

Johannes Binder, Dirk Dohse, Holger Görg, Wan-Hsin Liu, Benno Schöl and Finn Ole Semrau*

The EU Industrial Accelerator Act: Strategic Ambitions and Design Challenges

The Industrial Accelerator Act, proposed by the European Commission in March 2026, is the EU's most ambitious recent effort to strengthen its industrial base. This article examines the main design features of the Industrial Accelerator Act and argues that its central weakness is not a lack of ambition but a lack of precision. Three concerns stand out: the definition of strategic sectors is too broad and insufficiently forward-looking, local content requirements are applied without adequate differentiation between policy objectives, and the proposed foreign direct investment requirements introduce a novel form of industrial policy conditionality whose economic justification remains uncertain. The effectiveness of the Industrial Accelerator Act will also depend on firms' responses, especially those from China. Effective European industrial policy requires a clear distinction between objectives, a more careful matching of policy instruments to the problems they are meant to address, and a sustained commitment to openness where this strengthens rather than undermines Europe's long-term competitiveness.

Presented by the European Commission on 4 March 2026, the Industrial Accelerator Act (IAA) marks the Commission's most ambitious recent attempt to strengthen Europe's industrial base (European Commission, 2026a). It combines an explicit objective of raising the share of man-

ufacturing in EU GDP from 14.3% to 20% by 2035 with broader efforts to address decarbonisation pressures, geopolitical concerns and competitiveness challenges. In this sense, the IAA is presented as a strategic industrial policy initiative that seeks to address multiple structural challenges through a coordinated policy framework.

© The Author(s) 2026. Open Access: This article is distributed under the terms of the Creative Commons Attribution 4.0 International License (<https://creativecommons.org/licenses/by/4.0/>).

Open Access funding provided by ZBW – Leibniz Information Centre for Economics.

Johannes Binder, Kiel Institute for the World Economy, Germany.

Dirk Dohse, Kiel Institute for the World Economy, Germany.

Holger Görg, Kiel Institute for the World Economy, Germany.

Wan-Hsin Liu, Kiel Institute for the World Economy, Germany.

Benno Schöl, Kiel Institute for the World Economy, Germany.

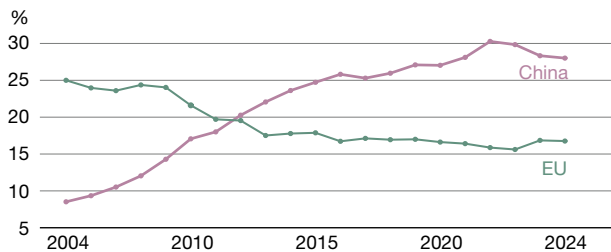
Finn Ole Semrau, Kiel Institute for the World Economy, Germany.

The geopolitical and economic backdrop of the IAA is clear. As Figure 1 illustrates, the relative decline of the European Union's share in global manufacturing value added is striking, while China's marked rise over the past two decades has fundamentally reshaped the global industrial landscape (World Bank, 2026).

China has long pursued a state-coordinated industrial policy aimed at technological upgrading and control over critical value chains (Bickenbach et al., 2024). At the same time, the United States has expanded its own industrial policy toolkit, most prominently through the Inflation Reduction Act and related support for domestic clean-technology manufacturing (The White House, 2023). Under President Trump, US economic policy has also become more protectionist and more unpredictable, with a stronger reliance on tariffs, trade measures and unilateral trade

* The authors are thankful for excellent comments by Frank Bickenbach, Manja Buchheit, Katharina Erhardt, Charline Heil, Lucia Hezel, Jonathan Jablonski and Moritz Schularick. An earlier version of this article was published as an Industrial Policy Lab Policy Brief (Binder et al., 2026). The authors gratefully acknowledge financial support from the Federal Ministry for Economic Affairs and Energy under the grant number 01PLAB01.

Figure 1
Share of global manufacturing value added for China and the EU over time



Source: World Bank (2026); authors' illustration.

actions, significantly increasing uncertainty in transatlantic economic relations (Hinz et al., 2026; Mahlkow et al., 2025). In this context, EU industrial policy is no longer conceived primarily as a tool to correct market failures, for example in climate policy, but it is increasingly seen as a response to multiple political pressures and an instrument to strengthen industrial competitiveness and to reduce external vulnerabilities.

