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When the swell turns east

The China Shock 2.0 hits Europe's industrial core. The question for Spain and the EU is not to escape the storm, but to navigate it without capsizing

Spain has long coastlines and a deep maritime culture. When a storm forms over the Atlantic, experienced surfers may worry about its force. But they also know that powerful swells create rare opportunities for those prepared to handle them. They also know they cannot face the waves head-on. Some waves they duck under. Some they avoid. And the biggest ones, if they have balance and skill, they ride.

In today's world, China is the storm reshaping the global industrial ocean. It generates waves of scale, technology and capital that no European country can avoid. The question is not whether Europe approves of the storm. The question is whether it learns to surf it. Spain, or at least the Spanish Government, has concluded that resisting the waves is futile.

This instinct is not only geographical. It is historical. Spaniards carry a long memory of what happens when the country turns inward. Periods of protectionism and closure coincided with stagnation and lower living standards. Periods of openness, integration and foreign investment brought modernisation and prosperity. That experience shapes today's reflex. Openness, when governed well, upgrades the economy. Closure breeds complacency and decline.

This historical lens explains why Madrid's China policy looks different from some of its European partners. As Brussels debates de-risking and economic security, Spain has increased its high-level political engagement with Beijing and welcomed Chinese investment in electric vehicles, batteries and renewable technologies. Critics warn of new dependencies. Spain sees something else: an opportunity to upgrade its industrial base under strict conditions.

Riding the second China shock

The current China Shock 2.0 is not the first wave Europe has faced, but it is structurally different from the first. Two decades ago, Chinese competition disrupted labour-intensive sectors strongly present in Spain, such as textiles and footwear. Then came the competition in solar panels and wind turbines. Today, the pressure comes from electrification, advanced batteries, high-tech industry, digitalisation and green technologies. China combines industrial scale, cost efficiency and growing technological sophistication. It now accounts for roughly one-third of global industrial production and dominates key segments of the clean technology value chain.

For countries like Germany, whose economic model rests heavily on high-end industrial exports, this transformation feels acute. When competitors emerge in premium automotive engineering, machinery and electrified production systems, the instinct is to defend the existing model. That reaction is understandable. But defence alone will not be sufficient.

Overdependence in critical sectors would be a mistake.

Spain occupies a different place in Europe's industrial hierarchy. It has a strong automotive sector; it is the second producer and exporter of vehicles in Europe after Germany, representing around ten per cent of GDP and two million jobs, but it has never dominated frontier technologies. Its development model has long relied on integration into global value chains and on foreign direct investment to upgrade domestic capabilities. It has attracted foreign capital from the US, Germany, France, Japan and other countries at the top of the tech pyramid in the past. From that vantage point, for Spain, China's rise is less a fall from the summit than a structural shift in the terrain.

Consider the electric transition. Without integration into battery value chains and electrified production, Spain risks losing industrial relevance. Chinese firms currently dominate global battery production and have become leaders in electric mobility. Ignoring that reality would not strengthen autonomy. It would weaken it. Spain has therefore welcomed Chinese participation in battery and electric vehicle projects, but under clear conditions: localisation requirements, employment commitments and integration into domestic supplier networks. The aim is not passive assembly, but structured interdependence that generates technological

spillovers.

This approach does not deny risk. Overdependence in critical sectors would be a mistake. That is why Spain supports European investment screening and trade defence instruments. But autonomy is not the absence of interdependence. It is the capacity to shape it. And, yes, this includes insisting in Beijing that China needs to further open its market to European products and services.

Defence is not a strategy

For Germany, the storm presents sharper choices. There are, broadly speaking, three strategies available. First, double down on areas where Germany still leads and seek to outperform China through innovation, productivity and technological depth. In sectors where German firms remain at the frontier, the only sustainable answer is to stay ahead.

Second, in areas where China has gained a clear lead but competition remains strategically desirable, collaboration may accelerate catch-up. A form of 'Reverse Deng' strategy could be envisaged: use selective engagement with Chinese technological maturity to strengthen domestic capabilities and move up the next curve of innovation.

Third, in sectors where competition is likely to remain structurally asymmetric, resources may need to be redirected toward areas of emerging comparative advantage, including high-value services, digital ecosystems and knowledge-intensive activities. No industrial model is immutable. Adjustment is not defeat. It is adaptation.

What is unlikely to succeed is the hope that tariffs or rhetorical hardening alone will restore a previous equilibrium. Protection may buy time (and it should be used smartly), but it does not close structural gaps. Moreover, Europe's green transition depends in part on affordable inputs in batteries, solar components and storage systems from China. Cutting oneself off from those flows would increase costs and slow transformation.

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Spain's wager is that Europe must move beyond the binary of engagement versus containment. The real debate is about how to reshape interdependence in Europe's favour. That requires a pragmatic engagement with China, stronger European industrial policy, a central fiscal capacity in the EU and sustained investment in research and production capacity.

National strategies will not suffice. Nor will defensive reflexes alone.

Trump's predatory behaviour has reinforced the need for geopolitical and geo-economic diversification and flexibility. Strategic autonomy cannot mean automatic alignment with any single power's framing of global rivalry. It requires the ability to maintain dialogue where interests align and to protect capabilities where they do not.

From Madrid's perspective, China is neither a partner to romanticise nor a threat to securitise excessively. It is a structural force in the global economy. Europe's task is to manage that force intelligently. Spain's own history suggests that prosperity comes from engagement that is disciplined, conditional and embedded in broader alliances, not from retreat behind walls.

When a powerful storm approaches, some waves must indeed be ducked. Some must be resisted. But the largest swells cannot simply be blocked. The China Shock 2.0 will reshape Europe's industrial seascape regardless of preference. The central question for Germany, Spain and the European Union as a whole is not how to escape the storm, but rather how to navigate it without capsizing.

Europe's strategic autonomy will be built by mastering the swell, not by pretending it can be calmed.



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