in higher-value-added industries, aircraft manufacturing would eventually be next. At the time, there was still little discussion of a “second China shock” in Hungary. Developments in recent years, however, increasingly appear to validate this scenario. The above anecdote should not, of course, be regarded as empirical evidence in itself; it nevertheless illustrates the strategic dilemma that lies at the heart of this study.

During the first decades following China’s integration into the global economy, the expansion of Chinese exports imposed significant adjustment pressures on advanced economies, primarily in lower-value-added, labor-intensive industries. Following its accession to the World Trade Organization (WTO) in 2001, China emerged as one of the world’s most important industrial centers, while the combination of low labor costs, foreign direct investment, technology transfer, and rapidly expanding production capacity enabled an unprecedented expansion of its exports. The consequences of the so-called first China shock have since been extensively documented, particularly its effects on manufacturing employment in the United States and on the socio-political conditions of affected regions.

The current situation, however, differs from the first China shock in several respects. China has since undergone significant technological and industrial upgrading, while the fundamental imbalances underlying its growth model — notably its high savings and investment rates and relatively low level of household consumption — have changed only to a limited extent. The resulting excess industrial capacity is increasingly reflected in exports of technologically advanced products, including electric vehicles, batteries, solar panels, machinery, and other strategically important industries.

This study examines whether these developments can appropriately be described as a “second China shock” and, if so, how its nature differs from that of the first shock. Its central argument is that the most important difference between the two processes lies not merely in the technological sophistication of the products being exported. Rather, the second shock may pose a substantially greater challenge to Europe because it increasingly affects industries that constitute core elements of the continent’s industrial base, export capacity, and technological autonomy. While the United States was able, during the first China shock, to shift part of its economic weight toward the services and technology sectors — thereby moving further up the value chain — it is less clear whether Europe has a comparable adjustment path available to it.²

The question, therefore, is not merely whether China can further increase its share of global industrial production, but also what economic, social, and political consequences the European Union, including Hungary, may face if Chinese competition continues to intensify in high-value-added industries. Accordingly, building on the experience of the first China shock, this analysis examines the current characteristics of China’s growth model, the mechanisms underlying the emergence of a second China shock, Europe’s vulnerabilities, and the potential responses available to the European Union.

2. The first China Shock

The concept of the “China Shock” does not originally refer to the rise of the Chinese economy as a whole, but rather to the specific process of trade and labor-market adjustment triggered in advanced economies by the acceleration of China’s integration into the global economy. Its precise temporal delimitation is not

² AUTOR, David H. et al.: The China Syndrome: Local Labor Market Effects of Import Competition in the United States. *American Economic Review*. 103:6 (2013) 2121–2168.



entirely clear-cut: China's export-oriented development had already gained considerable momentum during the 1990s, but the process accelerated markedly following the country's accession to the World WTO in 2001. U.S. President Donald Trump has described this as an "original sin," criticizing the Clinton administration for having enabled the People's Republic to achieve this position. In the decade that followed, the expansion of Chinese exports was so substantial that import competition triggered structural adjustment across a number of industries in the United States and other advanced economies that had previously been considered internationally competitive.³

Several mutually reinforcing factors underpinned this process. Economic reforms and the opening of foreign trade gradually integrated China into global production networks. Foreign direct investment transferred significant technological, organizational, and managerial knowledge, while Chinese firms increasingly benefited from economies of scale. This was complemented by exceptionally low labor costs relative to advanced economies, which provided a particularly strong competitive advantage in labor-intensive manufacturing. China's accession to the WTO gave further impetus to a process that had already begun by making the country's access to advanced-economy markets more predictable and extensive.

The product composition of the first wave of Chinese export expansion is also important. The United States and Europe initially faced intensifying Chinese competition primarily in products such as clothing, textiles, toys, basic electronics, plastic and metal products, and other relatively low-value-added manufactured goods. A substantial share of these products had previously been manufactured in advanced economies, meaning that the growth of Chinese imports directly affected manufacturing employment in those countries.