To understand the focus of the IAA on clean technologies and the decarbonisation of energy-intensive industries, it is important to recall its origins in the Industrial Decarbonisation Accelerator Act within the Clean Industrial Deal. While the reference to decarbonisation was later dropped from the title to reflect a broader industrial ambition, this earlier focus remains visible in the architecture of the IAA. The core operative instruments concentrate on creating lead markets for selected low-carbon products in energy-intensive industries, while also placing strong emphasis on the automotive sector. Beyond accelerated permitting and coordination of support schemes, the IAA introduces demand-side instruments in public procurement and links both procurement and public support to low-carbon and Union-origin requirements. It further establishes requirements for foreign direct investment (FDI) in selected emerging sectors, including key clean technologies.

At the same time, the IAA raises important questions about the design of European industrial policy. In this article, we distinguish between three broad objectives addressed under the IAA: decarbonisation, geopolitical concerns and competitiveness. The category of geopolitical concerns covers objectives framed in the proposal in terms of economic security, resilience, strategic autonomy and the reduction of strategic dependencies. We argue that the IAA combines these objectives under a common framework without sufficiently distinguishing between them or aligning instruments accordingly. It is ambitious, but often insufficiently precise to support the fulfilment of any specific objective.

Three central insights follow from the analysis. The IAA's strategic sector definition blurs distinct policy objectives while giving insufficient weight to strategic emerging and enabling technologies. Local content requirements can only be justified if tightly linked to clearly defined objectives; without such prioritisation, they risk generating higher input costs, administrative burdens and unintended distortions. The FDI requirements are institutionally significant but overburdened with multiple goals whose respective economic logic is not clearly separated. In addition, the effectiveness of the IAA's new instruments will depend not only on their legal design, but also on how firms respond in practice, particularly where Chinese outward investment is embedded in a broader state-coordinated development strategy.

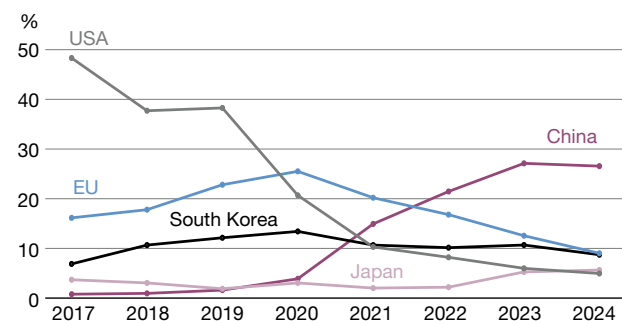
Strategic sectors under the IAA

The definition of strategic sectors under the IAA is broad and heterogeneous. Annex I of the IAA defines its core sectoral scope, covering energy-intensive industries, the automotive sector and net-zero technologies. At the same time, the act addresses broader decarbonisation, competitiveness and geopolitical objectives.¹ What is missing in the final IAA proposal is a clearer forward-looking angle to increase competitiveness and respond to geopolitical concerns. Earlier non-public versions of the IAA pointed to a broader strategic perimeter that also mentioned advanced technologies relevant to the EU's economic security, including semiconductors, artificial intelligence (AI), quantum technologies, biotechnologies, robotics and advanced materials. Even there, however, these technologies were not at the centre of the IAA's practical design. The main instruments were already focused much more clearly on energy-intensive industries, while the advanced-technology category played a more supplementary and signalling role. They are no longer part of Annex I in the final proposal.

This narrowing may improve legal precision, but it also makes the IAA less forward-looking. To be sure, EU industrial policy does not begin and end with the IAA. The EU already supports strategic emerging and enabling technologies through other policy initiatives. But the IAA still stands out because of the breadth of its stated ambition; it presents itself not merely as a sectoral instrument, but as a response to decarbonisation, competitiveness and geopolitical pressures bearing on Europe's industrial base. Against that ambition, its limited focus on strategic emerging and enabling technologies is striking. If Euro-

¹ Article 17(2) in Chapter V (Foreign Investment Contribution) contains an additional list of industries (emerging strategic sectors) for which FDI requirements shall apply. These are discussed in the section on FDI requirements.

