

# No Entitlement to the Future: Europe's Answer to China — Nine Fields of Action for a Radical Rebuild and the Positioning of the Equity Investor

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## Abstract

This paper examines why Europe must respond to China's economic ascent if it is not to lose ground permanently, and what form that response should take. It combines the economic history of the Great Divergence and of China's catch-up since 1980 with the theory of institutional sclerosis, with the European competitiveness reports of Draghi (2024) and Letta (2024), and with market and trade data as of September 2026.

The European Union's share of world GDP has fallen from 27 to 14 percent since 1980; China's has risen from 2 to 20 percent. China has exploited every gap Europe left open: solar modules and batteries, automobiles, machine tools and wind turbines, mobile phones and the refining of rare earths — and beyond them payment systems, ports and patents. In the automobile, Chinese brands held just under 70 percent of their home market in 2025 and exported 7.1 million vehicles. The same movement is taking place in regions of the world that barely appear on Europe's economic radar: China opens them up with port, transport and energy infrastructure and then supplies the markets thus opened itself — in Peru, where the deep-water port of Chancay entered service in 2024, as much as in East and West Africa, which grows at five to six percent and in which European suppliers barely participate. From this the paper derives nine fields of action, ranked by logic and importance: from the dismantling of prosperity-era bureaucracy through speed, technology spaces and capital to social mobility, the single market, infrastructure and regional diversification.

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For the equity investor, the conclusion is not a bet on growth but a positioning along the flows of economic activity: economic growth and equity returns are barely related across countries (Ritter 2005; Dimson, Marsh and Staunton 2010); valuation, capital discipline and access decide. For China, the United States, Japan, Africa, Europe and Latin America the paper describes which large-capitalisation stocks and index funds provide that access.

***Keywords:*** Europe · China · Competitiveness · Industrial policy · Deregulation · Capital markets union · Social mobility · Infrastructure · Africa · Equity investment · Regional allocation.

***JEL codes:*** F14, F21, F63, G11, G15, L52, N10, O33, O52, O55, P52.

## Non-Technical Summary

Anyone surveying the world economy in 1980 saw a Europe that produced more than a quarter of global output and a China that accounted for two percent. Anyone surveying it today sees the reverse: China stands at almost twenty percent, the European Union at fourteen. This paper asks what Europe must conclude from this — and its answer is uncomfortable: there is no reason why Europe should keep its place unless it keeps developing. China itself is the proof. For centuries it was the largest economy on earth; in the fifteenth century it withdrew from the world and all but vanished economically. Since 1980 it has returned — not by accident, but because it consistently exploited every gap that others left open.

The automobile industry shows how quickly this happens. Fifteen years ago Chinese cars were ridiculed in Europe; their crash tests were a source of derision. In 2025 Chinese brands held just under seventy percent of their home market, German manufacturers lost eight percent of their sales there, and China exported 7.1 million vehicles — more than twice as many as Germany. In photovoltaics Germany was once the world market leader with the best quality; today more than eighty percent of all solar modules come from China, and Pakistan alone imported more of them in twelve months than the whole of Africa. The same pattern has long spread beyond these two industries: in machinery China has been the world's largest exporter since 2020, the five largest wind turbine manufacturers are Chinese, no European vendor is left among the makers of mobile phones, and 91 percent of rare earths are refined in China. In services too — in payments, online retail, port operations and research — the gap has widened. The shift concerns not only industries but also regions of the world: China opens up markets that receive little attention in Europe and becomes their first supplier before European firms have even considered them. Africa, and above all the east and west of the continent, is recording an economic upswing with growth rates of five to six percent. That upswing is accompanied chiefly by China, which builds ports, roads and power stations and subsequently supplies the markets thus opened with its own goods; European participation in it remains slight.

The paper calls the underlying mindset post-colonial and means by that the Eurocentrism that takes European measures for the world's, the economic othering that dismisses Chinese achievement as imitation, and the expectation that the institutional order will secure Europe's position even as its economic foundation disappears. Both are wrong. The paper derives nine fields of action from this, ranked by logic and importance: first the dismantling of the bureaucracy that took the place of innovation in the years of prosperity; then speed; then spaces in which technology can emerge without state prescription, as Ukraine has demonstrated with its drone industry; then capital, social mobility, the single market, infrastructure and the regional distribution of talent and capital within Europe.

For the investor the conclusion is not to invest wherever growth is highest: economic growth and equity returns are barely related across countries. What decides is valuation, capital discipline and access. The paper therefore describes, for China, the United States, Japan,

Africa, Europe and Latin America, which stocks and index funds provide that access — and why Europe, in its innovative industries, is more attractive to the investor than its reputation suggests.

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# 1 Introduction

Economic pre-eminence is transient, and its end rarely announces itself. Kennedy (1987), in his history of the great powers, showed that every leading power of the modern era failed at the same point: the conviction that its position was a possession rather than a task.<sup>2</sup> Olson (1982) described the mechanism behind it: in stable, prosperous societies distributional coalitions accumulate that protect what exists and impede renewal, until an external shock breaks the order open. Europe in 2026 is in this position. According to the International Monetary Fund, its share of world GDP has fallen from 27.4 to 14.0 percent since 1980; China's has risen over the same period from 2.1 to 19.6 percent (IMF 2026). The external shock has a name, and the name is not crisis but competition.

The scholarly literature has approached China's catch-up from several directions. Economic history — Maddison (2007), Pomeranz (2000), Landes (1998), Morris (2010) — explains why the country that produced roughly a third of world output in 1820 had fallen to five percent by 1950, and why the Great Divergence between Europe and Asia came so late and so completely. Growth economics — Solow (1956), Romer (1990), Gerschenkron (1962), Krugman (1994), Young (1995), Pritchett and Summers (2014) — debates how much of China's rise is capital accumulation and how much productivity, and whether it will continue. Trade economics — Autor, Dorn and Hanson (2013, 2016), Baldwin (2016), Rodrik (2016) — has quantified the China shock to Western labour markets. Institutional economics — North (1990), Acemoglu and Robinson (2012), Rajan and Zingales (2003), Philippon (2019) — asks under which rules societies innovate and under which they ossify. For Europe itself, the reports of Letta (2024) and Draghi (2024), the studies of the IMF (Adilbish et al. 2025; Kammer 2026), the ECB (Bernasconi et al. 2026), the OECD (2018, 2026) and the Bank for International Settlements (BIS 2026) provide diagnoses of unusual candour — whose implementation, two years on, stands at a quarter (JEDI 2026).

The contribution of this paper lies in four points. First, it connects China's historical experience — world power, withdrawal, return — with Europe's present condition and names the mindset that endangers Europe: the post-colonial of Eurocentrism, economic othering and reliance on an institutional order whose foundation is disappearing. Second, it shows in goods — photovoltaics, batteries, automobiles, machinery, electronics, raw material processing — and in knowledge-intensive services how China exploits the gaps Europe leaves, and what follows from Africa, where an economic upswing is passing Europe by. Third, it derives nine fields of action for a radical rebuild and ranks them by logic and importance, supplemented by measures on energy, taxation, defence and universities. Fourth, it asks how an equity investor should position today with regard to the economic

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<sup>2</sup> Maddison (2007), Tables A.4 to A.7; the estimates rest on 1990 purchasing power parities and carry considerable uncertainty for early periods. The order of magnitude is not in dispute in the literature.

flows of the coming decades — by region and by form of investment, and under the constraint that research since Ritter (2005) imposes: growth is not return.

The paper is structured as follows. Section 1 (the present section) serves as the introduction, frames the research question and surveys the prior literature. Section 2 describes China's rise, fall and return and the gaps Europe left. Section 3 sets out Europe's condition: productivity, capital, internal barriers and the world that is passing Europe by. Section 4 — the core of the paper — develops the nine fields of action in their order of priority. Section 5 derives the positioning of the equity investor, organised by China, the United States, Japan, Africa, Europe and Latin America. Section 6 presents the conclusion and outlook.

## 2 Rise, Fall and Return: China's Lesson for Europe

### 2.1 The Middle Kingdom as World Power and Its Withdrawal

For most of the last two millennia China was the largest economy on earth. According to Maddison's (2007) estimates it produced just under a quarter of world output in the year 1000 and still about a third in 1820; Europe at that time stood at a fifth.<sup>3</sup> The Song dynasty knew paper money, blast furnaces, the compass and printing centuries before Europe; the question of why the scientific and industrial revolutions nonetheless did not occur in China has entered the history of science as the Needham question (Needham 1954 ff.). Between 1405 and 1433 the fleets of Admiral Zheng He sailed the Indian Ocean as far as the coast of East Africa — in ships beside which the caravels of Columbus, sixty years later, looked small.<sup>4</sup>

Then China withdrew. The Ming emperors prohibited overseas trade, let the fleet rot and turned the empire's attention inward. Landes (1998) and Morris (2010) see in this the decisive turning point: not a lack of capability, but a decision against competition, taken by an elite that had everything it needed in what already existed. Pomeranz (2000) has shown that the Yangtze delta was still on a par with England around 1750; the Great Divergence began late and then ran all the steeper. By 1950 China's share of the world economy stood at roughly five percent and its per-capita income below Africa's. A civilisation that possessed everything that constitutes leadership had lost almost all of it within a few generations — not because others were better, but because it stopped comparing itself with them.

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<sup>3</sup> The dimensions of the largest treasure ships handed down in the Ming chronicle are regarded as exaggerated in recent scholarship; even the cautious estimates of sixty to eighty metres in length, however, exceed the Santa María of Columbus several times over.

<sup>4</sup> At purchasing power parities, which capture the volume of production better than exchange rates. At market exchange rates China's share is around 17 percent and the EU's just under 18 percent — the ranking has not yet reversed there, but the direction is the same.

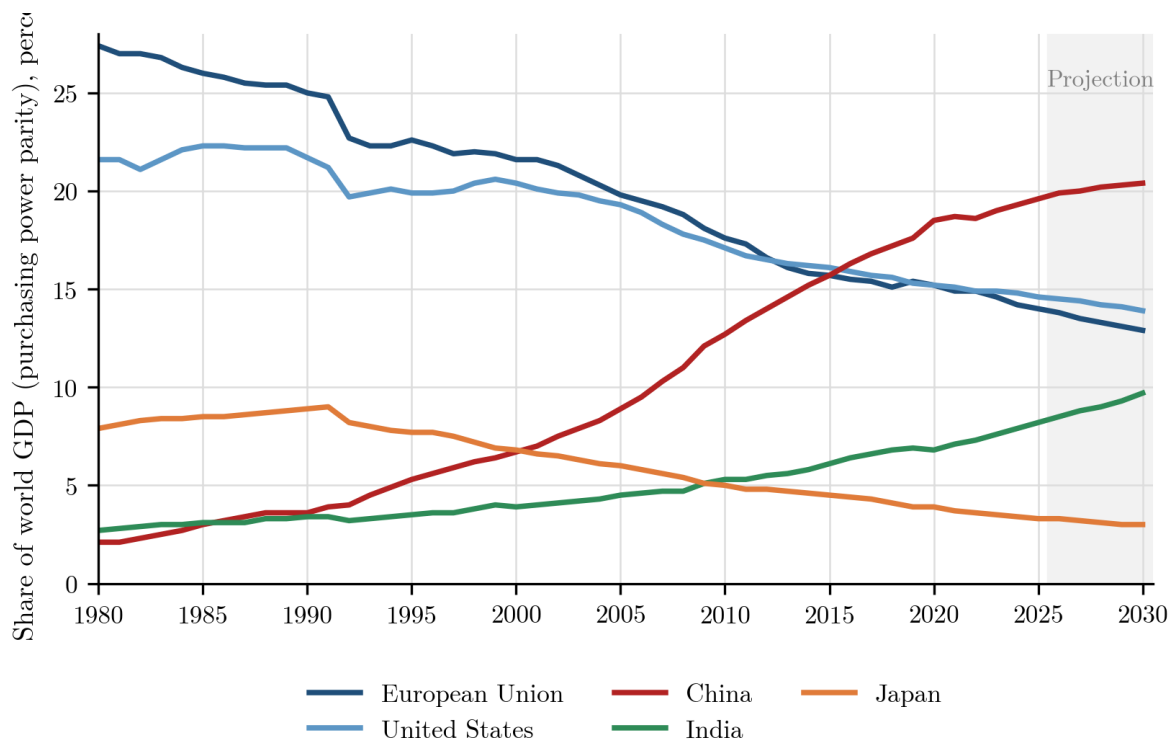
This history matters to Europe for two reasons. First, it refutes the assumption that economic leadership is a permanent condition: Arrighi (1994) and Kindleberger (1996) described the succession of leading powers — Genoa, the Netherlands, Britain, the United States — as cycles in which leadership always passed to the more productive, more open and faster, and was always lost by those who retreated into their rents. Second, it shows that withdrawal is not experienced as withdrawal: the Ming bureaucracy took its decision for prudence. Olson (1982) formalised the mechanism for modern democracies — the longer a society is stable and prosperous, the denser the web of interests that defend the status quo. The loss of leadership is rarely an event; it is a habit.