The significance of these developments was brought to light particularly clearly by the research of David Autor, David Dorn, and Gordon Hanson. Examining local labor markets in the United States, the authors found that regions more heavily exposed to Chinese imports experienced substantial declines in manufacturing employment, rising unemployment, lower labor-force participation, and falling wages. They estimated that import competition from China accounted for approximately one-quarter of the decline in U.S. manufacturing employment during the 2000s.

One of the most important lessons of this research, however, concerns not the magnitude of the aggregate employment effect, but its geographic concentration and persistence. The U.S. experience showed that adjustment proceeded considerably more slowly and imperfectly than might have been expected on the basis of earlier theoretical assumptions. According to a subsequent analysis by Autor, Dorn, and Hanson, negative effects of Chinese import competition on employment and per capita income remained detectable in U.S. regions exposed to Chinese imports even in 2019.

This is particularly important because the China Shock had not only economic but also social and political consequences. In some U.S. industrial regions, the disappearance of manufacturing jobs resulted not in temporary unemployment but in persistent economic decline. For affected workers, there was often no local alternative capable of providing a livelihood comparable to their previous wages and social status. Labor mobility was constrained by geographic attachment, family and housing circumstances, and a lack of appropriate skills. As a result, the aggregate gains and losses associated with globalization were distributed highly unevenly across both geographic areas and social groups.

Research on the political consequences is likewise noteworthy. Analyzing U.S. electoral data from 2000 to 2016, Autor, Dorn, Hanson, and Majlesi found that political polarization increased in local labor markets more heavily exposed to Chinese import competition, with voter behavior shifting to the right in

³ *Ibid.*

a number of cases. The authors nevertheless formulate their conclusions cautiously: their findings do not imply that Chinese import competition alone explains the political realignment of 2016 or the emergence of the MAGA movement. Rather, they suggest that the trade shock contributed to broader ideological and political realignment.

This does not mean, however, that the first China Shock was unambiguously negative for the U.S. or European economies. Cheaper imported goods increased consumers' purchasing power, while deeper international specialization reduced production costs for many firms. Trade liberalization also enabled firms in advanced economies to specialize in higher-value-added activities. The issue, therefore, was not simply whether the aggregate balance of trade openness was positive or negative, but rather that the distribution of its gains and losses generated significant social and regional inequalities.⁴

Another characteristic of the first China Shock was that it primarily affected the lower and middle segments of advanced economies' industrial bases. At the time, Chinese firms were becoming global players predominantly in products whose technological barriers to entry were relatively low. Advanced economies therefore had, at least in theory, an adjustment strategy available to them: the decline of labor-intensive and low-value-added manufacturing could be offset by the expansion of services, advanced technology industries, and knowledge-intensive activities. Indeed, it was often argued that the relocation of inexpensive and frequently environmentally intensive industrial production to China created opportunities for advanced economies to move further up the value chain. As will be discussed below, however, this adjustment proved only partial and temporary, as China's development did not stop at these levels and has now placed many advanced industrial sectors under competitive pressure as well. More generally, successful latecomers tend to catch up with more advanced economies over time, as the acquisition and adaptation of existing technologies and know-how can shorten the process of technological development, while further advances at the technological frontier typically require increasingly substantial efforts.

This is precisely what makes the experience of the first China Shock particularly important for understanding the current process. Over the past two decades, the Chinese economy has not remained at the level of production based primarily on low-cost labor. Its technological capabilities have advanced substantially, while Chinese firms have become global competitors in an increasing number of industries that were previously regarded as areas of specialization of advanced economies. The first China Shock should therefore not be viewed merely as a completed episode of globalization, but also as a precursor to the adjustment process whose new phase may be represented by the second China Shock.