Figure 2
Export market shares in electric vehicles across major countries and regions, 2017–2024



Source: BACI dataset, 2026 version (Gaulier and Zignago, 2010); authors' calculations and illustration.

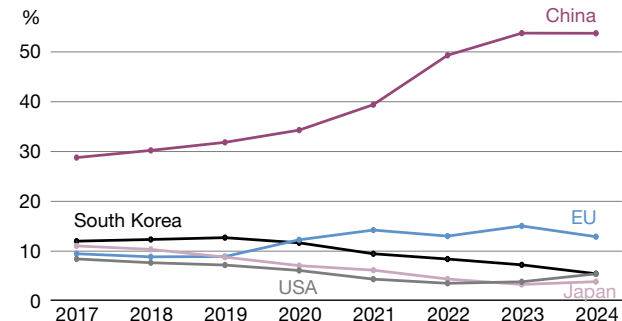
pean industrial policy is meant to strengthen long-term competitiveness and reduce geopolitical vulnerabilities, it should not primarily be anchored in the support of incumbent industrial structures, but more clearly in those technologies potentially shaping future productivity, innovation and strategic autonomy, especially in a global context in which such technologies are already central to industrial policy in the US and China.² Rather than simply mirroring the technological priorities set by other governments, however, the EU should ground its strategic sector selection in a careful assessment that reflects its own interests regarding future growth opportunities and resilience. In this context, there may be no-regret options, particularly cross-cutting enabling technologies – such as in the digital economy – on which future industrial competitiveness is likely to depend.

Looking more closely at the covered sectors, the breadth of this strategic perimeter raises economic concerns. Sectors and technologies differ substantially in their technological maturity, market structure, exposure to global competition and potential for learning spillovers. Applying a common strategic label across such diverse activities risks diluting focus and weakening the link between policy objectives and the instruments used to pursue them.

At the same time, the broad sectoral scope should not be conflated with automatic support. Inclusion in Annex I

² AI and advanced computing infrastructure, semiconductors, quantum technologies, biotech as well as critical minerals and, to a lesser degree, advanced materials, autonomous systems and space technologies are top priorities for both the US and China according to recent policy documents. While China places more emphasis on new energy and advanced manufacturing, the US has a stronger military technology focus, on which China might be less explicit in official documents (National Science and Technology Council, 2024; State Council of China, 2026; The White House, 2025a, 2025b; U.S. Congress, 2022; Xinhua News Agency, 2025).

Figure 3
Export market shares in batteries across major countries and regions, 2017–2024



Source: BACI dataset, 2026 version (Gaulier and Zignago, 2010); authors' calculations and illustration.

does not mean that all firms in each sector benefit from subsidies, procurement guarantees or localisation advantages. The IAA's more interventionist tools remain more selective. Product-specific low-carbon and Union-origin requirements apply only in defined cases under Annex II and Annex III, and strategic project designation requires additional assessment at project level. The economic concerns therefore do not arise from blanket support, but from the breadth of the strategic label relative to the more selective and conditional operation of the IAA's instruments.

In energy-intensive industries, the proposal relies on broad two-digit NACE categories grouping firms with very different technologies, decarbonisation challenges and cost structures. Much of the underlying policy rationale is already addressed through the EU Emission Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM). Defining entire two-digit sectors as “strategic” therefore risks stretching the concept beyond what these more targeted instruments cover.

In the automotive sector, the logic is different. Here, the IAA is less about broad sectoral classification and more about direct intervention in a specific value chain. Annex III introduces Union-origin requirements for certain vehicles and components, especially in the electric vehicle segment. Compared with the broader treatment of energy-intensive industries, this is more operationally targeted. At the same time, it illustrates a broader problem of the IAA: decarbonisation, competitiveness and geopolitical concerns are addressed within a single strategic framework, even though they may call for different policy tools. Figures 2 and 3 illustrate the sharp rise of China's export share in electric vehicles and batteries, the two product areas most directly addressed by the IAA's automotive-related Union-origin requirements.