## 2.2 1980 to 2026: The Catch-Up in Numbers

China's return began with Deng Xiaoping's reforms from 1978 and is without historical precedent in its speed. Figure 1 shows shares of world GDP at purchasing power parity according to the International Monetary Fund. China's share rose from 2.1 percent in 1980 to 19.6 percent in 2025; the IMF expects 20.4 percent for 2030. The European Union's share fell over the same period from 27.4 to 14.0 percent, that of the United States from 21.6 to 14.6 percent, that of Japan from 7.9 to 3.3 percent. Germany alone lost more than half its weight: from 7.0 to 2.9 percent (IMF 2026).<sup>5</sup> India, also plotted in Figure 1, overtook Japan in 2009 and will, on the IMF's projections, reach the European Union in the mid-2030s.

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<sup>5</sup> According to the Chinese shipbuilding association, roughly 74 percent of global new orders by deadweight tonnage went to Chinese yards in 2024, while around 56 percent of world tonnage was completed there (CANSI 2025). The share of world manufacturing value added is calculated from World Bank (2026) data.



**Figure 1:** Shares of world GDP at purchasing power parity, 1980 to 2030, percent. Values from 2026 onwards are IMF projections. Sources: IMF, World Economic Outlook database (accessed September 2026); own graph.

Behind the shares stand quantities, which Table 1 assembles. China today accounts for around 28 percent of world manufacturing value added, operates a high-speed rail network of more than 50,000 kilometres — longer than all others in the world combined —, leads research in 69 of 74 critical technologies (ASPI 2026), receives roughly three quarters of the new orders for ship tonnage worldwide<sup>6</sup> and is involved as builder, financier or operator in 78 of Africa's 231 commercial ports (Nantulya 2025). Trade with Africa reached a record USD 348 billion in 2025 (CGSP 2026). Krugman (1994) and Young (1995) objected early that a rise of this kind rested chiefly on factor accumulation and would end like Soviet growth; Pritchett and Summers (2014) recalled the regression to the mean that has caught up with every catch-up so far; Eichengreen, Park and Shin (2012) have shown that catch-up economies typically slow markedly in a middle income range. All these objections are justified, and none of them changes Europe's position: even a China that grows at three rather than five percent in future shifts the weights of the world economy further in its favour, as long as Europe grows at one.

<sup>6</sup> The IEA (2022) puts the cost advantage of Chinese manufacturing at 35 percent over Europe and 20 percent over the United States; the electricity price of Chinese manufacturing provinces is around 30 percent below the global industrial average.

**Table 1:** China's catch-up in numbers: selected indicators, 1980 and 2025/2026

| Indicator                                              | 1980    | 2025/2026   | Source                    |
|--------------------------------------------------------|---------|-------------|---------------------------|
| Share of world GDP (PPP), percent                      | 2.1     | 19.6        | IMF (2026)                |
| EU share of world GDP (PPP), percent                   | 27.4    | 14.0        | IMF (2026)                |
| Vehicle exports, million units                         | —       | 7.1 (2025)  | CAAM (2026)               |
| Market share of Chinese brands in home market, percent | —       | 69.5        | CAAM (2026)               |
| Share of global photovoltaic manufacturing, percent    | —       | over 80     | IEA (2022); Ember (2025b) |
| High-speed rail network, kilometres                    | 0       | over 50,000 | Newsweek (2025)           |
| Lead in critical technologies (of 74)                  | —       | 69          | ASPI (2026)               |
| Involvement in African commercial ports (of 231)       | —       | 78          | Nantulya (2025)           |
| Trade with Africa, USD billion                         | under 1 | 348 (2025)  | CGSP (2026)               |

*Sources:* as indicated in the table; own compilation.

*Notes:* PPP = purchasing power parity. The vehicle export figure follows the definition of the manufacturers' association CAAM; customs data including all vehicle categories put the figure at 8.3 million (Gasgoo 2026).

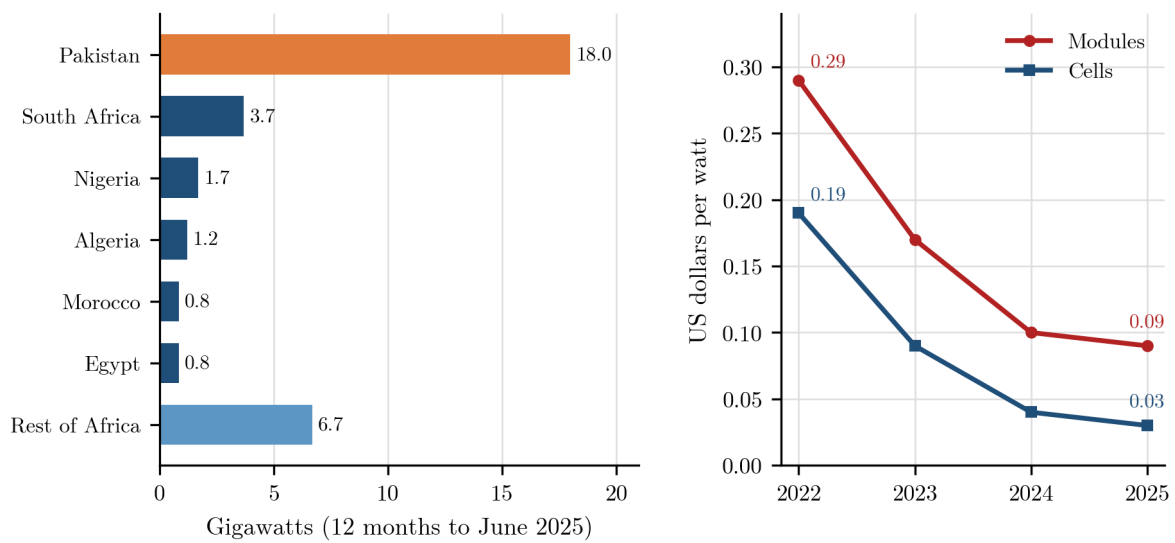
## 2.3 Europe's Gaps: From the Solar Cell to the Magnet

China's rise is not only a story of its own effort but also a story of the gaps that others left. Six industries show the pattern in chronological sequence: photovoltaics, batteries, automobiles, mechanical and plant engineering, consumer electronics and the refining of critical raw materials. The first is photovoltaics. With its Renewable Energy Act of 2000 Germany was the largest solar market in the world and, with Q-Cells in Thalheim, for a time home to the world's largest cell manufacturer; the quality of German modules was the benchmark. But they were expensive, and the German market was supported by feed-in tariffs that created demand without binding the supply side to cost discipline. China drew the lesson Europe missed: it subsidised not consumption but manufacturing, cut costs through scale, integrated sites and industrial electricity at USD 75 per megawatt-hour, and flooded the world market (IEA 2022).<sup>7</sup> Q-Cells went into insolvency in 2012 and passed to the Korean Hanwha group. Today more than 80 percent of global manufacturing capacity at every stage — polysilicon, wafers, cells, modules — is located in China; for polysilicon and wafers the share approaches 95 percent.

What this dominance means for the rest of the world is shown in Figure 2. The price of a solar module fell from USD 0.29 per watt in 2022 to USD 0.09 in 2025, that of a cell from USD 0.19 to USD 0.03 (Ember 2025b, based on data from InfoLink Consulting). At these prices solar power is the cheapest source of energy in human history, and the countries

<sup>7</sup> The figures refer to calendar year 2025 according to MarkLines (2026), based on data of the Chinese manufacturers' association CAAM, which puts the share of Chinese brands in passenger car sales at 69.5 percent for 2025 (CAAM 2026) after 38.4 percent in 2020 (CAAM 2021).

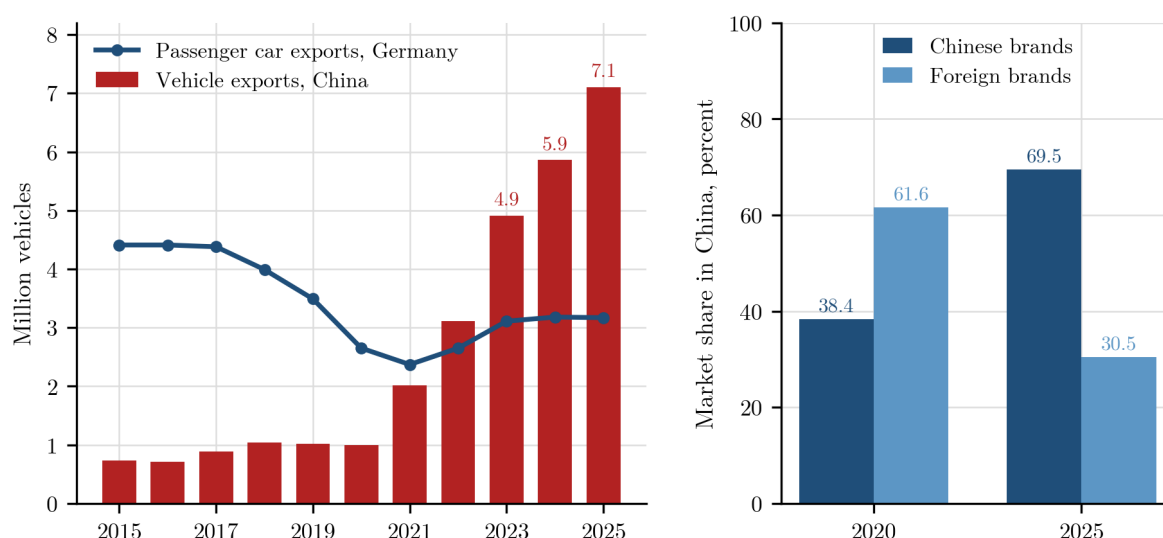
that benefit most from it are not in Europe. In the twelve months to June 2025 Pakistan imported 18 gigawatts of Chinese modules — more than the entire African continent, whose imports rose by 60 percent to 15 gigawatts; outside South Africa they have nearly tripled within two years, and twenty African countries recorded record imports (Ember 2025a). On the rooftops of Lagos, Karachi and Nairobi an energy system is emerging that does without a grid, without a utility and without Europe. The second industry, the battery, followed the same pattern in less time: CATL and BYD today produce more than half of the world's cells, and European ventures such as Northvolt failed in 2024 and 2025 on cost, capital and speed.



**Figure 2:** Imports of Chinese solar modules in the twelve months to June 2025 by country, gigawatts (left), and prices of Chinese modules and cells, US dollars per watt, annual averages 2022 to 2025 (right). Pakistan imported more in this period than the whole of Africa. Sources: Ember (2025a, 2025b); own graph.

The third industry is the automobile, and it weighs heaviest for Europe because it carries Europe's industrial self-image. Table 2 assembles the chronology. In 2005 the Landwind sport utility vehicle recorded the worst result ever measured in the ADAC crash test; in 2007 the Brilliance BS6 saloon received one of five stars in the ADAC crash test (ADAC 2007). Chinese cars were an object of ridicule in Europe, and the industry held its leadership to be unassailable. Two decades later the picture has reversed. In 2025, according to the manufacturers' association, China exported 7.1 million vehicles, more than twice as many as Germany, and has been the world's largest car exporter since 2023 (Figure 3). In the Chinese market, the world's largest with 34.4 million vehicles sold, Chinese brands held just under 70 percent in 2025; German manufacturers lost 7.7 percent of their sales and reached a good twelve percent, the Japanese fell below ten percent market share, and

almost every second car sold was an electric or hybrid vehicle (MarkLines 2026).<sup>8</sup> BYD replaced Volkswagen as China's best-selling brand in 2023; in 2025 Volkswagen fell behind Geely into third place.



**Figure 3:** Vehicle exports of China and passenger car exports of Germany, 2015 to 2025, million units (left), and market share of Chinese versus foreign brands in passenger car sales in China, 2020 and 2025, percent (right). Sources: CAAM (2021, 2026); VDA (2026); own graph.

What matters is where the shift is taking place: in Asia, the market in which the industry's future lies. In Thailand, the automotive hub of South-East Asia, the share of Japanese brands fell below 70 percent in 2025 for the first time, having stood between 80 and 90 percent in the 2010s; Chinese brands already hold more than 20 percent there and the large majority of the electric segment (Asia News Network 2026). The quality that was laughed at fifteen years ago is now a selling point: BYD, Nio and Xpeng achieve five stars in the Euro NCAP test (Euro NCAP 2026), and Chinese brands have caught up with foreign ones in the quality surveys of their home market. Europe has answered this development with tariffs — the Union has levied countervailing duties of up to 35 percent on Chinese electric cars since October 2024 — and has thereby protected its own market, not its own position in the world.<sup>9</sup> Whoever wants to buy cars in Asia, Africa and Latin America buys Chinese.

<sup>8</sup> The countervailing duties of Implementing Regulation (EU) 2024/2754 range from 7.8 percent (Tesla) to 35.3 percent (SAIC) and come on top of the general import duty of ten percent; BYD, Nio and Xpeng each achieved five stars in the Euro NCAP tests of 2023 to 2025.

<sup>9</sup> In February 2026 the Commission opened an in-depth investigation under the Foreign Subsidies Regulation into Goldwind's activities, while noting that the company's presence in the Union appears limited so far (European Commission 2026c). In industrial trucks, Hangcha sold around 334,000 units in 2025 and raised exports by more than a quarter (Hangcha 2026); Kion, the largest European manufacturer, describes the same competitive pressure in its annual report (Kion 2026).