The current situation also affects Europe increasingly directly. According to a recent analysis by the European Central Bank, the expansion of Chinese imports in the European market has accelerated particularly in medium- and high-technology industries, while the export performance of European firms in China has not kept pace with the growth of Chinese imports. This represents an important difference compared with the 2000s and provides a direct transition to the question of the second China Shock.⁵

3. The success of China's export machine

Understanding the second China Shock requires more than an examination of Chinese industrial policy or the competitiveness of individual Chinese firms. Underlying China's export performance is, above all, an

⁴ *Ibid.*

⁵ AMICUCCI, Alessandra et al.: The impact of China's industrial rise on the euro area. *ECB Economic Bulletin*. Issue 3/2026 (2026).



extensive macroeconomic model that has long relied on exceptionally high levels of saving and investment, combined with a relatively low share of household consumption. This structure enabled the country to expand its productive capacity at an extraordinary pace, while making it increasingly difficult over time to increase the share of output absorbed by domestic demand, thereby intensifying the pressure to export. One distinctive feature of China's economic convergence has been its exceptionally high saving rate. Household saving has been driven in part by a less extensive social safety net than in advanced economies, demographic ageing, and uncertainty regarding future income and employment. This has been complemented by a high propensity to save and invest in the corporate and government sectors. According to the IMF's 2026 analysis, the Chinese economy remains structurally over-reliant on investment: in 2025, gross national saving amounted to 42.1 percent of GDP (compared with 17–18 percent in the US), while capital formation accounted for 38.8 percent of GDP.⁶

High saving is not inherently problematic. In a rapidly developing economy, saving provides the resources needed to finance investment, build infrastructure, and expand industrial capacity. In China's case, however, the investment rate remained persistently at a level that domestic consumption was unable to offset adequately. Economic growth therefore became increasingly dependent on investment over an extended period, while foreign markets became a natural outlet for the resulting excess capacity, rather than investment gradually declining and consumption increasing, as envisaged by the 12th Five-Year Plan introduced in 2011.

This mechanism is particularly evident in the aftermath of the 2008 global financial crisis. When declining demand in advanced economies threatened China's export-oriented growth model, Beijing responded with a large-scale investment program. Infrastructure development — including high-speed railways, roads, bridges, urban infrastructure, and energy projects — was able for many years to absorb available financial resources and sustain economic growth. The investment model, however, also generated a self-reinforcing dynamic: rising demand encouraged the creation of additional productive capacity in steel, cement, machinery, and construction. The initial expansion of liquidity and state-led demand in response to the crisis was not in itself necessarily problematic. The difficulty was that, rather than gradually withdrawing this form of state intervention, Beijing largely maintained it over the following decade and a half, contributing to increasingly pronounced internal imbalances in the Chinese economy. Given the sheer scale of the Chinese economy, these imbalances have by now also acquired global significance.

As the economic returns from further infrastructure investment began to decline, growth increasingly shifted toward the property market. For an extended period, real estate development became one of the most important channels for investment and credit creation in the Chinese economy, while property also became one of the principal forms of wealth accumulation for households. The model eventually reached its limits here as well. The correction in the property market not only reduced demand in construction and related sectors, but also weakened household perceptions of wealth and their propensity to consume. According to the IMF, the prolonged property-market downturn and deteriorating household expectations regarding income and employment have further increased the propensity to save in recent years — even though the policy objective had been to achieve the opposite, at least since 2011.

⁶ [People's Republic of China: 2025 Article IV Consultation—Press Release](#); Staff Report; and Statement by the Executive Director for the People's Republic of China. International Monetary Fund, *IMF Country Report* No. 26/044, Washington, DC, 2026. [online, 2026.10.06.]

The problem simultaneously became more structural. If investment and industrial productive capacity grow faster than domestic demand, the resulting imbalance must be addressed either by reducing investment, increasing consumption, or expanding sales in foreign markets. In China's case, neither of the first two options materialized to a sufficient extent. Higher consumption was constrained by the high propensity to save, the property-market crisis, and the limited social safety net, while reducing investment risked slowing economic growth, a prospect that was politically difficult for the Chinese Communist Party to accept. As a result, the third option — exports — once again became increasingly important.

