An import tsunami from China?

Is China flooding Germany with cheap products in response to US tariffs?Germany's imports from China have indeed risen over the past two years and import prices have fallen. This is putting pressure on the German mechanical engineering and chemical industries in particular. However, the decline in import prices is probably not due to the indirect effects of US tariffs, but to other factors. The actual diversion of goods flows and the associated competition are therefore likely to lie ahead for Europe.

Dr. Vincent Stamer AC

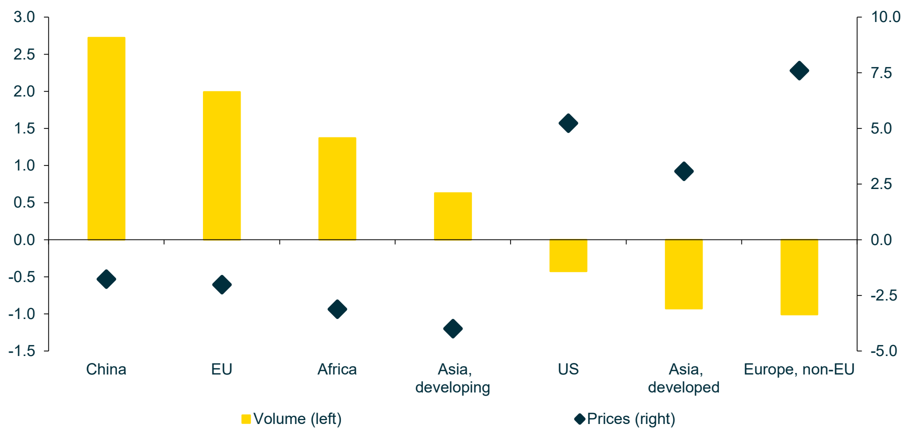
Due to high US tariffs (title chart), the Europeans fear a glut of cheap goods from China. If Chinese companies are unable to sell their goods in the United States, Chinese exporters could divert goods previously produced for the American market to other countries at discounted prices. At first glance, this fear has already come true: the EU Commission has shown that imports of 126 product groups into the EU have recently risen dramatically, while the prices of these goods have fallen significantly (**link**). However, since the European Union imports up to 9,600 product groups, the trend observed in 126 products is not yet proof that a large-scale diversion effect has already begun.

Imports from China have been rising for some time

A look at overall trade flows shows that German imports from China have indeed risen significantly in recent years and that the corresponding import prices have fallen. Adjusted for price changes, Germany imported €2.7 billion more goods in the third quarter of this year than in the same period of 2023 – an increase of 12% (Chart 1). At the same time, prices for these imports were 1.8% lower than two years earlier.[1] However, this trend had already begun at least one year before the introduction of US tariffs in April 2025.

Furthermore, an increase of imports from China is not an isolated case, although the absolute increase in imports from China is the strongest of all trading partners. Imports from European Union countries, Africa, and emerging Asian countries have also risen significantly. Import prices from emerging Asian countries have fallen even more sharply than those from China. In contrast, imports from the United States, European countries outside the EU (Norway, Switzerland, and the United Kingdom), and developed Asian countries have fallen. This indicates a general shift in imports from developed countries to developing and emerging countries, from which China benefits most.

Chart 1 - China increases exports to Germany
German imports, changes between the third quarter of 2023 and the third quarter of 2025, volume adjusted for price changes in billion euros; price change in percent (right)



Source: Eurostat, Commerzbank-Research

Germany benefits from some imports...

Imports have a bad reputation. After all, most goods could be manufactured in Germany itself, thereby strengthening the domestic economy – or so the popular opinion goes. In fact, Germany also benefits from specializing in certain goods and importing others.

The largest group of goods imported from China, for example, consists of **intermediate goods**, ranging from raw materials to electronics. Over the past twelve months, import prices for Chinese intermediate goods have fallen by 2.7%. This helps companies in Germany to manufacture final products such as cars and pharmaceutical products more cheaply and remain competitive. **Capital goods** from China, such as machinery and computers, also fell in price and rose in import volume. This increase in volume is positive for the German economy in itself. After all, imports of capital goods also show that investment is still being made in Germany and that production is set to continue in Germany in the future. Last but not least, stable import prices for **consumer goods** from China, such as cell phones and toys, dampen European inflation and allow for lower key interest rates.

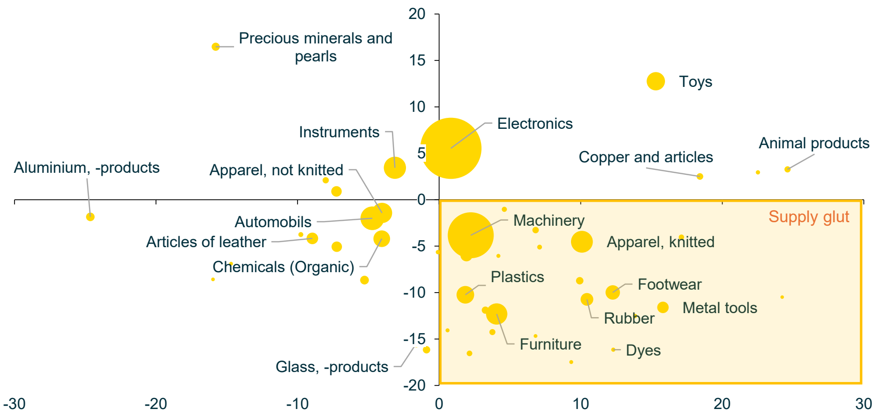
Because of these advantages, falling import prices are not necessarily an argument for tariffs and trade barriers. However, there are also tangible disadvantages to excessive imports from China. A few weeks ago, we looked at a dangerous dependency (**Week in Focus**). In addition, China's economy is advancing technologically and exports more and more goods that Germany has specialized in in the past. These goods from China are now displacing German producers from the domestic market.