**Table 2:** From ridicule to leadership: China's automobile industry, 2005 to 2025

| Year | Event                                                                                               | Source                        |
|------|-----------------------------------------------------------------------------------------------------|-------------------------------|
| 2005 | Landwind SUV records the worst result ever measured in the ADAC crash test                          | ADAC (2005)                   |
| 2007 | Brilliance BS6 receives one of five stars in the ADAC crash test                                    | ADAC (2007)                   |
| 2009 | China becomes the world's largest car market; support for “new energy vehicles” begins              | CAAM (2026)                   |
| 2015 | Strategy programme “Made in China 2025” names electric mobility as a key industry                   | State Council (2015)          |
| 2020 | Chinese brands hold 38.4 percent of the home market                                                 | CAAM (2021)                   |
| 2021 | Vehicle exports double to 2.0 million                                                               | CAAM (2026)                   |
| 2023 | China becomes the world's largest car exporter (4.9 million); BYD replaces Volkswagen as number one | CAAM (2026)                   |
| 2024 | EU introduces countervailing duties of up to 35 percent on Chinese electric cars                    | European Commission (2024)    |
| 2025 | Exports 7.1 million; Chinese brands 69.5 percent at home; German manufacturers –7.7 percent         | CAAM (2026); MarkLines (2026) |
| 2025 | Share of Japanese brands in Thailand below 70 percent for the first time; Chinese above 20 percent  | Asia News Network (2026)      |

*Sources:* as indicated in the table; own compilation.

Photovoltaics, batteries and automobiles are not the exceptions but the earliest cases of a pattern that has since spread across the breadth of goods production — from mechanical and plant engineering through consumer electronics to the processing of raw materials. Mechanical and plant engineering was regarded as the impregnable fortress of the European and above all the German economy. China displaced Germany as the world's largest machinery exporter for the first time in 2020; in 2024, 20.3 percent of world machinery exports came from China and 14.0 percent from Germany, and China holds around 35 percent of world machinery production against 27 percent for the European Union (VDMA 2026). In machine tools, the heart of production technology, 37 percent of world output comes from China and 12 percent from Germany (VDW 2026). The route there ran through joint ventures, supplier relationships and the transfer of knowledge that came with them, and it does not end at comparable technology: Chinese injection moulding machines cost thirty to forty percent less than European ones, laser cutting systems up to seventy percent less (Porsche Consulting 2026).

The extension is clearest in wind power, and it is visible there at a stage at which Europe can still act. In 2025, 178 gigawatts were installed worldwide; the five largest manufacturers were all Chinese — Goldwind, Envision, Windey, Mingyang and SANY — and Chinese suppliers accounted for 78 percent of global additions (GWEC 2026; Wood Mackenzie 2026). European manufacturers hold their home market almost entirely, with 94.5 percent, but that home market is only 12.3 percent of the world market, and the price

difference is the same as it once was for solar modules: Chinese turbines cost 400 to 700 US dollars per kilowatt at home, European ones more than 1,000 (Meidan and Hove 2025). This is the position of photovoltaics in 2008, with the single difference that it is known this time.<sup>10</sup>

In consumer electronics Europe has not fallen behind; it is no longer present. No European vendor appears among the largest suppliers of mobile phones in the world; Xiaomi, OPPO and vivo alone hold between 27 and 29 percent of the world market, and the last manufacturer that assembled devices in Germany filed for insolvency in 2023 (IDC 2026; Counterpoint Research 2026). In network equipment, by contrast, the picture is different, and for this paper it is the more instructive one: behind Huawei, Ericsson and Nokia rank second and third worldwide, and outside China Ericsson leads the market (Dell'Oro 2026; Omdia 2026). Where Europe sells not devices but systems — where approval, operation, security and trust are part of the product — it holds its position. That is not a niche but a pointer that returns in Chapter 5.

The third extension concerns the beginning of every value chain. Raw materials need not be owned; they need to be processed, and Europe has given up the processing. China refines 91 percent of rare earths and produces 94 percent of sintered permanent magnets, without which neither an electric motor nor the generator of a wind turbine is built (IEA 2026); for gallium the figure is 99 percent and for natural graphite 82 percent of world production (USGS 2026b, 2026c). Across energy-related minerals China is the determining refiner for 19 of 20, with an average share of around 70 percent (IEA 2025). The European Court of Auditors records that the Union sources all of its heavy rare earths and 98 percent of its rare earth magnets from China and that not a single rare earth is processed within the Union (European Court of Auditors 2026). Whoever gives up the processing loses not only one stage of value creation but control over all the stages that follow. Table 3 summarises the extension.

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<sup>10</sup> The European answer consists of the payment solution Wero, which counted 56 million users in July 2026, and the digital euro, whose pilot is planned for the second half of 2027 and whose possible first issuance is planned for 2029 (EPI 2026; ECB 2026b).

**Table 3:** The extension of the pattern: further industries compared, 2024 to 2026

| Indicator                                   | China     | Europe             | Source          |
|---------------------------------------------|-----------|--------------------|-----------------|
| Machinery exports, world share 2024         | 20.3 %    | 14.0 % (DE)        | VDMA (2026)     |
| Machine tools, world production 2025        | 37 %      | 12 % (DE)          | VDW (2026)      |
| Wind power, share of global additions 2025  | 78 %      | 12.3 % (market)    | GWEC (2026)     |
| Industrial robots, installations 2024       | 54 %      | 16 %               | IFR (2025)      |
| Rare earths, refining                       | 91 %      | 0 %                | IEA (2026)      |
| Permanent magnets (NdFeB), world output     | 94 %      | —                  | IEA (2026)      |
| Gallium, primary production 2025            | 99 %      | —                  | USGS (2026b)    |
| Natural graphite, mine production 2025      | 82 %      | —                  | USGS (2026c)    |
| Mobile phones, world market (three vendors) | 27–29 %   | no vendor          | IDC (2026)      |
| Mobile network equipment, ranking           | 1st place | 2nd and 3rd places | Dell'Oro (2026) |

*Sources:* as indicated in the table; own compilation.

*Notes:* The figures rest on different definitions and years and cannot be combined with one another. “Europe” denotes the European Union unless otherwise noted; DE stands for Germany. In network equipment Ericsson leads outside China.

## 2.4 The Second Gap: Knowledge-Intensive Services

It would be a consolation if the shift were confined to the factory and Europe retained in services what it loses in manufacturing. The consolation does not hold. In knowledge-intensive services the gap is in part larger than in industry, and it is younger, because these markets came into being only in the last fifteen years. China's non-bank payment institutions, essentially Alipay and WeChat Pay, processed around 1,325 billion payment transactions in 2025; the entire non-cash payment volume of the euro area, cards and credit transfers included, came to around 161 billion in the same year (People's Bank of China 2026; ECB 2026a). In the euro area six percent of payments at the point of sale are initiated by mobile device (ECB 2024); in China 85 percent of surveyed users state that they pay by mobile every day (China Payment and Clearing Association 2024). Europe's lag is a double one: behind China in technology and behind the United States in ownership, for 61 percent of euro area card payments run through international card schemes, and thirteen member states have no national card scheme at all (ECB 2025).<sup>11</sup>

In trade the same asymmetry appears from the other side. In 2024, 4.6 billion small consignments worth less than 150 euros entered the Union, 91 percent of them from China;

<sup>11</sup> China was never a colony but semi-colonial: it retained its statehood but lost part of its sovereignty through the unequal treaties, the treaty ports, extraterritoriality and foreign administration of the maritime customs. The period from 1839/40 to 1949 is known in China as the century of humiliation.

in 2025 the figure was close to 5.9 billion, a quarter more (Council of the European Union 2026). On the figures underlying their designation as very large online platforms, Shein and Temu together count more than 180 million monthly users in the Union (European Commission 2026d). The Union has responded by abolishing the duty-relief threshold and applying a flat charge of three euros per consignment. That is a customs measure; a European platform of that order of magnitude does not arise from it.

In logistics the picture is divided, and the distinction matters because it shows what Europe can still do. In liner shipping Europe leads: MSC, Maersk, CMA CGM and Hapag-Lloyd together account for around 55 percent of world container capacity, COSCO for just under eleven percent (Alphaliner 2026). Those who operate ships are for the most part European. Those who operate ports increasingly are not: Chinese companies hold stakes in 33 European container terminals, and European terminals already contributed 51 percent of the revenues of COSCO's port division in 2023, against 32 percent in 2016 (Popławski 2025). China's own ports handled 354 million standard containers in 2025; seven of the ten largest container ports in the world are Chinese (Ministry of Transport of the People's Republic of China 2026). The land link to Europe is built out and stagnating at the same time: 20,022 freight trains ran between China and Europe in 2025, 3.2 percent more than the year before, while the volume carried fell by 1.3 percent (China State Railway Group 2026). The lesson is not that China leads everywhere, but that Europe holds where it operates networks and loses where it no longer builds infrastructure.

The third and most consequential shift concerns research itself, the input to everything else. In 2024 the Chinese patent office received 1.8 million of the world's 3.7 million patent applications (WIPO 2025). Among international applications under the Patent Cooperation Treaty, the measure closer to quality, China leads with 26.7 percent ahead of the United States with 19.1 and Germany with 6.0 percent; Huawei is the largest single applicant in the world (WIPO 2026a). At the European Patent Office China moved into third place for the first time in 2025, overtaking Japan (EPO 2026). In generative artificial intelligence more than three quarters of the patent families published in 2024 and 2025 are Chinese (WIPO 2026b). In the Nature Index for 2026, which weights contributions to leading scientific journals, China reaches a share value of 52,735 against 26,006 for the United States; Germany, the United Kingdom, France and Italy together reach 15,469 (Nature Index 2026).

Two objections belong here, and both survive scrutiny only in part. The first is that quantity is not quality: if only internationally extended patent families are counted in quantum technologies — those for which an applicant spends money outside the home market — China's share falls from 51 to 7 percent (QuIC 2025). The point is well taken and counsels caution with bare application counts. The second is that Europe still educates excellently; that is true as well, yet the number of doctoral graduates in the Union fell by 13 percent in the natural sciences and by a quarter in computer science between 2015 and 2022, while the corresponding degrees in the United States rose by 16 percent (European

Commission 2025b). Both objections narrow the gap; neither closes it, and neither changes the direction in which it is moving.

## 2.5 The Post-Colonial Mindset: Eurocentrism and Incumbency

What connects these industries and services is not a lack of European technology but a pattern of thought. This paper calls it post-colonial and uses the term in the meaning postcolonial theory has given it. That theory examines two things. The first is the continuity of power beyond the end of colonial rule: Nkrumah (1965) gave this its canonical formulation, according to which former colonial powers maintain their position no longer through administration but through economic and institutional means — through trade rules, financing, currencies and the bodies in which standards are set; Prebisch (1950) and Wallerstein (1974) described the same relation as the centre and periphery of the world economy. Part of it is the Eurocentrism that Amin (1989) analysed as an ideology: the assumption that European values, science and ways of life are the measure of the world and superior to all others; Chakrabarty (2000) showed how readily European history is read in the social sciences as universal history. The second is the deconstruction of knowledge and language. Said (1978) described how the West cast itself as civilised, rational and progressive by portraying the colonised as backward, exotic and irrational; the term for this process is othering, introduced as a concept by Spivak (1985), and Bhabha (1994) examined its ambivalence.<sup>12</sup>

Applied to Europe's relation to China, this pattern yields three assumptions that obstruct the view. The first is the Eurocentric yardstick: that European norms, approvals and definitions of quality are the world's standards, and that whoever wishes to sell must adopt them. It held as long as Europe was the largest market; today Asia, Africa and Latin America decide the volumes, and there the buying is done by other measures. The second is othering in economic form: the persistent description of Chinese products as copies, cheap goods or subsidised goods, and of Chinese success as not truly its own achievement. The crash test of 2005 was an accurate result about one vehicle and became an image of a country that outlasted twenty years while the country changed. The third is the continuity of power: the assumption that the institutional order of trade rules, development banks, standards bodies and reserve currencies will continue to secure Europe's position even as the economic foundation beneath it narrows. It is precisely this third assumption that is now eroding — and with it the condition under which the first two could remain without consequence.

The term is meant here neither as a reproach nor as a moral category but as a description of an economic self-understanding, and it describes no European peculiarity:

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<sup>12</sup> Ferguson (2011) calls these institutions “killer applications”; their diffusion, he argues, is the real story of globalisation. The term “post-colonial” is used here not in the sense of cultural studies but as a description of an economic self-understanding.

every long-successful order produces the assumption that its success is the natural order of things. Frank (1998) and Hobson (2004) have recalled that the European rise itself rested on Asian foundations and that the image of a perpetually backward Asia is a product of the nineteenth century; Pomeranz (2000) showed how late the paths diverged. Whoever knows this reads the present shift not as an anomaly but as a return to conditions that held for the longest part of economic history.

In economic terms the pattern can be reduced to two sentences: what was good stays good; and nothing works without Europe. Both sentences date from a time when Europe wrote the rules of the world economy, and both have become false without anyone noticing. The first sentence confuses quality with competitiveness. Christensen (1997) showed why leading firms fail against cheaper, initially inferior products: they listen to their best customers, improve what exists and leave the lower market segment to the newcomer, until the newcomer, coming from below, reaches the middle. Solar modules, batteries, automobiles, machine tools, wind turbines and mobile phones are textbook cases of this logic. The second sentence confuses history with entitlement. Ferguson (2011) named the institutions that once distinguished the West from the rest of the world — competition, science, property, medicine, consumption, the work ethic — and showed that they can be copied and have been copied. There is no reason why a continent that no longer applies these institutions better than others should keep its lead.<sup>13</sup>

This mindset has an institutional counterpart. Olson (1982) explained the rise of Germany and Japan after 1945 by the fact that the war had shattered the distributional coalitions that paralysed other countries; eighty years of peace and prosperity have let them grow back in Europe. Rajan and Zingales (2003) described how established firms close the competition to which they owe their position against those who come after; Acemoglu and Robinson (2012) showed that institutions can become extractive even after having been inclusive — through rules that protect incumbents and deny entry to the new. Schumpeter (1942) named the process at issue: where creative destruction does not take place, destruction without creation takes place — only later, and from outside.