This also helps explain why China's external surplus has increased significantly in recent years. According to IMF estimates, China's current-account surplus rose to 3.3 percent of GDP in 2025 (3.7–3.8 percent according to Chinese data), while private domestic demand remained weak. The higher surplus reflected a combination of strong goods exports, weak domestic demand, and consequently subdued imports.⁷

The Chinese model has therefore created a paradox in certain respects. The more successfully China expanded its productive capacity and technological capabilities, the greater the risk that the resulting supply would exceed domestic demand. The country's external surplus is therefore not exclusively the result of the success of Chinese firms or of industrial policy support. The internal balance between saving and investment also plays an important role. According to the IMF, the decline in investment has itself become an increasingly important contributor to the rise in the current-account surplus, particularly following the correction in the property market.

This does not mean, however, that the success of Chinese exports is merely the result of macroeconomic necessity. The accumulation of industrial capacity over the past two decades has been accompanied by substantial technological progress. Chinese firms have become capable of producing increasingly high-value-added goods, while economies of scale, highly integrated supplier networks, infrastructure, and state industrial policy have jointly strengthened their competitiveness. At the same time, the role of industrial policy should not be overstated: China's export expansion reflects both macroeconomic imbalances and genuine firm-level competitiveness. The IMF nevertheless argues that state-led, debt-financed investment and unjustified industrial-policy support have contributed to the emergence of excess supply in some tradable sectors.

It is precisely this combination that is decisive for understanding the second China Shock. China is no longer capable of exporting large quantities of goods simply because it possesses low-cost labor. Rather, it has developed an economy that is simultaneously capable of creating very large productive capacities, operating them at increasingly sophisticated technological levels, and selling supply that cannot be absorbed domestically on global markets. This characteristic fundamentally distinguishes the current process from the first China Shock and helps explain why the industrial bases of advanced economies may become the principal targets of China's new wave of export expansion.

4. Comparing the first and second China Shocks

There are important continuities between the first and second China Shocks, but the differences are equally significant. In both cases, China's productive capacity has expanded faster than domestic demand has been able to absorb it, with an increasing share of excess production consequently being directed toward foreign markets. To some extent, therefore, exports have served as an external outlet for internal imbalances within the Chinese economy.

⁷ *Ibid.*



At the same time, the first China Shock primarily affected labor-intensive, lower-value-added manufacturing industries in advanced economies. Textiles, clothing, toys, and similar products were among the sectors most exposed to Chinese import competition. During this period, China became an exceptionally effective exporter primarily because it was able to manufacture large volumes of goods at low cost and with steadily improving quality — goods that were, in many cases, already becoming increasingly uneconomical to produce in advanced economies.

The second China Shock, by contrast, increasingly affects higher-value-added and more technology-intensive industries. This shift is particularly evident in electric vehicles, batteries, solar panels, certain types of machinery, electronic equipment, and other advanced manufactured products. This does not simply mean that China is now capable of exporting more expensive goods. Rather, Chinese firms have become technologically and organizationally competitive in a growing number of industries that were previously regarded as areas of industrial strength primarily associated with Europe, Japan, South Korea, and the United States.

This difference fundamentally alters the adjustment options available to advanced economies. During the first China Shock, the United States had a relatively clear path of structural adjustment. As some lower-value-added production relocated to China, the U.S. economy was able to specialize further in services and technology-intensive industries in which it could achieve higher levels of productivity and value added. This did not mean that the social costs of adjustment were insignificant. At the macroeconomic level, however, the U.S. economy possessed new engines of growth capable of offsetting part of the decline in industrial employment. It has since become apparent, however, that while the American adjustment may be regarded as relatively successful in economic terms, it also created serious challenges from a geopolitical perspective and with regard to strategic and defense-related industrial capacity. One illustrative example is shipbuilding, where China's capacity is now estimated to exceed that of the United States by more than two hundred times, a disparity that could prove strategically significant in the event of a prolonged conflict.⁸