A related concern applies to the category of net-zero technologies. They are central to Europe's decarbonisation strategy and long-term industrial competitiveness. However, the category itself remains highly heterogeneous. It includes technologies with very different innovation dynamics, scale economies and dependency structures. In economic terms, strategic relevance often attaches not to an entire technology family, but to specific bottlenecks, key components, advanced materials or process technologies.

Overall, the IAA combines decarbonisation, competitiveness and geopolitical goals under a common framework without sufficiently distinguishing between them, while simultaneously giving insufficient weight to strategic emerging and enabling technologies. This creates a tension at the heart of the IAA: it is broad in sectoral scope, but insufficiently forward-looking in relation to the technologies most relevant for Europe's future competitiveness and geopolitical position. Strategic designation should therefore rely on more transparent and differentiated criteria. Strategic sectors should be defined more narrowly and transparently, using objective and activity-based criteria and placing greater emphasis on technologies than on broad sectoral classifications.

This lack of strategic focus also casts doubt on whether the IAA is well equipped to achieve its headline objective of increasing the manufacturing sector's share of EU GDP to 20% by 2035. More fundamentally, it is not clear that such a target is economically meaningful in itself. Europe's future competitiveness may also be driven by successful developments beyond the industrial base, including in high-value service sectors that can likewise generate quality employment. For that reason, aggregate sectoral targets of this kind have limited economic value in themselves. They become even harder to justify given the IAA's comparatively weak focus on strategic emerging and enabling technologies that are likely to shape long-term productivity and competitiveness.

Local content requirements

Chapter III of the IAA introduces local content requirements (LCRs) as the most operationally significant element of its "Made in Europe" approach. In the IAA, these are operationalised mainly through low-carbon and Union-origin requirements under Annex II and Annex III. Annex II links public procurement and support to low-carbon and, for selected products, Union-origin criteria, while Annex III introduces detailed Union-origin thresholds for electric vehicles and battery value chain components. Member states must apply these criteria to at least 45% of the national budget covered by Annex II schemes and

to 100% of that covered by Annex III. This marks a shift from largely neutral framework conditions towards conditional industrial support. The objectives underlying LCRs are heterogeneous, including strengthening value chains, reducing strategic dependencies, creating lead markets and supporting competitiveness. From an economic perspective, however, these rationales are distinct, and the justification for LCRs depends fundamentally on which objective is being pursued.

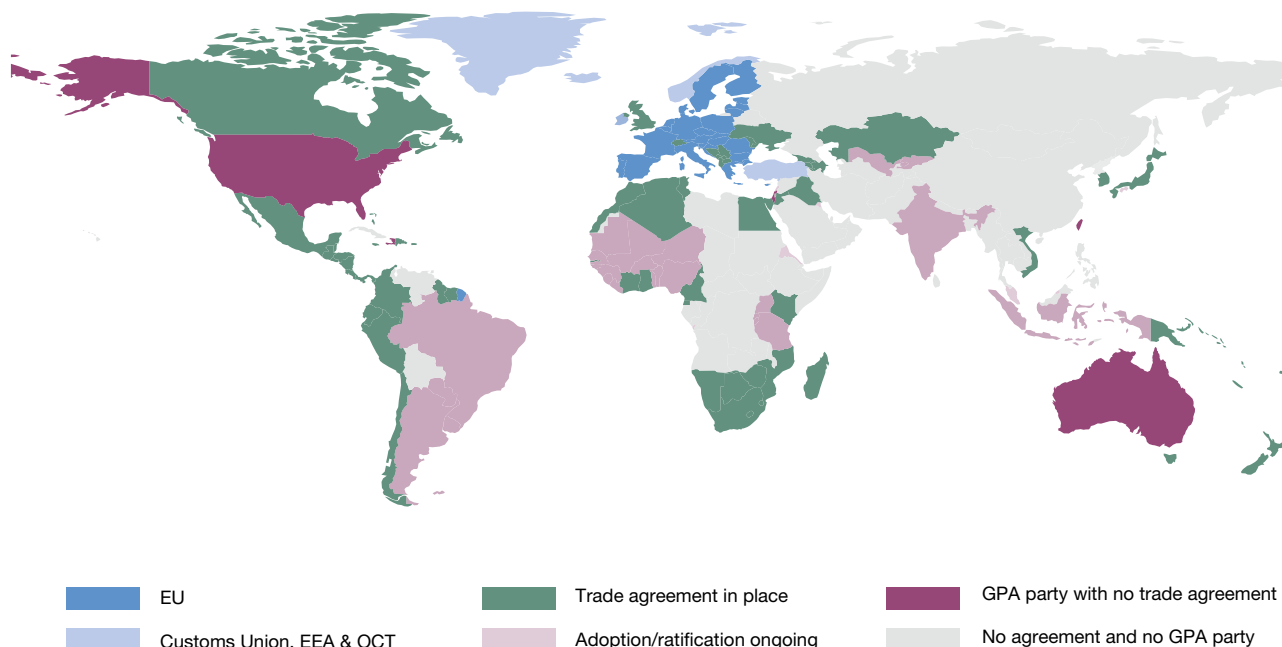
A foundational issue in the implementation of LCRs concerns the definition of what qualifies as Union-origin content. In globally fragmented value chains, where production stages are distributed across multiple jurisdictions, such a measurement is technically complex and administratively demanding. The calibration of threshold levels, the treatment of intermediate inputs and the verification procedures will determine both the effectiveness and the cost of the instrument.