The standard against which Europe must be measured is therefore not its past but the speed of its competitors. China consistently exploits every gap Europe leaves: it builds in Africa, South America and South-East Asia the ports, roads and power stations that Europe does not build, and then supplies the markets thus opened with its products; it occupies the technologies in which Europe hesitates — from the battery through the wind turbine to the permanent magnet; it wins the customers Europe takes for granted. Section 3 shows how deep the causes of these gaps lie within Europe itself.

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<sup>13</sup> Draghi (2024), Part A, chapters 1 and 4. The comparison with the Marshall Plan (1.5 to 2 percent of recipient countries' GDP per year) is drawn from the report itself.

## 3 Europe's Condition: A Diagnosis

### 3.1 Productivity, Investment, Capital

The diagnosis of Europe's condition has been made; what is missing is the therapy. Draghi (2024) traced the gap to the United States to a single quantity: productivity. Per-capita income in the Union stands roughly 30 percent below the American level at purchasing power parity, and more than two thirds of this gap is explained by lower productivity per hour worked, not by shorter working hours. The report puts the additional investment required to keep pace at EUR 750 to 800 billion a year — 4.4 to 4.7 percent of GDP, more than the Marshall Plan relative to the output of its day.<sup>14</sup> Adilbish et al. (2025) examined the causes for the IMF at the level of the firm: Europe's productivity shortfall does not arise in existing firms, which keep pace with their American peers, but in the absence of young, fast-growing firms at the technological frontier — and in a capital market that does not finance them. Of the world's 50 most valuable technology companies four are European; no European company founded in the last fifty years has reached a market capitalisation of more than EUR 100 billion, while all six American companies valued at more than a trillion were created in that period (Draghi 2024).

The capital exists; it merely flows in the wrong direction. The Union's households save around EUR 1,400 billion a year, more than American households, and hold around ten trillion euro in bank deposits; every year some EUR 300 billion of European savings flow into American securities (European Commission 2025a). Atomico (2025) puts venture capital investment in Europe at USD 44 billion for 2025 — a fifth of the American figure — and locates the cause in the investment policy of the institutional pools of capital: European pension funds hold 0.009 percent of their assets in venture capital, American ones 0.028 percent; alignment alone would release USD 210 billion over ten years. Eighty percent of European pension funds manage less than a billion euro and are thus too small to invest in growth companies (Morgan Stanley 2026). More than 30 percent of repeat founders move their headquarters out of Europe by the third financing round, and 70 percent of founders describe the European regulatory environment as restrictive (Atomico 2025). The Bank for International Settlements (BIS 2026) noted in its Annual Economic Report that the resilience of the world economy in 2025 was carried to a significant degree by investment in artificial intelligence — investment of which more than four fifths takes place in the United States and China.

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<sup>14</sup> The estimates rest on gravity models comparing trade between member states with trade within a member state; they are contested in the literature (Head and Mayer 2025), yet even the critics do not dispute the order of magnitude of the shortfall in services.

### 3.2 Internal Barriers: Single Market and Bureaucracy

Europe's largest market is Europe itself, and it is unfinished. The European Central Bank has converted the barriers to trade between member states into tariff equivalents: for goods they correspond to a tariff of 67 percent, for services of 95 percent; in construction they exceed 120 percent (Bernasconi et al. 2026). The IMF, using a different method, arrives at 44 and 110 percent (Kammer 2026).<sup>15</sup> Services produce three quarters of European output, but trade in them between member states reaches only 16 percent of GDP — no more than trade with third countries — while goods reach 40 percent. Letta (2024) derived from this the demand for a fifth freedom for knowledge, research and data; the ECB estimates that lowering services barriers by nine percentage points would raise trade by 14.5 percent and welfare by 1.8 percent. The single market lifted the per-capita income of its founding members by 12 to 22 percent between 1993 and 2014 (Bernasconi et al. 2026); what it could still lift lies unused.

The second internal barrier is the bureaucracy that took the place of innovation in the years of prosperity. Draghi (2024) counts some 13,000 legal acts of the Union for the years 2019 to 2024 against roughly 3,500 laws and 2,000 resolutions of the American Congress. The number by itself says little; what matters is what the rules cost and whom they hit. They hit the small, who have no legal department, and protect the large, who have one — the mechanism described by Rajan and Zingales (2003). Table 4 assembles the indicators. More remarkable than the diagnosis is the reaction to it: two years after the Draghi report, according to the tracker of the Joint European Disruptive Initiative, 26 percent of its recommendations have been implemented, none of the thirty most important in full; the tracker expressly scores execution only, not announcements (JEDI 2026). A third of the agenda, in the words of its scientific director, would cost nothing but political courage.<sup>16</sup> Olson's (1982) diagnosis has thus been confirmed in real time: what is lacking is not knowledge but the capacity to decide against the coalitions of the status quo.

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<sup>15</sup> The EPIC Observatory arrived at 11.2 percent of 383 recommendations fully implemented one year after the report; the counting methods differ, the direction does not.

<sup>16</sup> The population projection follows the United Nations (World Population Prospects 2024, medium variant). The median age in Africa is 19 years, in the European Union 45.

**Table 4:** Europe's internal barriers: indicators on the single market, regulation and capital, 2026

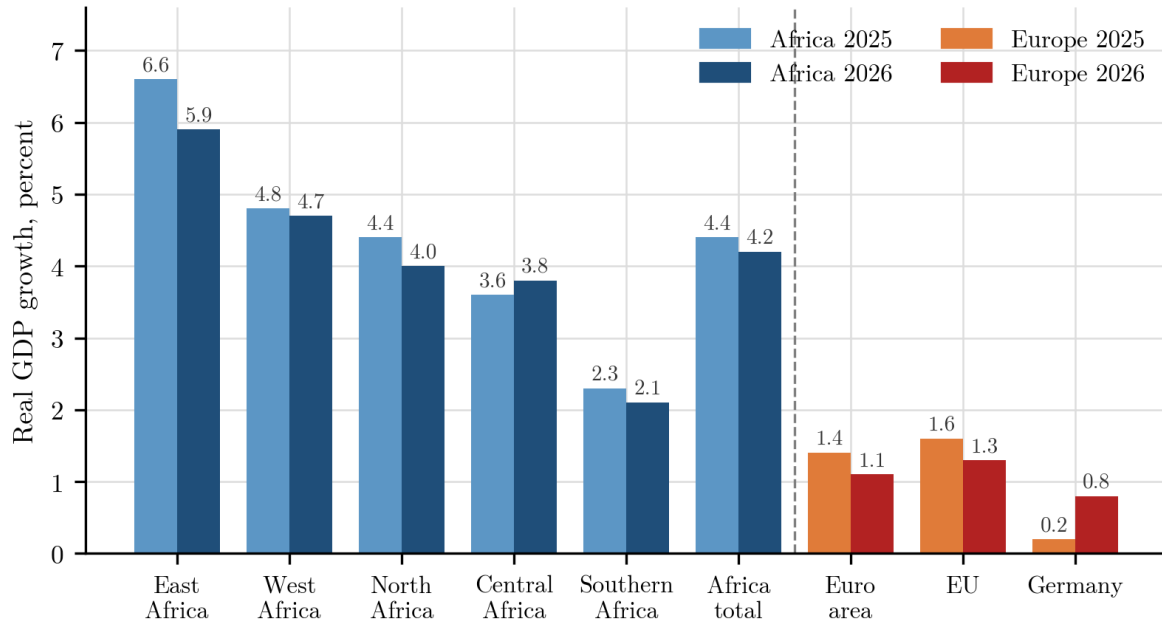
| Indicator                                                     | Value             | Source                   |
|---------------------------------------------------------------|-------------------|--------------------------|
| Tariff equivalent of barriers to intra-EU trade in goods      | 67 %              | Bernasconi et al. (2026) |
| Tariff equivalent of barriers to intra-EU trade in services   | 95 %              | Bernasconi et al. (2026) |
| Intra-EU trade in services, percent of GDP                    | 16                | Bernasconi et al. (2026) |
| Intra-EU trade in goods, percent of GDP                       | 40                | Bernasconi et al. (2026) |
| EU legal acts 2019–2024 (comparison: US federal laws)         | 13,000 (3,500)    | Draghi (2024)            |
| Implementation of Draghi recommendations after two years      | 26 %              | JEDI (2026)              |
| Venture capital investment in Europe 2025, USD billion        | 44                | Atomico (2025)           |
| Venture capital share of pension fund assets, Europe (US)     | 0.009 % (0.028 %) | Atomico (2025)           |
| European pension funds with less than EUR 1 billion in assets | 80 %              | Morgan Stanley (2026)    |
| Founders describing the regulatory environment as restrictive | 70 %              | Atomico (2025)           |
| EU R&D expenditure, percent of GDP (target: 3)                | 2.2               | Eurostat (2025)          |

*Sources:* as indicated in the table; own compilation.

### 3.3 The World That Is Passing Europe By

While Europe is preoccupied with itself, the flows of the world economy are shifting. Nowhere is this clearer than in Africa. The African Development Bank expects growth of 4.2 percent for the continent in 2026, 5.9 percent for East Africa and 4.7 percent for West Africa; in 2025 the figures were 6.6 and 4.8 percent, and 22 African countries grew faster than five percent (AfDB 2026). Ethiopia is growing at more than nine percent on IMF projections, Côte d'Ivoire at more than six, Kenya and Nigeria at more than four — the euro area at 1.1 percent (IMF 2026). Figure 4 sets the figures side by side. Behind them stands a continent whose population will double to 2.5 billion by 2050, whose cities are growing faster than any European city since industrialisation, and whose middle class demands the products Europe makes — and increasingly buys from China.<sup>17</sup>

<sup>17</sup> The first phase cost around USD 1.3 billion and total investment exceeds USD 3 billion (Mardones 2022); Xi Jinping opened the port on 14 November 2024 together with the Peruvian president (AidData 2024).



**Figure 4:** Real GDP growth of African regions and of Europe, 2025 and 2026, percent. Sources: African Development Bank, African Economic Outlook 2026 (Africa); IMF, World Economic Outlook (euro area, EU, Germany); own graph.

Around the year 2000 almost half of African exports went to Europe; by 2021 more than 40 percent of African imports and exports went to Asia, which has overtaken Europe in both directions (Mo Ibrahim Foundation 2023). China's trade with Africa rose by 17.7 percent to USD 348 billion in 2025, of which USD 225 billion were Chinese exports (CGSP 2026). Taking trade, direct investment and development aid together, the European Union remains the continent's largest partner — with a stock of direct investment of EUR 309 billion (EUvsDisinfo 2025) — but it is the partner of the past: its investments lie in commodities, banks and consumer goods, China's in what carries tomorrow's growth. Chinese firms are involved in 78 of Africa's 231 commercial ports, 35 of them in West Africa and 17 in East Africa; at Lekki near Lagos China Harbour holds 54 percent and a sixteen-year operating lease, at Kribi 66 percent, at Lomé 50 percent (Nantulya 2025). The pattern is always the same: a state-owned conglomerate finances through the China Development Bank, builds with its own subsidiaries and retains operations — and through the ports thus created flow Chinese solar modules, motorcycles, telephones and cars.

In Latin America China completed this model in November 2024 with the deep-water port of Chancay in Peru: COSCO owns 60 percent, the voyage to Shanghai shortens from 35 to 23 days, and the port is the exit for South America's raw materials and the entry for Chinese industrial goods (AidData 2024; East Asia Forum 2026).<sup>18</sup> Europe has answered this strategy by trying to limit Chinese stakes in its own ports — the dispute over COSCO's

<sup>18</sup> The Commission estimates the administrative cost of reporting obligations for companies alone at around EUR 150 billion a year; the Omnibus packages of 2025 are intended to cut them by 25 percent, and by 35 percent for small firms (European Commission 2025a).

entry at Hamburg's Tollerort terminal ended in 2023 at 24.9 percent. Defending one's own port is legitimate; it does not replace building others'. The Union's Global Gateway initiative, with an envelope of EUR 300 billion to 2027, is the right answer on paper; in Lagos, Mombasa and Lima it is not yet visible. East and West Africa are experiencing an upswing of a kind Europe has not seen since the 1950s — and it is passing Europe by almost entirely.

## 4 The Radical Rebuild: Nine Fields of Action

From the diagnosis follows not a programme but a ranking. Europe does not need another list of measures — the Letta and Draghi reports together contain more than four hundred — but an order that says what comes first and why. This paper ranks the fields of action by two criteria: by their logic, that is, whether a field is a precondition for others; and by their importance, measured by effect, time to effect and fiscal cost. Table 5 summarises the result. In first place stand the fields that cost nothing and make everything else possible: the dismantling of bureaucracy and the speed of decisions. Then follow the preconditions for technology and the spaces in which it can emerge. Then capital. Then people, the market, infrastructure and distribution across space. The ranking is not a sequence of execution — much must happen simultaneously — but a sequence of priority when forces are scarce. And they are scarce.