Europe's position may be less favorable in this respect. The European economy, and Germany in particular, relies substantially more heavily on manufacturing than the United States. If Chinese competition increasingly affects not the lower segments of manufacturing but its more technologically advanced and higher-value-added activities, the consequences extend beyond the closure of individual factories or the loss of particular jobs. Industrial value chains, supplier networks, research and development capabilities, and ultimately Europe's technological autonomy may also be affected. Europe could therefore be particularly vulnerable to a second China Shock because its economic structure remains strongly tied to manufacturing precisely as China's competitive position is strengthening in these industries. In Germany, for example, manufacturing accounts for approximately 18 percent of GDP, and a substantial share of industrial activity is concentrated in medium- and high-technology products. If China becomes durably more competitive in these sectors as well, the implications could extend beyond the market shares of individual firms to entire European value chains.⁹

The problem is compounded by the fact that Europe lacks an equally clear alternative growth path comparable to that available to the United States during the first China Shock. Europe's services and technology sectors are developing, but so far they have not played a role comparable to manufacturing as

⁸ [Public Hearing, March 24, 2025](#). Office of the United States Trade Representative, 2025.03.24. [online, 2026.10.07.]

⁹ AGUIARI, Ginevra et al.: Which countries are most vulnerable to the industrial rise of China? Mapping Europe's uneven exposure. *ECB Economic Bulletin*. Issue 6/2026 (2026)

engines of growth and exports. A loss of industrial competitiveness could therefore represent not simply a structural transformation for Europe, but a weakening of some of the foundations of its economic model.

Another important difference concerns the scale and sophistication of the productive capacity underlying Chinese competition. During the first shock, China benefited primarily from low-cost labor, foreign direct investment, technology transfer, and its integration into the global economy. During the second shock, however, advanced economies are confronted with a Chinese economy whose domestic firms are themselves increasingly capable of developing complex technologies, operating vast supplier ecosystems, and expanding production capacity at extraordinary speed. China is therefore no longer simply the world's "low-cost manufacturer," but has become a major actor across entire value chains in an increasing number of industries.

At the same time, an important similarity between the two shocks is that Chinese export pressure cannot be explained solely by state support. Cost advantages and economies of scale are now complemented by technological progress, integrated industrial ecosystems, and an active industrial policy. The most important difference, ultimately, is that while the first China Shock primarily displaced parts of the industrial base of advanced economies, the second raises a broader question of who will control the production and technological foundations of the industries of the future. During the first shock, the question was which products Europe and the United States would continue to manufacture and which forms of production they would effectively cede to China. In the second, the stakes increasingly concern who will manufacture electric vehicles, batteries, machinery, and other advanced technological products — and, consequently, where the associated research, development, and supplier capabilities will remain. The second China Shock may therefore represent not simply another process of trade adjustment, but an increasingly important challenge to industrial competitiveness and economic sovereignty.

5. The role of state support in China

The role of state support is impossible to ignore when analyzing the second China Shock. Chinese industrial policy does not consist solely of direct fiscal subsidies. At both the central and local levels, the Chinese state seeks to support strategically important industries through tax incentives, preferential lending, subsidized land, research and development funding, public procurement, and various regulatory instruments. According to estimates by the IMF, the combined fiscal cost of these measures may have amounted to approximately 4 percent of GDP in 2023. Support is particularly concentrated in manufacturing, high-technology industries, and the automotive sector.¹⁰

The difference is also significant by international standards. According to the OECD's 2026 database, Chinese industrial firms received, on average, between three and eight times more state support than their competitors operating in OECD countries between 2005 and 2024. Particularly high levels of support were observed in solar-panel manufacturing, semiconductors, aluminum, steel, and shipbuilding.¹¹ Moreover, such support is often concentrated in industries that are experiencing rapid growth, with the Chinese state subsequently redirecting resources toward new emerging sectors once a particular industry has achieved a strong position in global markets.

This does not mean, however, that the success of Chinese exports can be attributed exclusively, or even primarily, to state support. Subsidies also benefit firms whose competitive position is underpinned

¹⁰ GARCIA-MACIA, Daniel et al.: [Industrial Policy in China: Quantification and Impact on Misallocation](#). IMF Working Paper No. 2025/155. International Monetary Fund, Washington, DC, 2025. [online, 2026.10.07.]