Beyond administrative feasibility, the definition of Union origin has strategic implications. A narrow interpretation that strictly limits eligibility to production located within EU territory would effectively amount to a protectionist instrument. By contrast, the IAA provides that, in public procurement and certain forms of public intervention, content originating in selected third countries may be treated as equivalent to Union origin. This is a central clause. It opens the possibility of a differentiated approach that preserves openness towards closely linked partner economies rather than applying a rigid Union-only logic.³

Figure 4 shows that the EU maintains a broad network of trade agreements, with particularly dense coverage across Latin America and parts of Africa, alongside more selective coverage in East Asia. Turkey and the countries of the European Economic Area (EEA) are linked to the EU through different forms of economic integration. Beyond trade agreements, Union-origin equivalence in public procurement also extends to countries that are parties to the WTO Agreement on Government Procurement (GPA), which notably includes

³ See Articles 7-9 of the IAA proposal. Union-origin equivalence in public procurement extends to countries with an EU free trade agreement or customs union and to GPA parties (including the US and Australia), subject to possible exclusion by Commission delegated act; equivalent treatment for other forms of public intervention is governed by Article 9.

Figure 4
Overview of EU trade agreements and their current status



Notes: EEA: European Economic Area, OCT: Overseas Countries and Territories, GPA: Agreement on Government Procurement.

Sources: Based on European Commission (2026b) and World Trade Organization (2026); authors' elaboration and illustration.

the US and Australia, two major economies that currently lack a free trade agreement with the EU.⁴

From an economic and strategic perspective, maintaining openness towards trusted partners is essential. The EU's industrial base is deeply embedded in global value chains and supported by trade agreements with partners such as South Korea, Japan and Canada. Important economies and markets in this regard also include India, Mercosur, Indonesia and African countries, most notably Nigeria. Taken together, these regions represent substantial economic weight and significant market opportunities for the EU. This underlines the importance of trade diversification and of deepening trade agreements and broader economic partnerships as part of a strategy to reduce dependencies and strengthen resilience. A rigid localisation requirement that excludes economies committed to rules-based trade would risk raising input costs, weak-

ening external economic ties and undermining resilience through greater fragmentation. Against this background, the IAA's broader conception of Union origin is economically sensible.

The relevance of how Union origin is defined illustrates the importance of clear and coherent objectives. Each of the three underlying goals implies different requirements. For geoeconomic objectives such as security or supply chain resilience, the relevant benchmark is not autarky but risk diversification and reduced vulnerability to coercion, meaning that "local" should encompass the EU plus trusted partners rather than the EU alone. For decarbonisation, abstracting from transport-related emissions, the climate impact of a technology does not depend on its geographic origin. For competitiveness objectives, access to a larger integrated market is essential to realise scale effects, foster competition and sustain innovation. A restrictive origin definition may therefore undermine, rather than strengthen, the very competitiveness it seeks to promote.