**Table 5:** The nine fields of action of the rebuild, ranked by logic and importance

| Rank | Field of action                        | Core measure                                                                                                | Time to effect | Fiscal cost            |
|------|----------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------|------------------------|
| 1    | Dismantling bureaucratic structures    | Review of all legal acts with sunset clauses; deletion quota; reversal of the burden of proof for new rules | 1 to 3 years   | none                   |
| 2    | Greater agility                        | Permit deadlines with deemed approval; majority voting; execution before announcement                       | 1 to 3 years   | none                   |
| 3    | Preconditions for technology           | Support manufacturing, not consumption; industrial electricity; procurement as demand                       | 3 to 7 years   | medium                 |
| 4    | Away from the state: technology spaces | Special zones and testbeds on the Ukrainian model; 28th regime                                              | 1 to 5 years   | low                    |
| 5    | Capital for new models                 | Savings and Investments Union; pension capital; federal bonds as foundation                                 | 3 to 10 years  | high, but remunerative |
| 6    | Social mobility                        | Early education; permeable training paths; skilled immigration                                              | 10 to 20 years | medium                 |
| 7    | Trade and transport barriers           | Completion of the single market for services; agreements with third countries                               | 3 to 10 years  | low                    |
| 8    | Infrastructure                         | Rail, ports, grids; a European port strategy abroad                                                         | 5 to 15 years  | high                   |
| 9    | Regional diversification               | Several centres for capital and talent instead of one                                                       | 10 to 20 years | medium                 |

*Sources:* Own presentation.

*Notes:* Time to effect denotes the interval between decision and measurable impact on productivity or investment; costs are to be understood as fiscal, not economic.

## 4.1 Dismantling Bureaucratic Structures

The first field of action is the most important because it is the precondition for all others and because it costs nothing. The bureaucracy at issue is not the administration that applies the law, but the web of rules, reporting obligations and procedures that took the place of innovation in the years of prosperity. It arose because rules are cheap to enact and expensive to obey, because every rule has a constituency that defends it, and because nobody speaks for the firms that were never founded on its account. Baumol (1990) showed that societies do not have fewer entrepreneurs than others, but that their entrepreneurs go where the rules promise a return — into productive or into unproductive activity. Where

compliance with regulations employs more people than the development of products, the rules have won.<sup>19</sup>

What needs to be done is known; it is merely uncomfortable. First, a review of the entire body of rules with an expiry date: any rule not expressly confirmed within a deadline lapses — the principle Olson (1982) described as the only way to break encrusted coalitions without catastrophe. Second, a deletion quota: for every new rule two old ones go, measured by compliance cost, not by the number of paragraphs. Third, the reversal of the burden of proof: it is not the firm that must show it may pursue an activity, but the authority that must show it has to be prohibited. Fourth, concentration on the founding of firms: starting a company in Europe must take no longer than in Estonia, where it takes three hours, and cost no more than in Delaware. The Commission's Omnibus packages of 2025 and the “One Europe, One Market” roadmap of March 2026 point in this direction; they will be judged by whether firms feel the difference, not by whether it has been decided.

## 4.2 Greater Agility

The second field of action is speed, and it is the locational factor on which Europe is losing most visibly. China built the port of Chancay in four years; in Germany the permitting of a wind turbine takes longer on average. The Beijing–Shanghai railway, 1,318 kilometres, was built in three years; Stuttgart 21 began in 2010 and is not finished in 2026. The difference lies not in the form of government — France built its TGV network and the Netherlands its Delta Works under democratic procedures — but in the decision whether procedures serve the project or the project serves the procedures. Villeroy de Galhau (2026) has declared the question of whether Europe can be reconciled with speed the test of its future. Kammer (2026), for the IMF, has recalled that the effect of reforms falls not linearly but disproportionately with every year of delay, because competitors set the standards in the meantime.

Agility can be manufactured. Permit deadlines with deemed approval — whoever has no answer after the deadline has the permit — have been tested in several member states and work. Majority voting in trade, energy and capital market matters, for which the Lisbon Treaty provides the passerelle clause, ends the hostage-taking by the individual. A European project law for projects of common interest that merges environmental assessment, participation and legal protection into a single procedure of fixed duration, as the Union already has for energy infrastructure, belongs extended to rail, grids, factories and research facilities. And the Union itself must change its way of working: the Draghi Tracker (JEDI 2026) shows that Europe produces announcements faster than execution;

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<sup>19</sup> The passerelle clause of Article 48(7) TEU allows the European Council to decide unanimously on a move to qualified-majority voting in individual policy areas; it has never been used.

reversing that order — execution first, then communication — would be the most effective communications reform Brussels could undertake.<sup>20</sup>

### 4.3 Preconditions for Technology

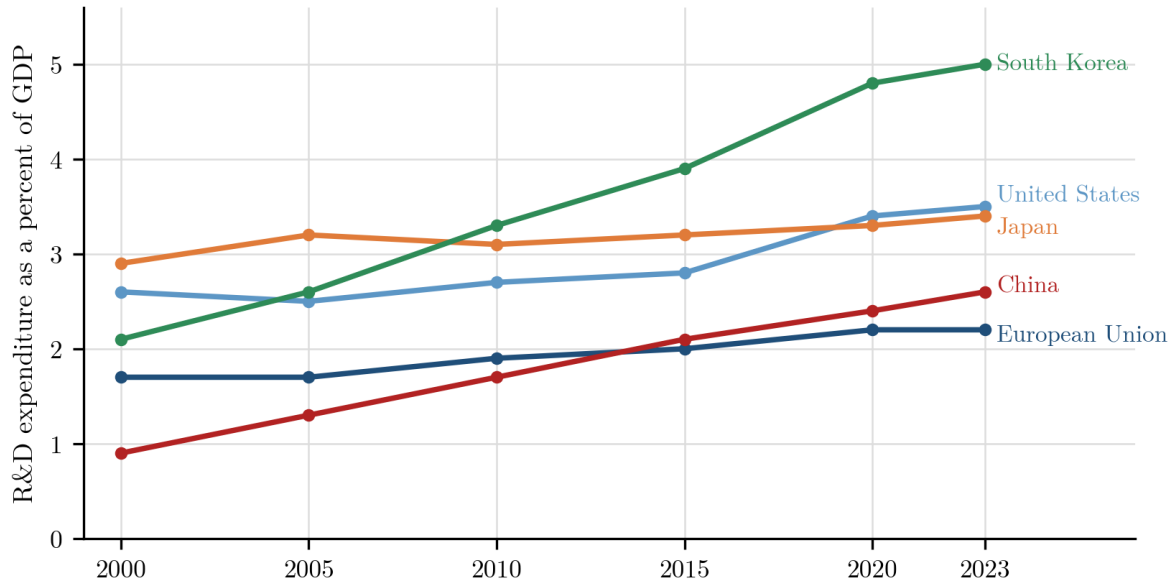
The third field of action follows from the lesson of photovoltaics, and the lesson is not that Europe must subsidise more, but differently. Germany subsidised consumption — the feed-in tariff — and got the largest market in the world, which it lost to foreign manufacturers. China subsidised manufacturing — capital, land, electricity, demand through procurement — and got the industry. The United States adopted the Chinese lesson with the Inflation Reduction Act of 2022 and tie support to the place of production. Europe followed with the Net-Zero Industry Act of 2024, without the means that would make it credible.<sup>21</sup> The preconditions at issue are four: energy costs that do not decide the competition from the outset — industrial electricity in Europe costs two to three times the Chinese and American price, and the energy price shock of 2026 has widened the gap (OECD 2026); scale, that is, markets large enough to travel down the learning curve; demand through public procurement, which Mazzucato (2013) described as the real instrument of the entrepreneurial state; and research that finds its way into manufacturing.

In research Europe is not at the top, but nor is it at the bottom. Figure 5 shows research expenditure relative to GDP: the Union spends 2.2 percent and has stayed there for a decade, the United States 3.5, Japan 3.4, South Korea 5.0 percent; China overtook Europe in 2013 and stands at 2.6 percent (Eurostat 2025; OECD 2025). Within the Union, Sweden, Belgium, Austria, Finland, Germany and Denmark reach three percent or more; Romania and Malta stand at 0.5 percent. Growth theory since Romer (1990) and Aghion and Howitt (1992) teaches that what decides is not the level of spending but its conversion into products; Bloom, Jones, Van Reenen and Webb (2020) have shown that ideas are getting harder to find everywhere and that research productivity declines where the incentives to exploit them are missing; Gordon (2016) has shown for the United States that the great productivity leaps of the twentieth century were historical exceptions to which no one holds a claim. Europe's weakness lies less in the laboratory than on the way from the laboratory to the factory — and that way leads through capital, permits and markets, that is, through fields of action one, two and five.

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<sup>20</sup> The Inflation Reduction Act provides tax credits estimated at USD 400 to 800 billion over ten years, tied to manufacturing in North America; the Net-Zero Industry Act sets targets of 40 percent domestic manufacturing but no comparable funding.

<sup>21</sup> Production figures can be verified only to a limited extent in wartime and rest on Ukrainian official statements; the 2025 figure denotes capacity, which domestic orders matched only to about a third (Bisht 2026).



**Figure 5:** Expenditure on research and development as a percent of GDP, 2000 to 2023: European Union, United States, China, Japan, South Korea. Sources: OECD, Main Science and Technology Indicators; Eurostat (2025); own graph.

#### 4.4 Away from the State: Spaces for Rapid Development

The fourth field of action is the reverse side of the third. Where the state creates preconditions, it must withdraw from development itself; where it prescribes technology instead of enabling it, it decides wrongly, because nobody knows the future. The most striking contemporary example is Ukraine. The country produced some 3,000 to 5,000 drones in 2022; for 2025 more than 4.5 million were expected and for 2026 more than seven million are planned (Nieczypor and Matuszak 2025). More than two hundred companies build unmanned systems, more than six hundred are supported by the state platform Bravel; the production capacity of the country's defence industry grew from USD 1 billion in 2022 to USD 35 billion in 2025, and output of USD 55 billion is expected for 2026 (Bisht 2026).<sup>22</sup> Ukraine today holds the world's leading expertise in a field of technology that did not exist four years ago — and it acquired it not through a support programme but through necessity, competition among hundreds of small producers, weekly feedback from the front, and the absence of any regulation that would have stood in the way.

Europe cannot copy the war, but it can copy the structure. It consists of four elements: a clearly defined need that sets the direction; many small suppliers instead of one national champion; immediate feedback from the user; and a space in which the usual rules are suspended for the duration of development. Such spaces can be created — as special zones with their own permitting, labour and tax law, as Shenzhen was before it became the city of global corporations; as testbeds in which a product is permitted until the contrary is

<sup>22</sup> The reform of the debt brake of March 2025 exempts defence spending above one percent of GDP from the rule and creates a special fund of EUR 500 billion over twelve years for infrastructure and climate neutrality.

proven; as the 28th regime, a European company law offering founders the same conditions in all member states, whose proposal the Commission has announced for the end of 2026 (JEDI 2026). Ukraine's European partners have begun to adopt the model: joint production lines operate in Denmark, Britain and Germany, and since July 2026 Ukraine has been exporting under a regulated procedure, after the first export permits were granted in February 2026 (Boltryk 2026). The principle extends far beyond defence: to biotechnology, robotics, nuclear engineering, artificial intelligence. Where Europe creates spaces in which rapid development is permitted, technology emerges; where it plans technology, reports emerge.

## 4.5 Capital for New Business and Product Models

The fifth field of action is capital, and here Europe's position is better than its reputation. Germany can borrow on terms most states in the world envy. At the reopening of the ten-year federal bond on 9 September 2026, demand exceeded supply by one and a half times and the yield stood at 3.39 percent — up from 2.5 percent at the beginning of 2025, because in 2026 the federal government is raising around EUR 512 billion, more than ever before, to finance the EUR 500 billion infrastructure fund and the defence spending exempted from the debt brake (German Finance Agency 2025, 2026).<sup>23</sup> The Bund remains the reference security of the euro area; its yield lies below that of US Treasuries, and international demand for safe euro assets exceeds supply. The question is not whether Germany can raise capital, but for what. A special fund that repairs roads is maintenance; one that finances start-ups, factories and grids is the future. In 2025 the Federal Republic created the possibility of financing the future; it must use it before maintenance consumes it.

The larger reservoir, however, lies not with the state but with savers. Ten trillion euro in European bank deposits, EUR 300 billion a year flowing into American securities, pension funds with a venture capital ratio of 0.009 percent — that is the gap Europe must close, and it closes not through appeals but through rules that direct saving into equities and growth companies. The Savings and Investments Union that the Commission presented in March 2025 contains the elements: a European pension product with a default allocation to equities on the Swedish model; a securitisation reform that gives banks balance-sheet room for new lending, whose proposal was announced for spring 2026 (Morgan Stanley 2026); a central supervisor for capital markets; a European insolvency law that makes failure an experience rather than a stigma; and the opening of pension funds to venture capital. Investors, according to Morgan Stanley (2026), are sceptical and in wait-and-see mode. They have reason to be: the capital markets union has been

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<sup>23</sup> In the same OECD calculation China lies behind Europe with seven generations — an indication that China's rise occurred despite, not because of, its social permeability, and that Europe holds an advantage here that it could extend.

announced since 2015. What is missing is not the concept but the decision to give up national supervisors, tax rules and insolvency regimes in favour of a market large enough to carry companies from foundation to listing. Goldman Sachs (2026) and Morgan Stanley (2026) expect a moderate rise in European equities in 2026, carried by fiscal stimulus and productivity gains from artificial intelligence; both make its continuation conditional on the reforms this chapter describes.