... but some are competing with the German industry

Our analysis based on more detailed trade data shows that this is increasingly the case in some areas. Import volumes from China are rising and import prices are falling, particularly for products such as mechanical engineering (bottom right quadrant, Chart 2). Mechanical engineering is a particularly important pillar of the German economy, and competition with Chinese manufacturers appears to be increasing significantly in this sector. A similar picture is emerging for metal tools, clothing, furniture, and inorganic chemicals such as plastics and dyes. Rising wages, high energy costs, and higher CO2 pricing are further reducing the competitiveness of German companies in these areas.

The fact that import volumes are rising and prices are falling at the same time is an indication of an oversupply from China: normally, as demand from Germany rises, one would expect import volumes and prices to rise (upper right quadrant in Chart 2). This can be observed, for example, in the case of important electronic goods, on which the German economy depends in many areas. If demand were weaker, however, prices would tend to fall, meaning that the corresponding product group would be found in the lower left quadrant. However, many goods that are important for the German industry are located in the lower right quadrant.

Chart 2 - Competition from China weighs heavily on many sectors
Horizontal axis: Price-adjusted German imports from China; Vertical axis: German import prices for goods from China; Change in the third quarter of 2025 compared to the third quarter of 2024 in percent



Source: Eurostat, Commerzbank-Research

Why are prices from China falling?

However, the falling prices of imports from China are currently likely to be attributable less to diversion effects in global trade than to other factors. This is supported by the fact that China's export prices, which develop in parallel with German import prices but are available with a shorter time lag, have been falling since 2023. Hence, they have fallen much earlier than the implementation of significant increases in US tariffs in April 2025 (Trump's "Liberation Day," Chart 3). On the contrary, export prices seem to have stabilized in recent months.

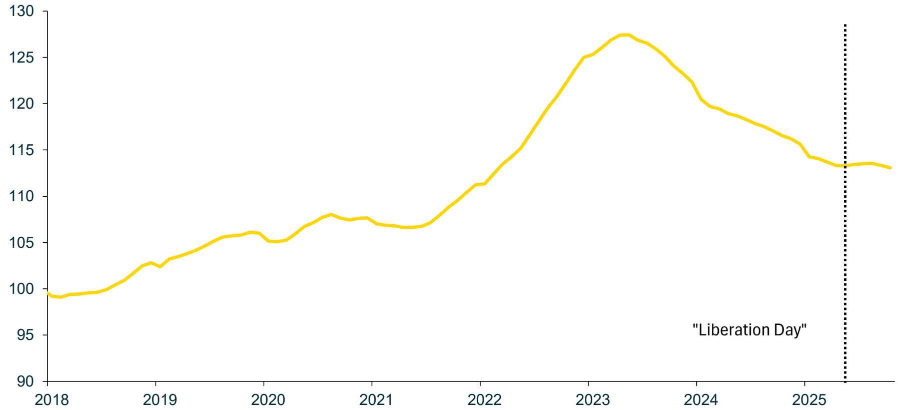
The main reasons for the fall in prices are likely to be:

1. Normalization after the pandemic: In the wake of the supply chain crisis and the boom in demand for household and hobby items during the pandemic, China's export prices rose dramatically in 2022 and 2023. Over the past two years, however, export prices have recovered from this high level and fallen again. A year-on-year comparison of import prices still reflects this normalization.

2. China's subsidy regime: Chinese policymakers have heavily subsidized future technologies such as electric cars, battery technology, wind turbine generators, and solar panels. Subsidies begin with the extraction of raw materials such as rare earths and support the entire supply chain. These subsidies have been in place for many years, but they continue to put pressure on price levels, especially relative to other production locations.

3. Falling transport costs: German import prices take into account not only the sales prices of Chinese manufacturers, but also transport costs. Due to attacks by Houthi rebels in the Red Sea, transport costs for a container from China to Northern Europe had risen to as much as $5,100 on the spot market. Over the past 18 months, container shipping has adjusted to the detours, and today the freight rate is only about $2,400. For goods with a low value per kilogram, such as chemicals and furniture, this can reduce import prices by about 2.5%.

Chart 3 - Chinese trade prices have not fallen due to diversion effects
Price levels of Chinese exports, 2018 = 100



Source: Bloomberg, Commerzbank-Research

Conclusion: The diversion effects are probably still ahead of us

So far, diversion effects are likely to have played only a minor role in the falling prices of Chinese goods. More important were China's subsidies, a normalization after the pandemic, and falling transport costs. But what is not yet may still come to pass: After the tariffs imposed during Trump's first term in office, it took American consumers and supply chains two to three years to adjust to the tariffs and import fewer goods from China. If the transition takes as long this time, the diversion effect would only become noticeable in the next two years. This would further intensify competition for German companies in the mechanical engineering and chemical sectors. At the same time, it should always be taken into account that part of the German economy also benefits from cheaper imports.

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[1] Because trade data is subject to significant fluctuations, a two-year comparison is more appropriate. (Back)

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