A central design challenge of the IAA's localisation requirements therefore lies in aligning the instruments with clearly defined objectives. If LCRs are justified on resilience grounds, their calibration should be based on measurable

⁴ Hong Kong's status as an independent GPA party could theoretically allow Chinese firms to route production through the territory to obtain Union-origin equivalence in EU public procurement. However, Article 8(2) of the IAA provides the Commission with delegated authority to exclude any third country from origin equivalence, including on grounds of supply security concerns, which would close such potential loopholes.

dependency risks, such as import concentration, substitutability and geopolitical exposure. If justified on competitiveness grounds, they should target segments characterised by learning-by-doing, scale economies or coordination failures. If justified on climate grounds, they should complement the EU ETS and CBAM. In some cases, such instruments may be defensible, for example where lead markets are needed to support the scaling of emerging technologies or where measurable dependency risks are present.

Without such differentiation, however, localisation requirements risk being applied as a general industrial support tool rather than as a targeted response to clearly identified vulnerabilities or market failures. If LCRs are applied, each should therefore be linked explicitly to a clearly defined objective – whether to address geopolitical concerns, competitiveness or decarbonisation – and justified *ex ante* based on measurable criteria.

LCRs can raise production costs where Union-origin suppliers are more expensive than international alternatives. Under the IAA, localisation criteria are tied primarily to public procurement and certain support schemes, so immediate price effects are likely to be concentrated in publicly supported transactions rather than the entire market. Even so, procurement-based requirements can exert indirect effects along value chains: if publicly supported demand is redirected towards higher-cost suppliers, this may influence market structures and price signals, weakening downstream and export-oriented industries. When comparative advantages lie elsewhere (due to energy costs, resource endowments or established clusters), conditioning public demand on domestic production may also impede reallocation towards more competitive segments. The proposal acknowledges these trade-offs through cost and delay exceptions (25% cost difference in procurement, 30% in support schemes; delays beyond seven months), which make the regime less binding in practice but do not eliminate the underlying distortions.

Beyond cost effects, overly restrictive localisation requirements may weaken competitive pressure and reduce incentives to innovate. A key source of value creation in global value chains is that different locations contribute their respective advantages at different stages of production. Implementation also generates compliance burdens, since verification and monitoring of origin shares and value-added thresholds are administratively demanding, particularly for small and medium-sized enterprises. Finally, overly restrictive requirements risk triggering retaliation and undermining the EU's standing as a defender of rules-based trade. Resilience is better achieved through diversification and trusted partnerships than through economic isolation.

Foreign direct investment requirements

In addition to LCRs in public procurement and support schemes, Chapter IV of the IAA introduces foreign investment requirements in selected emerging strategic manufacturing sectors. While the immediate scope of this chapter is narrower than that of the localisation provisions, its institutional significance is considerable. It marks a shift from a purely security-oriented screening approach towards a more strategic alignment of FDI with broader industrial objectives, including knowledge and technology transfer as well as the reduction of geopolitical dependencies.

The FDI chapter applies to investments exceeding €100 million in four defined emerging strategic manufacturing domains: battery technologies and value chains for battery energy storage systems; pure electric vehicles, off-vehicle charging hybrid electric vehicles and fuel cell electric vehicles, including components related to electrification and digitalisation; solar PV technologies; and extraction, processing and recycling of critical raw materials. The chapter applies where the foreign investor is a national of, or an undertaking established in, a third country that holds more than 40% of global manufacturing capacity in the relevant technology. Investments within scope may not be implemented unless explicitly approved by the designated investment authority or, in some cases, the Commission.