### 4.6 Raising Social Mobility

The sixth field of action is the slowest and the most durable. An economy that does not find talent where it is born wastes its most important resource — and Europe wastes a great deal. The OECD (2018) calculated how many generations it takes for the descendants of a low-income family to reach the average income: in Denmark two, in Sweden, Finland and Norway three, in Germany and France six — as many as in Chile, more than in the United States and Britain with five (Table 6). Corak (2013) described the relationship between inequality and immobility as the Great Gatsby curve; Chetty et al. (2014) showed that mobility arises not nationally but locally — through schools, neighbourhoods and networks — and that it can be changed by policy. Germany, which still recruits its leaders to a large extent from a few social milieus and where educational success depends on parental background as strongly as in hardly any other industrial country (OECD 2023), pays for this immobility with innovation that does not happen.<sup>24</sup>

**Table 6:** Social mobility: generations it takes for the descendants of a low-income family to reach the average income

| Country                     | Generations | Country        | Generations |
|-----------------------------|-------------|----------------|-------------|
| Denmark                     | 2           | United States  | 5           |
| Sweden, Finland, Norway     | 3           | United Kingdom | 5           |
| Spain, Belgium              | 4           | Germany        | 6           |
| Japan, Netherlands          | 4           | France         | 6           |
| Austria, Switzerland, Italy | 5           | China, India   | 7           |
| OECD average                | 4.5         | Brazil         | 9           |

*Sources:* OECD (2018), A Broken Social Elevator? How to Promote Social Mobility; own compilation.  
*Notes:* The calculation rests on intergenerational income elasticity; Colombia, with eleven generations, ranks last in the study.

Three measures work. First, early education: Heckman (2006) showed that the return on educational investment falls with the age of the child and is highest in the first years of life; where Europe invests in nurseries and kindergartens, it invests in the mobility of 2050.

<sup>24</sup> The European Train Control System ERTMS, adopted as the uniform standard in 1996, was in operation on 17 percent of the trans-European core network and on 19 percent of the rolling stock at the end of 2024 (European Commission 2026b).

Second, permeability between vocational training and higher education, where the German-speaking countries hold an advantage with the dual system that they use too little. Third, skilled immigration — not as a substitute for domestic talent but as a complement, in the way that half of Silicon Valley was built by people not born in the United States. A Europe that wants to keep pace must be the place talent wants to go — and the place where it can rise, regardless of where it comes from.

## 4.7 Removing Trade and Transport Barriers

The seventh field of action is the completion of the single market and the opening to the outside. The figures of Section 3.2 speak for themselves: tariff equivalents of 67 percent for goods and 95 percent for services between member states that have believed for thirty years that they share a common market. The ECB has calculated that lowering these barriers by as little as two percent would fully offset the long-run effect of American tariffs on European GDP (Bernasconi et al. 2026). The greatest benefit lies in services: recognition of professional qualifications, a uniform value-added tax procedure, a European framework for telecommunications, energy and financial services in which a provider from Lisbon can operate in Tallinn without buying into twenty-seven rulebooks. Letta (2024) coined the term fifth freedom for this; Draghi (2024) made the fragmentation of the telecommunications market — 34 network operators in Europe against three in the United States and four in China — the emblem of the problem.

Externally, Europe took a step in 2026 that long seemed impossible: the interim agreement with Mercosur has been provisionally applied since 1 May 2026 and creates a free-trade area of 700 million people (European Commission 2026a). The agreements with India, Indonesia and Australia must follow, and faster than the Union's procedures allow, in which the parliament of a region of a member state can hold up the trade of a continent. Transport barriers belong to the same field: a freight train from Rotterdam to Genoa changes signalling system four times, the language of the driver three times and the traction voltage twice. The single European railway area, decided in directives since 1991, does not exist on the track. Whoever wants trade must want transport, and whoever wants transport must unify the rules of the modes — a task that costs money, but above all the will to give up national competences.<sup>25</sup>

## 4.8 Infrastructure: Rail, Shipping, Roads, Ports

The eighth field of action is infrastructure, and here the contrast with China is sharpest. Table 7 sets the orders of magnitude side by side. China operates more than 50,000 kilometres of high-speed lines and plans 70,000 by 2035; the Union reaches around 10,000

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<sup>25</sup> The bridge figures follow the Federal Ministry of Transport (2024); the infrastructure fund of 2025 earmarks around EUR 100 billion over twelve years for motorway bridge repair.

kilometres, distributed among national networks that end at the border. In two decades China has built or financed more than a hundred deep-water ports abroad, among them Chancay in Peru, Piraeus in Greece, Gwadar in Pakistan and a third of Africa's commercial ports; Europe in that time argued over whether COSCO may hold 24.9 percent of a Hamburg terminal. Roughly three quarters of the new orders for ship tonnage worldwide go to China; Europe builds cruise ships and yachts. Germany's road and bridge infrastructure, built in the 1960s and 1970s, is at the end of its service life: of some 40,000 motorway bridges, 4,000 are classed as urgently in need of repair, and the collapse of the Carola Bridge in Dresden in 2024 showed what that means.<sup>26</sup>

**Table 7:** Infrastructure compared: China and Europe, 2025/2026

| Indicator                                        | China                | Europe (EU)    | Source                      |
|--------------------------------------------------|----------------------|----------------|-----------------------------|
| High-speed rail network, kilometres              | over 50,000          | around 10,000  | Newsweek (2025); UIC (2026) |
| High-speed rail target 2035, kilometres          | 70,000               | no target      | Newsweek (2025)             |
| Involvement in African commercial ports (of 231) | 78                   | isolated cases | Nantulya (2025)             |
| Share of global new shipbuilding orders, tonnage | around 74 %          | under 5 %      | CANSI (2025)                |
| Largest recent port abroad                       | Chancay (Peru), 2024 | —              | East Asia Forum (2026)      |
| Real GDP growth 2026, percent                    | 4.4                  | 1.3            | IMF (2026)                  |
| Investment ratio, percent of GDP                 | around 40            | around 22      | IMF (2026)                  |

*Sources:* as indicated in the table; own compilation.

*Notes:* The length figures follow the definitions of the respective sources and are comparable only approximately.

The lesson of the Chinese model is not to copy it — China's investment ratio of 40 percent of GDP has also produced ghost towns and over-indebted provinces — but to understand its logic: infrastructure is not an end in itself but access to markets. Whoever builds the port determines what flows through it. Europe therefore needs three things: a high-speed network that connects Lisbon with Warsaw and Stockholm with Palermo and does not end at borders; ports and waterways that make the shift from road to rail and ship possible rather than merely proclaiming it; and its own port strategy abroad that builds, operates and supplies in West Africa, East Africa and Latin America, as China does. The Global Gateway initiative possesses the framework; what it lacks is the enterprise that finances, builds and operates. The European Investment Bank could take on this role if it were allowed to.

<sup>26</sup> Around EUR 392 billion are earmarked for cohesion policy for 2021 to 2027, just under a third of the multiannual financial framework; the funds flow predominantly by the criterion of backwardness, not of potential.

## 4.9 Regional Diversification within Europe

The ninth field of action is distribution across space. Europe's economic strength is concentrated in a few regions — the area between London, Paris, Milan and Munich that Krugman (1991) described as the core of European economic geography — while large parts of the continent lose talent and capital. That is not a law of nature. In twenty years the United States has made Austin, Seattle, Boston, Denver and Miami into centres alongside Silicon Valley, each with its own specialisation; China has placed Shenzhen, Hangzhou, Chengdu and Hefei beside Beijing and Shanghai. Regional diversity is a matter not of fairness but of resilience and of the number of attempts: the more places compete for firms, the more models are tried, and the less the continent depends on the fate of one industry in one region — as Germany is experiencing with the automobile.

The instrument is competition among regions for capital and talent — with their own fiscal autonomy within limits, their own special zones in the sense of the fourth field of action, their own universities with a mandate to found firms, and their own infrastructure. Eastern Germany with the semiconductor investments in Dresden and Magdeburg, Portugal with Lisbon as a destination for digital nomads, Poland with Warsaw and Kraków as software locations, Estonia as a digital state show that it can be done. What is missing is permission to compete: the Union's state-aid control, created to prevent distortions between member states, today also prevents competition among regions for the industries of the future, while the United States and China organise precisely that competition. Cohesion policy, with a third of the Union budget,<sup>27</sup> would have to be switched from compensation to attraction: not compensating regions for their weakness, but rewarding them for their strength.

## 4.10 Further Measures: Energy, Taxation, Defence and the University

Alongside the nine fields of action stand measures that recur in the studies of the last two years. The alignment of insolvency laws and a shift of taxation from labour to wealth and consumption are among them; they are the fiscal counterpart to a capital market that no longer treats equity worse than debt (Kammer 2026). The oil price shock of the Middle East conflict, which reduced global oil supply by twelve percent between February and April 2026, hits Europe as an energy importer harder than its competitors; the expansion of domestic power generation and grids is therefore no longer a question of climate but a locational question of the first rank (OECD 2026). High public debt and the growing role of non-banks in bond markets narrow the room for fiscal policy at the same time (BIS 2026) — an argument for deploying existing private capital productively rather than waiting for the state. The Competitiveness Compass has translated Draghi's proposals into

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<sup>27</sup> Eight European universities rank among the top fifty of the 2025 Shanghai Ranking; Stanford, MIT and Berkeley together have produced more spin-offs with billion-dollar valuations than all universities of the Union.

a work programme (European Commission 2025a); the “One Europe, One Market” roadmap of March 2026 sets deadlines to the end of the year for capital market reform, the 28th regime and the Industrial Accelerator Act (JEDI 2026).

The projections of market research add a time frame. China replaces the United States as the largest economy around 2035, India moves into second place by 2075, and Germany drops out of the top ten (Goldman Sachs 2022); the same ranking already followed for 2030 from an earlier projection (HSBC 2018). The euro area is credited with a cyclical upswing in 2026 against structural headwinds (Goldman Sachs 2026), and the productivity effect of artificial intelligence counts as the next stage of a European equity recovery, whose precondition is financial market reform (Morgan Stanley 2026). That the United States dominates the world equity market even though its share of world GDP is falling is no whim of the market but a statement about the depth of capital markets (UBS 2026) — and thus about what Europe could gain. Four further measures deserve mention: a European defence industry as a carrier of technology on the American model, in which the internet, GPS and the semiconductor came out of the defence budget; a competition policy that permits European scale where the market is global (Draghi 2024); a European data space as the foundation of artificial intelligence; and a university that understands founding firms as part of its mission, as Stanford, MIT, ETH Zurich and the Technical University of Munich demonstrate.<sup>28</sup>

## 5 The Positioning of the Equity Investor

### 5.1 Growth Is Not Return: What the Research Teaches

Whoever has understood the shift of the world economy towards Asia and Africa is tempted to direct capital to where growth is highest. The research counsels caution. Ritter (2005) showed for sixteen countries over the century from 1900 to 2002 that the correlation between real growth of per-capita income and real equity returns is negative; Dimson, Marsh and Staunton (2010) confirmed the result for their database of what were then nineteen countries and showed that a strategy investing each time in the countries with the highest past growth performs worse than one investing in those with the lowest. The reasons are known: growth accrues to a large extent to new firms and new capital, not to the shareholders of existing firms; it is diluted by capital increases and flotations; it is already in the price when it is generally expected; and in countries with weak protection of ownership it flows to insiders, the state and employees before it reaches the minority

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<sup>28</sup> Ritter (2012) extends the study to emerging markets for 1988 to 2011 and finds no positive relationship there either; China is the textbook case — the highest growth, and disappointing equity returns over two decades.

shareholder (Ritter 2012; Henry and Kannan 2008).<sup>29</sup> What counts for the investor is not the growth of the economy but the growth of earnings per share, the price paid for it, and the protection enjoyed as an owner.

From this follows not a renunciation of the regions of growth but a rule for access to them. Campbell and Shiller (1998) showed that valuation ratios predict price movements over ten years rather than earnings growth; Fama and French (1998) demonstrated the premium on cheaply valued stocks in twelve of thirteen markets; Bekaert and Harvey (1995, 2003) described the returns released by the integration of emerging markets into the world market; Erb, Harvey and Viskanta (1996) identified political risk as a priced factor; Goetzmann and Jorion (1999) recalled that many of today's emerging markets were developed markets around 1900 that vanished and returned. Solnik (1974) and Asness, Israelov and Liew (2011) showed that international diversification delivers its benefit not in the crisis but over an investment horizon of decades; Dimson, Marsh and Staunton (2002) and Siegel (2014) have documented the long-run superiority of equities over more than a century, and UBS (2026) confirms for 126 years that equities have beaten bonds, bills and inflation in every country with a continuous data history and that global diversification continues to reduce risk and drawdowns. The positioning of this chapter follows these rules: it seeks the flows of economic activity, but buys them only at a price that compensates for the risk, and only in forms in which the owner is protected. Only equities are considered. Please note the disclaimer at the end of this paper.