¹¹ [OECD MAGIC Database of Industrial Subsidies](#). OECD Publishing, Paris, 2026.06.01. [online, 2026.10.07.]

by genuine technological progress, substantial economies of scale, extensive supplier networks, and intense corporate competition. In the case of electric vehicles and batteries, for example, it would therefore be misleading to characterize every Chinese competitive advantage as the result of “unfair subsidies.” In many cases, state policy has helped emerging industries achieve sufficient scale at an early stage for their firms to become competitive on global markets. One distinctive feature of the Chinese model is that the country’s enormous market and industrial scale allow it to combine intense domestic competition with a system of state support, in which numerous firms compete against one another in the domestic market while subsidies and other forms of state assistance strengthen their position vis-à-vis international competitors.

The problem arises when industrial policy also weakens market-based exit mechanisms. If multiple local governments simultaneously support new investment in a strategic industry, while firms have access to preferential financing and other advantages, excess capacity can easily emerge. This is particularly important because, in the presence of weak domestic demand, part of the resulting excess capacity will inevitably find its way onto foreign markets. A relationship may therefore emerge between state industrial policy and China’s export surplus: subsidized investment increases Chinese productive capacity, while domestic demand does not necessarily expand at a comparable rate. The IMF has consequently warned that the combination of industrial-policy support and weak domestic demand may increase international tensions arising from excess capacity.¹² The central issue, therefore, is not whether China supports its industries, but rather the extent to which such support alters and potentially distorts the conditions of global competition.

6. The European response

Over the past several years, the European Union has gradually recognized that Chinese competition cannot be addressed solely through further market opening and the traditional instruments of free trade. In response to Chinese state support, excess capacity, and increasingly intense geopolitical competition, economic security, de-risking, and strategic autonomy have moved to the center of EU economic policy. The EU now has a range of instruments that can be used to address distortions arising from foreign state support, scrutinize strategic investments, and, where necessary, protect its internal market.

One of the most important instruments is the Foreign Subsidies Regulation, which entered into force in 2023. Its significance lies in the fact that EU state-aid rules had previously focused primarily on support provided by Member States, while financial advantages granted by governments of third countries were subject to considerably fewer constraints. The new framework enables the European Commission to examine whether subsidies granted by non-EU states distort the functioning of the internal market, for example in the context of major acquisitions or public procurement procedures, and, where necessary, to impose remedial measures.¹³

Similar objectives are pursued through traditional trade-defence instruments, most notably anti-dumping and countervailing duties. Their application, however, is not automatic: the relevant investigation must establish the existence of dumping or subsidization, injury to the Union industry, and a causal link between the two. In the case of countervailing duties, the level of the measure is also linked to the amount of the subsidy that can be established under the applicable rules. This constitutes an important constraint,

¹² GARCIA-MACIA, Daniel et al., 2025.

¹³ [Regulation \(EU\) 2022/2560 of 14 December 2022 on foreign subsidies distorting the internal market](#). *Official Journal of the European Union*, L 330, European Parliament – Council of the European Union, 2022.12.23. [online, 2026.10.07.].

but also enables the EU to target products where state support has been shown to confer an unfair competitive advantage.¹⁴

Another pillar of the EU's economic security policy is the screening of foreign investments. The new regulatory framework adopted in 2026 further strengthens this system: Member States will be required to apply certain minimum criteria when screening foreign investments in strategic areas. The framework covers, among other things, critical technologies, critical raw materials, energy, transport, and certain financial infrastructure. This may be particularly important where a foreign company is not merely seeking access to the European market, but also to European technology, infrastructure, or supplier capabilities.¹⁵

The EU has also established the Anti-Coercion Instrument, which entered into force at the end of 2023. Its purpose is to enable the Union to respond to economic coercion. As a last resort, the instrument allows for the adoption of measures affecting trade in goods and services, investment, public procurement, or other market access. Its significance lies primarily not in actual retaliation, but in deterrence: the EU seeks to signal that economic dependencies do not imply that external actors can compel changes in European policy decisions without consequences.¹⁶

