



A changing world order: China's path to the top

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China is reducing its dependence on foreign countries and expanding its dominant position in many key technologies. This increases competitive pressure on Europe and creates new dependencies in global supply chains. For Switzerland, this means consistently building on strengths in precision, innovation, and niche solutions, while diversifying both sales and procurement markets. Investors should also see this structural shift as an opportunity. Quality companies that are technology leaders, build resilient supply chains, and benefit from automation, electrification, and the expansion of artificial intelligence (AI) infrastructure are likely to be well positioned to grow even in this environment. The cyclical acceleration in Europe should provide additional support for markets.

For years, China has been making efforts to reduce its dependence on foreign countries and increase control over its own value chains. The price of this growing independence is overcapacity, which is visible not only in China itself but also in the West. For Europe, and therefore directly and indirectly also for Switzerland, this is far more than a peripheral geopolitical issue. It affects the future of numerous sectors, including industries such as mechanical engineering and the automotive sector, which remain crucial to the prosperity of the entire region.

In recent decades, China has steadily reduced its imports and replaced them with domestic products. The share of imports in China's economic output has fallen from just under 30% to below 15%. At the same time, the country has caught up in many key technologies or even taken the lead, for example, in batteries, solar technology, high-voltage grids, and components for robotics and AI infrastructure—and other sectors will undoubtedly follow.

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For the West, this means two things. First, competitive pressure on established industries is increasing, as Chinese providers are emerging in more segments as low-cost and technologically mature competitors. Second, new dependencies are arising, as China accounts for more than half of global exports in a growing number of products—including many intermediate goods, machinery, and equipment that are indispensable for modern industrial processes.

This is intensifying trade policy tensions: The US has long been trying to reduce its dependence on Chinese imports. Tariffs and export restrictions are at the center of these efforts, to which China has responded with tariffs and export controls of its own. There is also awareness of the challenge in Europe, but as a federal construct, the European Union naturally struggles to pursue a unified, coordinated strategy. Accordingly, China's industrial expansion and the decline in its imports from Europe have already contributed to the erosion of the production and employment base in countries such as Germany and France, and this process is likely to continue and affect other industries, including in Switzerland.

For Switzerland—as a small, open economy with strong specialization in high-quality mechanical engineering, precision technology, and niches within the automotive and supplier industries—the starting point is ambivalent. On the one hand, there is a risk of margin pressure and market share losses if Chinese competitors move into higher-value segments. On the other hand, opportunities are also emerging, especially in areas where Swiss companies have particular strengths, for example, in high-precision components, specialized machinery, and the services sector.

For domestic industry, this means focusing on innovation, efficiency, diversification of sales markets, and close integration into global and regional value creation networks. China's pursuit of independence and its export dominance should be understood not only as a challenge, but also as a source of inspiration. In Europe and Switzerland alike, this means securing and promoting their own strengths, reducing existing dependencies, and avoiding new ones.

Investors should also understand this development as a structural shift, not just as a risk. Companies that actively manage their dependence on individual markets and suppliers, strengthen their technological differentiation, and invest in research, automation, and resilience are likely to be better positioned to grow in this environment. This supports investing in companies that are technology leaders, perform indispensable functions in global supply chains, diversify their production and procurement geographically, and benefit from automation, electrification, and the expansion of AI infrastructure. In our view, various quality companies in industry, technology, and infrastructure offer opportunities to benefit from this structural shift, while also cushioning the risks of increasing geoeconomic tensions. This appears particularly interesting at present, as we see a cyclical recovery in Europe, which may also have a positive impact on the valuations of the relevant equities. This also means investing selectively in Asian market leaders, including in China.

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