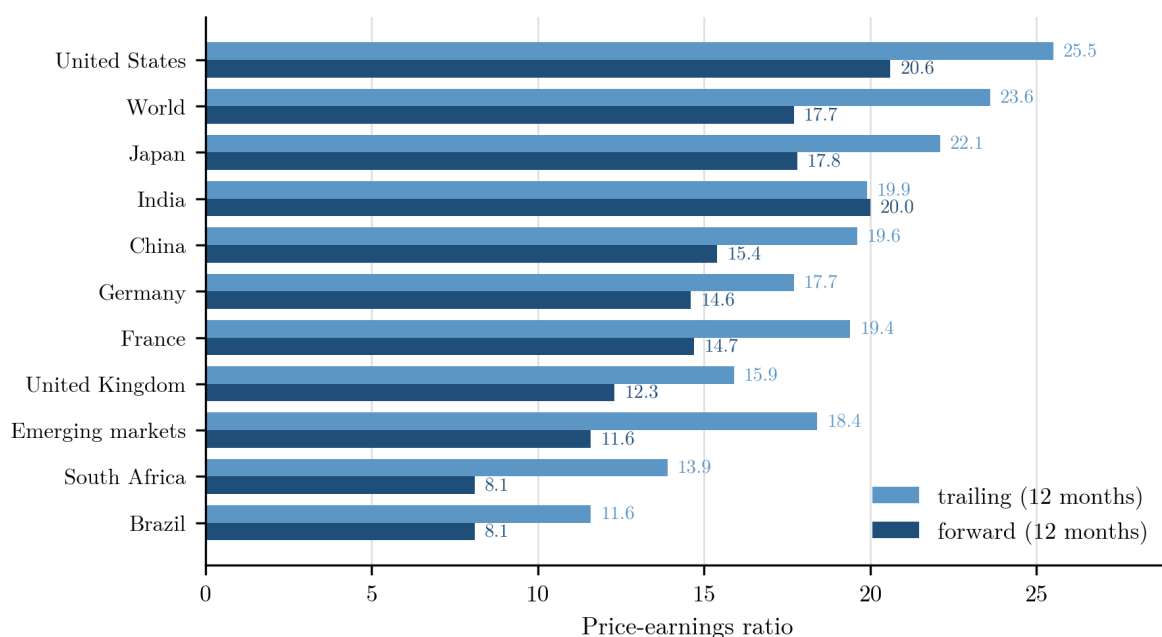
## 5.2 China: Leadership at a Discount

China is the leading industrial power in the world and the most cheaply valued large equity market. Figure 6 and Table 8 show price-earnings ratios at mid-2026: the Chinese market is valued at 15 times expected earnings, the American at 21 times; the Chinese stocks listed in Hong Kong, where the large technology companies sit, at 11 times (Siblis Research 2026). East Capital (2025) puts the ratio of valuation to earnings growth for emerging markets as a whole at 0.9 against 1.5 in the United States and cites Alibaba at 17 times earnings against Amazon at 29 times as an example. The discount has reasons, and they are the reasons why Ritter was right: the state intervenes in companies, as the Alibaba case of 2020 showed; capital controls limit access; accounting is not everywhere reliable; many of the companies listed in New York and Hong Kong are held through contractual structures rather than ownership; and the geopolitical conflict with the United States can restrict Western investors' access overnight.<sup>30</sup>

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<sup>29</sup> The variable-interest-entity structure through which Alibaba, Tencent and Baidu, among others, are accessible to foreign investors grants a contractual claim on earnings but no ownership of the operating company; it is tolerated by Chinese authorities, not guaranteed.

<sup>30</sup> The MSCI China Index delivered a total return in US dollars close to zero between the end of 2007 and the end of 2024, while China's GDP more than tripled in real terms over the same period — the most striking illustration of Ritter's (2005) result.



**Figure 6:** Price-earnings ratios of selected equity markets, trailing and forward, as of 30 June 2026. Sources: Sibilis Research (2026); own graph.

For the investor who does not wish to ignore China's leadership in electric mobility, batteries, solar, robotics and increasingly artificial intelligence, three rules follow. First, a limited weight: China accounts for around a fifth of the world economy and around three percent of the world equity index; a weight between these poles — five to eight percent of equity assets — acknowledges the leadership without depending on it. Second, a preference for companies whose competitive advantage lies in the world market and which therefore depend less on domestic politics: BYD and CATL in electric mobility, Tencent and Alibaba in the platform economy, Xiaomi in the fusion of electronics and automobiles, Transsion as the leading supplier of mobile phones in Africa. Third, access through broadly diversified index funds authorised in Europe — such as the iShares MSCI China UCITS ETF, the Xtrackers CSI 300 Swap UCITS ETF for the mainland market or the HSBC Hang Seng Tech UCITS ETF for the technology stocks — which spread the single-stock risk of state intervention. Whoever buys China buys leadership at a discount; the discount is the price of the rules under which that leadership arose.<sup>31</sup>

<sup>31</sup> The weight of the United States in the MSCI All Country World Index stood at around 64 percent at the end of August 2026, China's at around three percent, Europe's at around 15 percent (MSCI 2026) — a distribution that reflects capitalisation, not economic output.

**Table 8:** Regions compared for the equity investor: economic weight, growth and valuation, 2026

| Region / market                   | Share of world GDP 2025, PPP, % | GDP growth 2026, % | P/E trailing | P/E forward | Access for European investors                  |
|-----------------------------------|---------------------------------|--------------------|--------------|-------------|------------------------------------------------|
| United States                     | 14.6                            | 2.3                | 25.5         | 20.6        | S&P 500 and Nasdaq-100 ETFs; equal-weight ETF  |
| China (mainland; Hong Kong)       | 19.6                            | 4.4                | 19.6 (11.8)  | 15.4 (10.6) | MSCI China, CSI 300, Hang Seng Tech ETFs       |
| Japan                             | 3.3                             | 0.7                | 22.1         | 17.8        | MSCI Japan IMI, Nikkei 225 ETFs                |
| India                             | 8.2                             | 6.5                | 19.9         | 20.0        | MSCI India ETF                                 |
| European Union (Germany)          | 14.0                            | 1.3 (0.8)          | 17.7         | 14.6        | STOXX Europe 600 sector ETFs; single stocks    |
| United Kingdom                    | 2.2                             | 1.2                | 15.9         | 12.3        | FTSE 100 ETF                                   |
| Emerging markets total            | —                               | —                  | 18.4         | 11.6        | MSCI EM ETF                                    |
| Latin America (Brazil)            | 7.1                             | 2.3 (1.9)          | 11.6         | 8.1         | MSCI EM Latin America ETF                      |
| Sub-Saharan Africa (South Africa) | 3.6                             | 4.3 (1.0)          | 13.9         | 8.1         | MSCI EFM Africa Top 50, MSCI South Africa ETFs |

*Sources:* IMF (2026), World Economic Outlook; Sibilis Research (2026), as of 30 June 2026; own compilation.

*Notes:* P/E = price-earnings ratio of the respective benchmark index (US: S&P 500; China: SSE Composite, in brackets Hang Seng; Japan: Nikkei 225; Germany: DAX). Values in brackets in the growth and P/E columns refer to the country named in brackets.

### 5.3 United States: Strong, Concentrated, Challenged

The United States remains the deepest, most liquid and most innovative equity market in the world. UBS (2026) shows that it dominates the world equity market today with roughly two thirds of capitalisation, even though its share of world GDP has fallen from 22 to 15 percent since 1980 — the strongest evidence that capital markets, not economies, decide equity returns. The American advantage lies in the ability to turn research into companies and companies into global corporations; the six companies valued at more than a trillion US dollars were all founded in the last fifty years (Draghi 2024). The price is a valuation of 25.5 times past and 20.6 times expected earnings (Sibilis Research 2026) and a concentration in which the ten largest stocks make up around a third of the index and the lion's share of its gains in recent years goes back to investment in artificial intelligence — investment whose return is not yet proven (BIS 2026).

And the United States is challenged. The Critical Technology Tracker of the Australian Strategic Policy Institute assigns China the lead in 69 of 74 critical technologies as of June 2026; the remaining five rest essentially with the United States (ASPI 2026). In electric mobility, batteries, solar, shipbuilding, drones and robotics it has already ceded the field to China, and in artificial intelligence the appearance of DeepSeek in January 2025 showed that Chinese providers advance to the frontier with a fraction of the capital. The American answer — export controls on semiconductors, tariffs, support programmes — is the same as the European one, only larger; whether it works is open. For the investor it follows that the American market must be held — no globally diversified equity portfolio does without it — but that concentration should be limited: through an equal-weighted S&P 500 fund such as the Xtrackers S&P 500 Equal Weight UCITS ETF alongside the capitalisation-weighted iShares Core S&P 500 UCITS ETF, through sectors beyond technology, and through the readiness to reduce rather than raise the weighting at valuations above twenty times earnings. The United States remains the foundation; it is no longer the whole story.<sup>32</sup>

## 5.4 Japan: The Return of Capital Discipline

Japan is the example that an equity market can rise without economic growth if the rules for capital change. The economy grows at under one percent, the population is shrinking, the share of world GDP has fallen from 9 to 3 percent since 1990 — and the Nikkei 225 delivered a total return of around 26 percent in 2025 and reached record highs (Trustnet 2025). The reason is the reform of the Tokyo Stock Exchange, which since 2023 has required listed companies to be conscious of the cost of capital and the share price and to name measures when the price stands below book value; the consequences are record sums of share buybacks, the unwinding of cross-shareholdings, rising payouts and the return of foreign investors who had avoided Japan for two decades (Nikkei Asia 2026). Japan is thus the proof of this chapter's thesis: not the growth of the economy but the treatment of the shareholder decides the return.

For the investor Japan also offers what China does not: the rule of law, protection of ownership and global companies in precisely the fields in which the world economy is investing — semiconductor equipment (Tokyo Electron, Advantest, Lasertec), automation and sensors (Keyence, Fanuc), materials (Shin-Etsu), trading houses with commodity and infrastructure access across Asia (Mitsubishi, Mitsui, Itochu), and Toyota, Sony and Hitachi besides. The valuation, at 18 times expected earnings, lies below the American (Siblis Research 2026), and the yen is as cheap at purchasing power parity as it has been in decades. Access is simple: the iShares Core MSCI Japan IMI UCITS ETF for the whole market, the Xtrackers Nikkei 225 UCITS ETF for the blue chips, plus the single stocks

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<sup>32</sup> The Tokyo Stock Exchange reform of March 2023 requires companies in the Prime segment whose price-to-book ratio is below one to disclose measures to raise capital efficiency; the share of such companies has fallen markedly since.

named. A weight of five to eight percent of equity assets matches capitalisation and acknowledges the reform.<sup>33</sup>

## 5.5 Africa: The Overlooked Continent

Africa is the continent that European investors overlook most completely. In the portfolios of Europe's private and institutional investors it barely appears; the largest Africa index fund authorised in Europe manages EUR 81 million (justETF 2026) — less than a medium-sized balanced fund of a regional savings bank. The reasons are the same as for China, only stronger: small market capitalisation, low liquidity, currency risk, political risk, capital controls in Nigeria and Egypt, a legal framework that does not everywhere protect the minority shareholder. And yet Africa is the continent with the fastest population growth, the youngest consumers, the fastest-growing cities and — in East Africa at six percent, in West Africa at almost five — economic growth four times that of Europe (AfDB 2026). East Capital (2025) puts the five-year return of its frontier market strategy at 79 percent in US dollars with eleven percent volatility. Gerschenkron (1962) described the advantage of backwardness: the latecomer skips stages. Africa skipped the landline and, with M-Pesa in Kenya, invented mobile payment before Europe knew it; it is now skipping the power grid with Chinese solar modules on the roof.

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<sup>33</sup> Revenue shares rest on the 2025 annual reports of the companies named. Transsion is listed on the STAR Market in Shanghai and accessible to European investors only through the mainland market.

**Table 9:** Access to Africa for European equity investors: instruments by type, coverage and limitation

| Instrument                                                              | Coverage                                                                                                                               | Limitation                                                              |
|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Xtrackers MSCI EFM Africa Top 50 Capped Swap UCITS ETF                  | 50 largest African stocks: South Africa, Morocco, Egypt, Nigeria, Kenya; since 2011; TER 0.65 %                                        | Fund size EUR 81 million; synthetic replication; South Africa dominates |
| iShares MSCI South Africa UCITS ETF                                     | South African market: Naspers/Prosus, banks, mining, retail                                                                            | South Africa only; rand risk; growth of 1 percent                       |
| Frontier market ETF (e.g. Xtrackers S&P Select Frontier Swap UCITS ETF) | Frontier markets worldwide, including Morocco, Kenya, Nigeria at small weights                                                         | Limited Africa share; Vietnam dominates                                 |
| London-listed Africa stocks                                             | Airtel Africa (telecommunications in 14 countries), Helios Towers (towers), Endeavour Mining, Anglo American                           | Single-stock risk; mining is cyclical                                   |
| Local blue chips via brokers with market access                         | Safaricom (Nairobi), Dangote Cement (Lagos), Attijariwafa Bank (Casablanca), Commercial International Bank (Cairo), MTN (Johannesburg) | Liquidity, custody, capital controls, withholding tax                   |
| Multinationals with a high Africa share                                 | Heineken, Unilever, Nestlé, TotalEnergies, Orange, Vodafone/Vodacom, Coca-Cola HBC; Transsion (Shanghai)                               | Africa only part of the business; diluted exposure                      |

*Sources:* justETF (2026); provider information; own compilation.