These instruments are complemented by new policies concerning critical raw materials, export controls, technology security, and supply chains. The overall direction is clear: the EU does not seek comprehensive economic decoupling from China, but rather aims to reduce dependencies that could become strategic vulnerabilities in the event of a crisis or geopolitical conflict (derisking).¹⁷

The question, however, is whether these measures will be sufficient. Market protection alone does not create European competitiveness. If European companies continue to operate in a structurally less favorable environment in terms of energy costs, access to finance, innovation, or regulation, restricting Chinese imports may buy time but will not resolve the underlying problem. The EU therefore faces a dual challenge: on the one hand, it must mitigate the distorting effects of unfair or strategically problematic competition; on the other, it must restore the competitiveness of its own industrial and technological capabilities.

The European response to the second China Shock is therefore ultimately not merely a matter of trade policy. It concerns whether Europe can preserve an open economy while simultaneously protecting the industrial, technological, and strategic capabilities on which its long-term economic and political weight depends.

7. Criticism

Several important counterarguments can be raised against the concept of a "second China Shock". First and foremost, it is debatable whether the current process should indeed be regarded as a new structural shock comparable to the first. The expansion of China's export performance does not necessarily imply

¹⁴ [Regulation \(EU\) 2016/1037 of 8 June 2016 on protection against subsidised imports from countries not members of the European Union](#). Official Journal of the European Union, L 176, European Parliament – Council of the European Union, 2016.06.30. [online, 2026.10.07.]

¹⁵ [Regulation \(EU\) 2026/1386 of 17 June 2026 on the screening of foreign investments in the Union and repealing Regulation \(EU\) 2019/452](#). Official Journal of the European Union, L 2026/1386, European Parliament – Council of the European Union, 2026.06.26. [online, 2026.10.07.]

¹⁶ [European Parliament and Council of the European Union \(2023\): Regulation \(EU\) 2023/2675 of 22 November 2023 on the protection of the Union and its Member States from economic coercion by third countries](#). Official Journal of the European Union, L 2023/2675, European Parliament – Council of the European Union, 2023.12.07. [online, 2026.10.07.]

¹⁷ [European Economic Security Strategy](#). European Commission, JOIN(2023) 20 final, Brussels, 2023.06.20. [online, 2026.10.07.]

the displacement of manufacturing across advanced economies as a whole. Global trade continuously reshapes patterns of production, and the increasing availability of lower-cost Chinese imports can also generate benefits for European consumers and firms.

Another important distinction is that China is no longer merely a competitor but also a major market for European companies. A significant share of European firms benefits directly or indirectly from Chinese demand, while also sourcing inputs from Chinese suppliers. The trade relationship is therefore not simply a zero-sum competition: losses in some European sectors may be partly offset by gains in others.

A further counterargument is that China's own economic difficulties may constrain the sustainability of its export expansion. Demographic ageing, the property-market crisis, high levels of debt, and weak household consumption may all weigh on Chinese growth and could, under adverse circumstances, contribute to a prolonged period of economic stagnation. Nor is it certain that the current levels of excess capacity will persist indefinitely across all emerging industries. Technological development and corporate competition may eventually force less efficient firms to exit the market.

Finally, the experience of the first China Shock also suggests that the macroeconomic effects of import competition should not be assessed solely in terms of losses. Lower-priced goods increase consumers' purchasing power, while imports can also enable firms in importing countries to specialize and increase productivity. The relevant question, therefore, is not whether China will "take away" Europe's industry, but whether the European economy will be able to adapt to the new competitive environment.

Taken together, these considerations suggest that the "second China Shock" should be understood more as a risk scenario than as an inevitable economic outcome. The risk is real, and tangible losses have already emerged, particularly in the European automotive sector. Its ultimate magnitude, however, will depend on the pace at which China's export capacity continues to expand, the persistence of Europe's competitiveness gap, and Europe's ability to develop new sources of growth and technological advantage.¹⁸ The current outlook nevertheless remains challenging, as there is so far limited evidence that Beijing is prepared to substantially alter the underlying features of its economic model. At the same time, China's policy increasingly emphasizes strengthening its position in a broad range of strategically important economic and technological sectors.

