EGON-W-KREUTZER.DE

COMMENTARY ON CURRENT EVENTS

EU in self-destruct mode

4. June 2026 Egon W. Kreutzer

Those who saw off the branch they're sitting on will suffer injuries ranging from bruising and broken bones to death, depending on the height of the fall. The death wish of the EU's leading bodies, the Commission and the Council, now seems to be the sole determining factor in the path being driven down by 450 million citizens of the member states.

It is apparently not enough to have broken the political and economic ties with Russia that were beneficial to the EU. It is apparently not enough to sink hundreds of billions of euros of taxpayers' money into Ukraine's war against Russia. It is also not enough to have agreed to a completely unfavorable tariff deal with the US – now, with every remaining effort, the EU intends to ruin its relationship with China as well.

To set the scene, I'm including an excerpt from "E WK – On the Situation " – May 2026 issue. In it, I've highlighted the most serious international conflicts at present, with the EU's war against China in third place.

3. Economic war against China

The EU, which, following the example of the USA, is ruining its own industrial base and, through rampant bureaucracy, the Green Deal and rising energy prices, as well as a gigantic government spending ratio (EU average around 49.2%, Finland and France each > 57%, Germany 48% – China: 33%), is massively impairing its competitiveness against China both in the EU market and on the world market, now wants to punish China for the consequences of its own mismanagement.

To interpret the government spending ratio correctly:

If a product from a Chinese company and one from the EU are offered on the global market for €100, the Chinese company retains €67 to cover costs and generate profit, while the EU company retains only €50.80. Even if both companies operated at the same cost, say €45, the Chinese company's profit (€22) would be four times higher than the European company's (€5.80). Furthermore, the Chinese company benefits from a sound energy policy and lower energy costs, as well as from lower wage levels.

Following Donald Trump's example, the Chinese are now to be punished with punitive tariffs. German Foreign Policy has compiled the proposals for this.

On page 7 of this dossier I have stated:
Everyone should be free at all times to decide with whom they trade and with whom they do not, and whom they impose punitive tariffs on and whom they do not.

However, this does not mean that restricting trade, as achieved through tariffs among other measures, is always a good idea.

I think it's an utterly hare-brained idea for the EU to pursue a trade and customs policy towards China in the style of Donald Trump.

Firstly, I see no one in the EU who could even remotely match Donald Trump's negotiating skills. Trump makes blatantly unreasonable demands – and then backs down the next day without worrying about losing face. Trump plays games, he exploits his superiority, and he gambles until the deal is perfect. But he also has no qualms about retracting a deal he's just made the very next day. Trump, as a person, embodies the full military, economic, and geostrategic power of the USA. Trump can afford to do that.

Secondly, import tariffs are always an act of isolation. If an industry is under pressure but needs to be kept alive for reasons of national security and self-sufficiency in the domestic market, then punitive tariffs can help achieve this goal by blocking foreign competition. However, if this industry itself depends on exports because it cannot achieve the capacity utilization necessary to cover fixed costs without them, as is the case with the European automotive industry, then tariffs will only lead to the recovery and preservation of this industry if its sales markets are not also closed off by tariffs.

Thirdly, the EU consumer goods market is flooded with Chinese goods to a very high degree. Only because Chinese imports are so incredibly cheap is it possible to keep wages, salaries and pensions in the EU at the low level that still allows it to compete internationally.

Fourthly, Chinese specialties like rare earth elements also play a significant role in the trade war. As a countermeasure, China could halt or restrict exports to the EU, or drastically increase their cost through export tariffs. What would you prefer?

Ms. Katherina Reiche, the minister with the greatest expertise in her department within the entire Merz cabinet, also demonstrated how great the EU's greatest strength, namely its unity, truly is when she recently flew to China to spread the message of "cooperation instead of confrontation" and try to create some positive momentum before the EU tariff hammer comes crashing down.

Now, Dr. Peter F. Mayer has urgently drawn attention to a new EU plan on tkp.

Quote:

The EU Commission is quietly working on a new trade instrument that is intended to take the protectionism towards China to a new level.

The so-called "Overcapacity Instrument" is intended to allow the EU to block entire sectors of Chinese imports—not because they are subsidized, but because they are too competitive and too cheap. Arnaud Bertrand puts it succinctly: the cheaper and better the Chinese products, the more illegal they are supposed to become in Europe. In an article on X, the EU expert and China specialist

Bertrand criticizes the almost complete absence of public debate on this issue. While this instrument will massively drive up the prices of everything from solar panels to electric cars to consumer goods, most media outlets remain silent. The public remains unaware.