*Notes:* Instruments are named to describe access and do not constitute an investment recommendation; as of September 2026.

Table 9 shows how Africa can be reached from Europe. The simplest route is the index fund on the continent's fifty largest stocks; it is small, synthetically replicated and dominated by South Africa, but it is tradable on the Frankfurt and London exchanges and costs 0.65 percent a year. The second route runs through London-listed companies with African businesses — Airtel Africa with around 170 million customers in fourteen countries is the largest —, the third through the exchanges of Johannesburg, Nairobi, Lagos, Casablanca and Cairo, which a broker with market access opens up. The fourth route is the indirect one through multinationals with a high Africa share; the fifth runs through those who supply the upswing — Chinese companies such as Transsion, whose brands account for around half of all mobile phones sold in Africa. For a European equity portfolio a weight of two to three percent in Africa is a beginning commensurate with the risk — Damodaran (2025) reports substantial country risk premiums for most African markets, and they are the premium the investor must demand for it — and one that at least grants a place to the continent that will hold a quarter of humanity in 2050.<sup>34</sup>

<sup>34</sup> ASML is the only manufacturer of extreme-ultraviolet lithography systems; the European NATO member states raised their defence spending by more than half in real terms between 2021 and 2025 (NATO 2025).

## 5.6 Europe: Innovative Industries and Their Forms of Investment

Europe is better for the investor than its reputation, because its equity market is not its economy. The companies of the STOXX Europe 600 earn more than half of their revenues outside Europe; they are the world market, not the single market. And in a range of industries they are not laggards but leaders; Table 10 assembles them. In semiconductor equipment ASML holds a global monopoly on the lithography of the smallest structures; no leading-edge chip is made without Dutch machines.<sup>35</sup> In pharmaceuticals Novo Nordisk, Novartis, Roche, AstraZeneca and Sanofi have created world markets; in industrial software SAP and Dassault Systèmes are global leaders; in aerospace and defence — the industry in which Europe has been doubling its spending since 2022 — Airbus, Safran, Rheinmetall, Leonardo, Thales and Saab carry the field; in electrification, the industry of grids and data centres, Schneider Electric, Siemens Energy, Prysmian, Nexans and ABB lead. To these are added luxury, medical technology and payments.

**Table 10:** Europe's innovative industries: leading companies and forms of investment

| Industry                                   | Leading European companies (large caps)                                     | Investment via index funds (examples)                                                       |
|--------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Semiconductor equipment and semiconductors | ASML, ASM International, BE Semiconductor, Infineon, STMicroelectronics     | iShares STOXX Europe 600 Technology UCITS ETF (DE); VanEck Semiconductor UCITS ETF (global) |
| Pharmaceuticals and biotechnology          | Novo Nordisk, Novartis, Roche, AstraZeneca, Sanofi, argenx                  | iShares STOXX Europe 600 Health Care UCITS ETF (DE)                                         |
| Industrial software                        | SAP, Dassault Systèmes, Nemetschek                                          | iShares STOXX Europe 600 Technology UCITS ETF (DE)                                          |
| Aerospace and defence                      | Airbus, Safran, Rheinmetall, Leonardo, Thales, Saab                         | WisdomTree Europe Defence UCITS ETF; VanEck Defense UCITS ETF (global)                      |
| Electrification, grids, automation         | Schneider Electric, Siemens, Siemens Energy, ABB, Prysmian, Nexans, Legrand | iShares STOXX Europe 600 Industrial Goods & Services UCITS ETF (DE)                         |
| Medical technology                         | Siemens Healthineers, EssilorLuxottica, Straumann, Coloplast                | iShares STOXX Europe 600 Health Care UCITS ETF (DE)                                         |
| Luxury goods                               | LVMH, Hermès, Ferrari, Richemont                                            | Amundi S&P Global Luxury UCITS ETF (global)                                                 |
| Payments and platforms                     | Adyen, Spotify (New York), Wise (London)                                    | Single stocks; broad Europe ETF                                                             |

*Sources:* provider information; own compilation.

*Notes:* Large caps = companies with a market capitalisation above ten billion euro. Names are given to describe access, not as a recommendation.

<sup>35</sup> The revenue distribution of the STOXX Europe 600 follows index providers' estimates for 2025: around 40 percent Europe, 25 percent North America, 20 percent Asia-Pacific, 15 percent rest of the world.

Two forms of investment follow for the investor. The first is the large-capitalisation single stock in the industries named — companies that lead globally, report in euro, are subject to European law and, at 15 times expected earnings (Germany and France), are markedly cheaper than their American competitors (Siblis Research 2026). The second is sector index funds on the STOXX Europe 600, which open access to technology, health care, industrials and defence without single-stock risk; for defence a dedicated European product has existed since 2025 in the WisdomTree Europe Defence UCITS ETF. What the investor should avoid are the industries in which Europe is losing or has lost the competition with China — mass-market automobiles, basic chemicals, steel, solar — and in which low valuations express not value but a forecast. Morgan Stanley (2026) sees in the productivity effect of artificial intelligence and in capital market reform the preconditions for the continuation of the European equity recovery of 2025; Goldman Sachs (2026) expects moderate gains for 2026. A weight of 20 to 25 percent of equity assets in Europe — concentrated on the industries of Table 10 — lies above capitalisation and below economic output; it is the position of an investor who neither writes Europe off nor spares it.<sup>36</sup>

## 5.7 Latin America: Commodities, Proximity, Chancay

Latin America is the region in which the two flows of the world economy cross. To the north pulls the relocation of manufacturing from China to Mexico, which has been the largest trading partner of the United States since 2023; to the west pulls China's demand for copper, lithium, soya and iron ore, for which it built the port of Chancay. Brazil, at a price-earnings ratio of 8 on expected earnings, is the cheapest large market in the world (Siblis Research 2026), with real interest rates of ten percent and a presidential election in October 2026 that can move the market in either direction (East Capital 2025). Under Milei, Argentina has brought inflation down from over 200 to under 30 percent and largely opened its capital account. Chile and Peru hold around 27 percent of the world's copper reserves and mine a good third of its copper, the raw material of electrification (USGS 2026a). The region grows at 2.3 percent, more slowly than Asia and Africa, but it offers what they do not: listed global companies in deep markets — Mercado Libre, Nu Holdings, Petrobras, Vale, Itaú, Walmart de México, Grupo México, SQM — and access through liquid index funds such as the iShares MSCI EM Latin America UCITS ETF or country funds on Brazil and Mexico. A weight of three to five percent acknowledges the valuation; the risk lies in currency and politics, not in the companies.

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<sup>36</sup> The positioning is calculated in euro; the currency risk of the non-European holdings remains unhedged, because the research indicates that currency hedging does not pay over an investment horizon of ten years.

## 5.8 A Positioning for the Coming Ten Years

Table 11 brings the considerations together. The positioning starts from the world equity index, in which the United States weighs around 64 percent, Europe 15, Japan 5, China 3 and all other emerging markets together around 10 percent, and shifts the weights to where valuation, capital discipline and economic flows coincide: away from American concentration, towards Europe's leading industries, Japan's capital discipline, China's leadership at a discount, Latin America's valuation and Africa's beginning. It is not a forecast for the next twelve months but a structure for an investment horizon of ten years, in which the shifts described in Sections 2 to 4 will continue whether Europe reforms or not. If Europe reforms, the value of its leading industries rises; if it does not, they remain the islands on which the investor can hold out.<sup>37</sup>

**Table 11:** A positioning of equity assets for the coming ten years: regions, weights, rationale and form of investment

| Region              | Weight in world index, % | Positioning, % | Rationale                                                         | Preferred form of investment                                               |
|---------------------|--------------------------|----------------|-------------------------------------------------------------------|----------------------------------------------------------------------------|
| United States       | around 64                | 40–45          | Deepest market; limit valuation and concentration                 | Capitalisation- and equal-weighted S&P 500 ETFs; sectors beyond technology |
| Europe              | around 15                | 20–25          | Leading industries, cheap valuation, legal protection             | Large-cap single stocks; STOXX Europe 600 sector ETFs                      |
| Japan               | around 5                 | 5–8            | Capital discipline, valuation, yen                                | MSCI Japan IMI ETF; single stocks                                          |
| China               | around 3                 | 5–8            | Industrial leadership at a valuation discount                     | MSCI China, CSI 300, Hang Seng Tech ETFs; globally oriented single stocks  |
| India, rest of Asia | around 6                 | 5–8            | Growth, but full valuation                                        | MSCI India, MSCI EM Asia ETFs                                              |
| Latin America       | around 1                 | 3–5            | Cheapest valuation, commodities, proximity to the US              | MSCI EM Latin America ETF; Brazil, Mexico ETFs                             |
| Africa              | under 1                  | 2–3            | Demographics, growth, the beginning of capital market development | MSCI EFM Africa Top 50 ETF; London-listed Africa stocks; multinationals    |

*Sources:* MSCI (2026), weights in the All Country World Index, rounded, as of 31 August 2026; own presentation.  
*Notes:* The positioning refers exclusively to the equity portion of a portfolio and is not an individual investment recommendation; it presupposes an investment horizon of at least ten years and the willingness to bear interim losses.

<sup>37</sup> The Ming maritime prohibitions (haijin) were in force, with interruptions, from 1371 to 1567; the records of Zheng He's voyages were destroyed after 1433.

Three rules accompany the positioning. First, the rule of price: no weight is raised because a region grows, but only when it has become cheaper than its earnings growth justifies — the lesson of Campbell and Shiller (1998), Ritter (2005) and Dimson, Marsh and Staunton (2010). Second, the rule of ownership: no market receives a weight larger than the protection it grants the minority shareholder — the lesson of Erb, Harvey and Viskanta (1996) and of two decades of China. Third, the rule of time: diversification across regions works not in the crisis, in which all markets fall, but over an investment horizon of decades, in which they rise differently — the lesson of Asness, Israelov and Liew (2011) and of UBS (2026). Whoever observes these three rules will not predict the shift of the world economy; he will take part in it without depending on it.

## 6 Conclusion and Outlook

The question of this paper was why Europe must respond to China's economic rise, and how. The answer to the first part is history itself: China was the largest economy on earth, withdrew from competition and all but vanished economically; since 1980 it has returned and multiplied its share of world GDP tenfold, while Europe lost half of its own. In doing so it has exploited every gap Europe left — in photovoltaics, in batteries, in automobiles, in machinery, in electronics and in the processing of raw materials — and it is building in Africa, Latin America and South-East Asia the ports through which its products subsequently flow. The mindset that prevented Europe from closing the gaps is post-colonial in the literal sense: the Eurocentrism that takes its own measures for the world's, the othering that dismisses another's achievement as imitation, and the reliance on an institutional order meant to secure one's rank without an economic foundation. Kennedy (1987), Olson (1982), Christensen (1997) and Ferguson (2011) have shown — from four different disciplines — why this assumption was always wrong and why it is never recognised as wrong by those who hold it until it is too late.<sup>38</sup>

The answer to the second part is a ranking. Europe needs not another list but an order that says what comes first: the dismantling of the bureaucracy that took the place of innovation in the years of prosperity, and the speed of decisions — both cost nothing and make everything else possible. Then the preconditions for technology, where the lesson of photovoltaics is to support manufacturing rather than consumption, and the lesson of Ukraine is to create spaces in which rapid development is permitted without prescription. Then capital, which Europe possesses in abundance and directs the wrong way; then people, whose ascent in Germany takes six generations; then the single market, whose barriers correspond to a tariff of 67 percent; then infrastructure, where China has built 50,000 kilometres of high-speed line while Europe argued over railway stations; and finally

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<sup>38</sup> IMF (2026), World Economic Outlook database: EU share of world GDP at purchasing power parity in 2030 12.9 percent, China 20.4 percent, India 9.7 percent.

distribution across space, so that Europe has more than one place where the future is made. The Draghi Tracker shows that two years after the diagnosis Europe has begun a quarter of the therapy. That is more than nothing and less than necessary.

For the investor, none of this implies flight from Europe or a bet on China, but a positioning along the flows that will continue regardless of whether Europe reforms: away from American concentration, towards Europe's leading industries, Japan's capital discipline, China's leadership at a discount, Latin America's valuation and Africa's beginning — guided by the three rules of price, ownership and time that research since Ritter (2005) and Dimson, Marsh and Staunton (2010) prescribes. Growth is not return; return arises where growth can be bought cheaply and accrues to the owner.

The outlook knows three paths. On the first, Europe implements the ranking of this paper, completes the single market, directs its capital into its companies and creates the spaces in which technology emerges; its share of world GDP then falls further — demographics cannot be reformed — but its share of the value creation of the future rises, and its companies remain global companies. On the second path, Europe remains what it is in 2026: a region that writes diagnoses and implements a quarter of them; its share of world GDP falls on the IMF's projections to 12.9 percent by 2030, its leading industries hold out as islands, and the flows of the world economy — Africa's upswing, Asia's manufacturing, Latin America's commodities — run without Europe. On the third path, Europe loses the islands too, because it abandons the competition for capital and talent and places the rules of the status quo above those of the new; that is the path of the Ming emperors, and it will, as then, appear as prudence for as long as it is followed. Which path it will be is decided not in Beijing and not in Washington, but in Brussels, Berlin, Paris and the capitals of the regions — and it is decided in this decade. There is no entitlement to the future. There is only the work on it.

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