8. What does the second China Shock mean for Hungary?

Hungary's position in relation to the second China Shock is distinctive. On the one hand, the country is more closely integrated with the Chinese economy than the European average; on the other, its economic structure is highly exposed to developments in manufacturing. This creates both opportunities and risks. Chinese foreign direct investment can generate significant benefits for Hungary in the short and medium term. Investments related to electric vehicles, batteries, and other advanced industries can increase production, employment, and export capacity, while new technologies and supplier linkages may emerge within the Hungarian economy. Hungary may therefore benefit from the relocation of new production capacities to Central Europe as European and Chinese industrial value chains are reconfigured.¹⁹

At the same time, this is precisely what creates the most important risk. If Chinese companies increasingly operate in Europe not only as investors but also as competitors to domestic and European firms, the Hungarian economy could come under pressure from both directions. On the one hand, the

¹⁸ AMICUCCI, Alessandra et al., 2026.

¹⁹ [CATL's New Battery Plant to Become Hungary's Largest Greenfield FDI Project Ever](#). Hungarian Investment Promotion Agency, 2022. [online, 2026.10.06.]

competitiveness of European companies could weaken; on the other, Chinese firms could strengthen their position in sectors in which Hungary itself seeks to develop a specialization.

The automotive industry is particularly important in this regard. A substantial part of the Hungarian economy is integrated into German and other European automotive value chains, while Chinese involvement in electric-vehicle and battery production is increasing. If the European automotive industry experiences a sustained loss of global competitiveness, the consequences for Hungary could extend beyond exports and investment to employment as well.

For Hungary, therefore, complete economic decoupling from China is unlikely to represent a realistic strategy. The more relevant objective is to capture the investment and technological benefits generated by economic relations with China while avoiding dependence on any single external economic model or technological ecosystem.²⁰ This requires strengthening domestic value added, Hungarian supplier capabilities, research and development, and diversified export-market presence alongside Hungary's economic relations with both Europe and China.

The second China Shock is therefore not simply a threat for Hungary. The greatest risk would be for Hungary to become merely an assembly location within the transformation of European industry, while higher-value-added technological and development activities remain abroad. Chinese investment can generate lasting benefits if it contributes to the technological upgrading and productivity growth of the Hungarian economy rather than merely creating additional production capacity. At the same time, if the second China Shock were ultimately to contribute to a sustained erosion of Europe's industrial base, Hungary would inevitably be affected as well. In this context, an uncritical approach to cooperation with Chinese companies could potentially reinforce rather than mitigate some of these structural vulnerabilities.

9. Conclusion

The second China Shock represents not simply another wave of Chinese exports, but a new phase in China's industrial and technological competition. While the first China Shock primarily affected lower-value-added and labor-intensive industries, the current process increasingly poses challenges in technology-intensive sectors. Underlying this development are China's savings and investment model, weak domestic demand, substantial productive capacity, technological upgrading, and competitive advantages derived from economies of scale and highly integrated supplier networks. State support plays an important role, but does not, by itself, explain China's competitiveness.

The challenge is particularly significant for Europe, given the greater reliance of European economies on manufacturing. The EU therefore cannot rely exclusively on trade-policy protection: improving competitiveness, innovation, energy costs, and access to finance is equally important. For Hungary, Chinese investment represents both an opportunity and a risk. In the long term, the crucial question is whether such cooperation increases domestic technological capabilities and value added, or merely creates additional production capacity.

What is clear is that a growing EU trade deficit with China, combined with intensifying deindustrialization, is difficult to reconcile with a world in which geopolitical considerations are once again becoming increasingly important in shaping economic relations.

²⁰ GYÖRFFY Dóra: Iparpolitika és akkumulátorgyártás Magyarországon és Svédországban. *Közgazdasági Szemle*. 70:3 (2023) 245–273.



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