The linked article is definitely worth reading.

However, I would like to add to the aspect I already briefly touched upon above in the yellow box: the problem of replacing Chinese goods in German retail with those of EU origin without drastically reducing the prosperity of EU citizens.

One must consider the scale of the problem to recognize the debacle.

In 2025, the EU imported goods worth €559 billion from China. Germany accounted for €170.6 billion of this. This is the import value, not the final retail price in Germany.

The impact on Germany is divided into two flows: supplies for the manufacturing sector on the one hand, and supplies for private consumption on the other. Lacking more precise figures, I estimate that these two flows each account for half of the Chinese imports.

Imports from China for German consumption

With an estimated 85 billion euros in imports from China, we're looking at roughly 1,000 euros per capita per year. A look at the offers from TEMU or Alibaba reveals that the prices offered for direct shipping to German customers are in some cases only up to 10 percent of, and hardly ever more than 50 percent of, what German retailers want to charge for this product imported from China.

Extrapolated to end-customer retail prices, the €1,000 spent on imported goods per capita quickly translates to €2,500 to €3,000 at the checkout. This is the average amount Germans spent per person (from babies to the oldest residents of nursing homes) on Chinese consumer products in 2025. This purchasing power was (still) available.

For quite verifiable reasons, no German company is able to undercut its Chinese competitors on costs.

- There is a significant difference in labor costs between Germany and China. Low-wage workers in China receive a minimum wage of approximately €2 per hour (with slight regional variations), while the German minimum wage, at €13.90, is seven times higher.

- There is a significant difference in energy costs between Germany and China. A kilowatt-hour of industrial electricity costs between 8 and 9 euro cents in China, while the German discounted industrial electricity price, which is not available to all companies, is between 16 and 19 cents/kWh.
- There is a significant difference in raw material costs between Germany and China.
- There is a significant difference in government spending as a percentage of GDP between Germany and China. In Germany, the state claims 48 percent of revenues as taxes, levies, and contributions, while in China it is only 33 percent.
- There is a significant difference between Germany and China in terms of regulatory density and bureaucratic effort.

Of course, these five factors vary from product to product and from industry to industry, but as a rough estimate, the manufacturing costs of any given product in China are likely around 40 percent of the German manufacturing costs. Germany can still improve this by a few percentage points through automation and higher productivity, but it's probably not too far off to assume that, on average, manufacturing costs in Germany are around 200 percent of Chinese export prices.

Assuming that the difference between the German factory price and the German retail price is the same as the difference between the Chinese export price and the German retail price, German consumers would have to spend 5,000 to 6,000 euros annually for the same goods instead of the current 2,500 to 3,000 euros.

To make this possible, wages would have to be increased. However, since only about half of Germany's population is employed, the wages of those in employment would need to be raised not by 2,500 to 3,000 euros, but by 5,000 to 6,000 euros – net. Gross wages would increase by 7,000 to 8,000 euros. This would amount to an average wage increase of about 15 percent – and that is simply unaffordable – especially given the current dire state of the economy. Applied to the entire economy, this would translate into additional labor costs of approximately 300 billion euros.

Imports from China for further processing in industry and commerce

Undoubtedly, substituting Chinese products with German ones would also result in additional costs of around 85 billion euros. Some of the finished products manufactured from these products are exported to Germany, thus weakening its competitiveness on the global market. The remainder must be sold at higher costs on the domestic market, which would also require further wage increases to make these goods available.

Conclusion

German retailers could easily halve their sales floor space if they don't want their shops to soon resemble the state-run HO stores of the GDR, where many products were simply unavailable most of the time. In order to remain competitive, Germany has relied so heavily on cheap imports from China, allowing entire industries to collapse in the process, that one really needs to be aware of the consequences to fully grasp them.

This cannot be reversed quickly via an EU regulation. That would destroy the foundation of the German business model.

The consequences will lie somewhere between a painfully noticeable reduction in the range of goods available and a massive increase in retail prices.

This follows the WEF motto: You will own nothing – either because there is nothing, or because you cannot afford it – and (hahaha!) be happy.