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Analysis of today
Assessment of tomorrow

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China no longer just exports goods – it exports factories

By introducing the "de-risking" policy, the European Union openly acknowledged for the first time that dependence on Chinese production presents a strategic problem for the European economy and industry.

The operational response was the concept of friendshoring: relocating industrial production to allied and friendly countries.

Washington, Brussels and London developed this model in close coordination, convinced that by geographically reorganising global supply chains, they would permanently reduce Beijing's economic influence.

Three years later, the outcome is devastating. China was not pushed out; it simply changed its address.

Through systematic investments in Mexico and Central and Eastern Europe, Chinese capital has found its way directly into the heart of markets that were supposed to have closed their doors to it.

Today, the West is financing its own industrial transformation and paying the bill twice: once through subsidies, and again through profits that flow to Shenzhen, Ningbo, and Shanghai.

A legal vacuum within the USMCA agreement

Statistics from the US Department of Commerce mark a historic milestone: Mexico has overtaken China as the United States' most important trading partner. However, behind these figures lies a different reality.

In the northern states of Nuevo León and Coahuila, Chinese industrial capital has established entire enclaves. The Hofusan industrial park near Monterrey is the most visible example of a systematic process that has been ongoing for years.

Chinese companies import semi-finished products from China, complete final assembly in Mexico, and ship the finished products to the American market with the "Made in Mexico" label.

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The agreement between the United States, Mexico, and Canada (USMCA), intended as a protective bulwark for North American industry, has become the legal framework legitimising this practice.

A Chinese-owned Mexican company has the same legal status as any domestic firm, and Washington has no means to change this without undermining the core rules of its own trading bloc.

Chinese companies such as Ningbo Xusheng, a supplier of aluminium battery cases, have built capacity in Mexico aimed directly at US electric vehicle manufacturers.

The Office of the US Trade Representative is pressuring Mexico City to introduce controls on the origin of capital, but any more decisive move at the border risks an open crisis within the USMCA, and US industry faces a shortage of components for which there is no alternative source.

Bypassing the customs barrier of the European Union

Brussels is seeking to limit Chinese penetration into the European automotive industry, while in Hungary, Chinese infrastructure is being developed in parallel, without which German electric vehicle production can no longer operate.

CATL's plant in Debrecen is becoming a key supply point for the European automotive industry, including the new BMW plant being built in the immediate vicinity.

In Szeged, China’s BYD is finalising the construction of an assembly plant for electric vehicles.

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A vehicle assembled in Szeged is legally considered a European product, exempt from customs duties and ready for sale throughout the internal market. Brussels' punitive tariffs on Chinese vehicles therefore lose all practical significance.

Hungary is not an exception but the most pronounced example of a broader trend. Poland and Romania, despite their vocal pro-Atlantic foreign policies, accept Chinese capital in the electronics and green energy sectors with little hesitation.

Beijing has long understood that direct exports from China are politically untenable. Exporting factories has proved a far more effective solution.

Structural dependence on Chinese primary processing

The fundamental problem with friendshoring is structural rather than geographical. China holds a dominant position across the entire supply chain for green transition technologies, from mining and refining rare minerals to holding patents for solar panels and lithium batteries.

Building assembly plants in Poland or Mexico does not change this, as Chinese control begins much earlier in the production process.

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Western companies that have moved final assembly to Europe or North America still import anode and cathode materials, refined lithium, and neodymium magnets from China.

The development of domestic processing capacity has been delayed for years, hindered by environmental procedures and costs that are not competitive with Chinese industrial practices.

The West has relocated some production to its own territory, but China has retained control over the most profitable and strategically important areas: the processing of raw materials, battery technologies, and industrial components, without which production in Europe and the US cannot operate.

What will remain of Western industrial strategy

The upcoming review of the USMCA agreement will become open American pressure on Mexico. Washington will seek capital origin clauses that allow companies to be discriminated against based on ownership structure rather than place of production.

This will trigger a series of legal disputes and uncertainty, pushing some Chinese investors towards new transit points in Central America.

In Europe, the first serious conflict will arise between Brussels and countries that have already deeply integrated Chinese capital into their industries.

If the European Commission tries to limit Chinese subsidies or production in Hungary, it will directly affect the supply chains of the German car industry, which is increasingly dependent on battery plants in Debrecen.

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Therefore, Berlin will approach a stricter anti-China policy much more cautiously than it publicly admits today.

The result will not be a unified European strategy, but an increasingly visible division within the EU. Some countries will continue to attract Chinese factories and capital with few major restrictions, while others will attempt to slow their entry into their markets through regulatory measures and administrative barriers.

In the long term, subsidising domestic factories that cannot compete with Chinese prices will become a fiscal burden that is no longer politically defensible. Over time, political considerations will outweigh the actual economic structure of production.

As long as final assembly occurs in Europe, Mexico, or North America, Western governments will be willing to overlook the fact that key parts of the supply chain remain under Chinese control.

Misjudgement from the start

Friendshoring was based on a false assumption. While Western planners considered maps and tariffs, China viewed supply chains as flows of capital that always followed the path of least resistance.

By relocating factories to Monterrey and Debrecen, Beijing did not lose ground; it entrenched its position within the regulatory systems intended to exclude it.

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The greater the pressure on these hybrid connections, the more directly the damage affects European and American industries, rather than the intended target.