BUSINESS

China Shock 2.0: Surging Chinese exports threaten Europe's economy, raising concern at G7 summit

1 of 5 | French President Emmanuel Macron walks with European Commission President Ursula von der Leyen during the G7 summit in Evian-les-Bains, France, Monday, June 15, 2026. (Isabel Infantes/Pool Photo via AP) Read More

BY PAUL WISEMAN, ELAINE KURTENBACH AND DAVID MCHUGH

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WASHINGTON (AP) — For eight years, the United States has waged economic war on Chi slapping big taxes on Chinese products before they enter America.

But the campaign hasn't dented China's industrial prowess.

The world's second biggest economy is exporting more products than ever. It's just redirecting them away from the U.S. tariff wall and toward more open markets in Europe and elsewhere in Asia.

The shift in Chinese trade risks creating a European sequel to the China Shock that wiped out hundreds of thousands of factory jobs in the American heartland in the 2000s and contributed to the political upheaval that put Donald Trump in the White House twice.

Despite U.S. sanctions, China last year notched a record global trade surplus — [an astonishing $1.2 trillion.]

Earlier this year, French President Emmanuel Macron warned that Chinese exports are "literally killing a large part of the European industry'' and admitted that Europe was "slow to see that.''

The Europeans are clear-eyed now. China's trade practices will be near the top of the agenda this week as [leaders of the G7 rich democracies gather in Évian-les-Bains, France]. In briefings last week, French officials indicated that they hope to come out of the summit with a plan to tackle the China threat.

One possibility is that the European Union and others will build a higher tariff wall of their own against Chinese imports. Currently, the EU imposes relatively low tariffs on China under World Trade Organization rules — though it hits specific Chinese products with higher ones (up to 35% on electric vehicles, for example).

"China's export surge, unless its leaders rein it in, will provoke a protectionist wave against Chinese imports worldwide,'' said Maurice Obstfeld, senior fellow at the Peterson Institute for International Economics and former chief economist at the International Monetary Fund. "All the more so if the current disruptions around the Iran war persist and cause a sharper global slowdown.''

Economist Taylor Wang at HSBC warned this month that a China-EU trade dispute could threaten Chinese exports; Europe accounted for a big share of China's exports of electric vehicles, solar panels and lithium-ion batteries.

The Europeans also hope to persuade Trump to stop targeting U.S. allies like the European Union and Canada with punitive tariffs and to start working with them instead to counter China.

China Shock 2.0 is different — and more disruptive

The first China Shock started around 2001 when the Chinese joined the World Trade Organization and gained low-tariff access to the lucrative markets of the United States and Europe. In the United States, many factories couldn't compete with low-cost Chinese textiles, furniture, electronics and other manufactured goods.

Economists David Autor of the Massachusetts Institute of Technology, David Dorn of the University of Zurich and Gordon Hanson, now at Harvard, found that competition from China had led to the loss of 2.4 million American jobs.

China Shock 2.0, as it's come to be known, is playing out differently.

The first time around China was still emerging as a major player in global commerce. Now it dominates world trade and manufacturing.

China accounted for just 4% of global goods exports in 2000. Now its share is 16% — the highest in the world — making Beijing's trade policies far more consequential.

China has also upped its game, exporting sophisticated products like EVs and batteries, advanced machinery, software, scientific instruments and putting it in direct competition with the richest countries in the world. For example, Chinese exports now compete with nearly 58% of the exports from the 21 European countries that share the euro currency, up from 46% in 2000, according to a paper last month by researchers at the Federal Reserve and the Federal Reserve Bank of St. Louis.

"The second China shock is characterized by its companies running the board on manufacturing exports -- from low-tech, low-wage to high-tech high value-added industries," said economist Eswar Prasad of Cornell University. "This is directly hitting advanced economies where it now hurts the most" — high tech industries such as EVs and high-end robotics that many countries "had been counting on for a manufacturing revival."

Germany has taken a hit from Chinese exports

Germany has been hit hard. German companies once grew fat on exports to China but the situation has reversed: China now sells more goods to Germany than it buys. And German companies are struggling to compete with the Chinese rivals in industrial machinery, construction equipment, cars and chemicals – all mainstays of Germany's export-oriented economy.

Partly because of the competition from China, Germany's economy has stagnated, shrinking in 2023 and 2024 and growing just 0.2% last year.

The United States is less vulnerable than it was in the 2000s. Trump's tariffs have kept out a lot of Chinese products. Exports of Chinese goods to the United States dropped 37% from January through April this year, versus the same period of 2025, the U.S. Commerce Department reports.

The United States is also in a stronger economic position because it produces its own energy — unlike the EU and Japan — and is enjoying a boom in productivity and investment in artificial intelligence.

Despite Trump's tariffs and diminished sales to the United States, China is benefiting from soaring demand for its low-cost EVs and from AI investment, which generates sales of Chinese electrical components and machinery for data centers.

Exports from China to the 27-nation EU climbed 16.4% in January to May from a year earlier. For France, that meant that its trade deficit with China, according to Beijing's customs statistics, rose to $5.3 billion from $3.3 billion a year earlier.

Chinese policies contribute to the problem

Economists say China's policies encourage factories to overproduce and consumers to underspend. For example, state-run Chinese banks pay low interest rates to savers but offer cheap loans to government-owned manufacturers. A flimsy social safety net pressures Chinese families to save, not spend, to build a financial buffer against old age and medical problems.

Obstfeld said the policies are partly meant to keep factories busy and workers employed. "The result is an excess domestic supply of manufactured products, which must be exported abroad,'' he said. So low-priced Chinese products flood world markets and threaten to put European and other factories out of business.

Beijing also has encouraged companies to compete ruthlessly against each other at home. "The rest of the world is ill prepared to compete with these apex predators,'' Autor and Hanson wrote in a New York Times column last year.

China has repeatedly promised to rein in overproduction and encourage consumer spending – as the United States and other countries have urged for decades. That would make its economy less reliant on exports and its consumers better off. It would also give U.S. and European an expanding market to sell into. "The leadership has long said this is a goal,'' Obstfeld said, "but they have been slow to act as if they mean it.''

"Beijing has been relying on the rest of the world to address its overcapacity problem," said former U.S. trade negotiator Wendy Cutler, now senior vice president at the Asia Society Policy Institute. "However, this unsustainable situation may soon change if the EU and others take steps to halt Chinese imports, following the U.S. lead.''

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