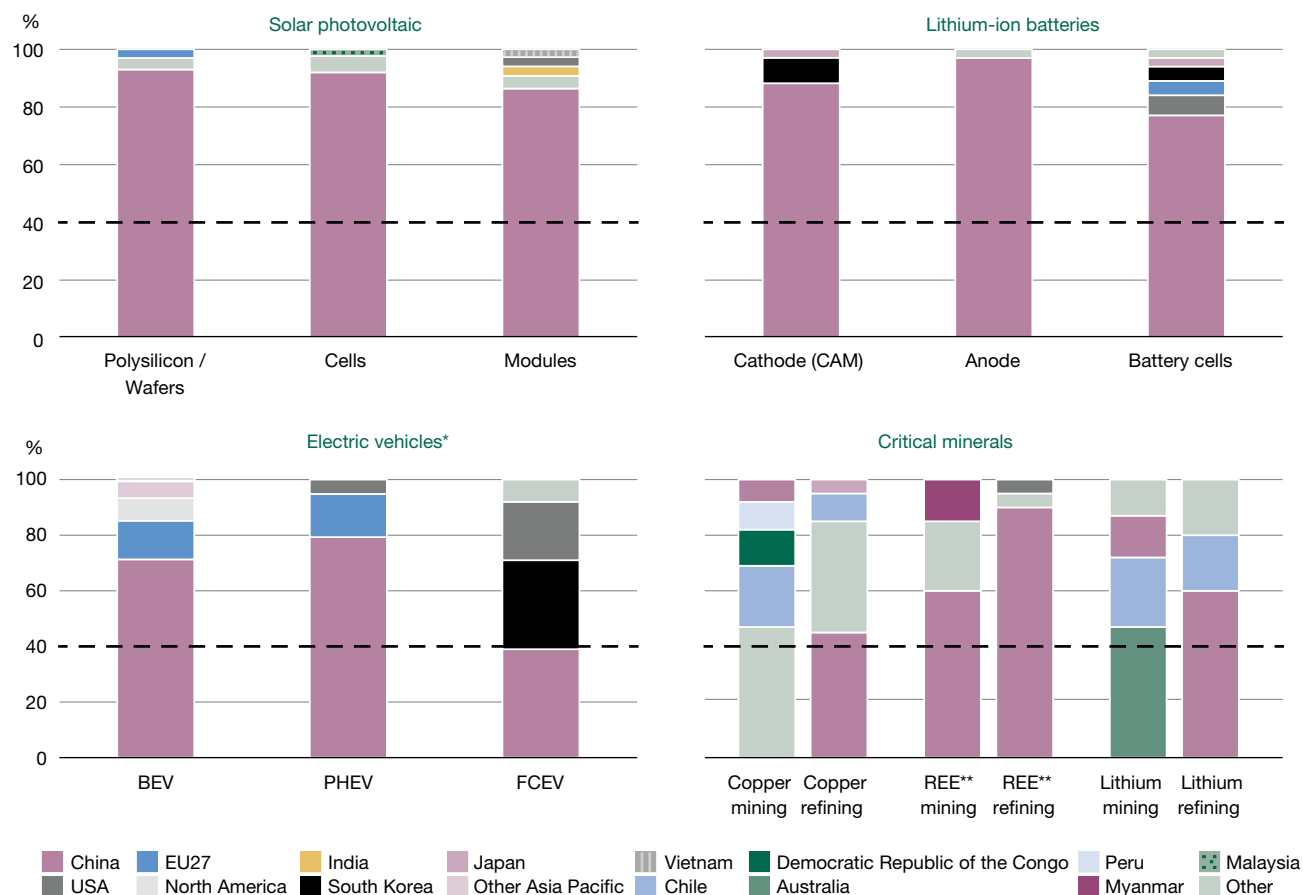
The chapter excludes investors and investments covered by economic partnership agreements and free trade agreements in force or provisionally applied by the Union, as well as services investments and portfolio investments. These exclusions reflect an attempt to preserve differentiated treatment of partner countries and to remain compatible with the Union's international commitments.

A further important design feature is that the IAA does not merely require notification and review. Investment authorities are to approve covered investments only if they fulfil four out of six FDI requirements. These include limits on ownership and control, the possibility of joint ventures with Union entities, licensing and co-ownership rules for intellectual property and know-how, minimum research and development (R&D) spending in the Union, workforce requirements and commitments to strengthen Union value chains through local sourcing. One of these conditions, that at least 50% of the workforce be made up of Union workers across all workforce categories, is mandatory for approval in all cases.⁵ Figure 5 shows the global

⁵ See Articles 18(2) and 18(3) of the IAA proposal for the full list of value-added FDI requirements and the mandatory workforce condition.

Figure 5

Distribution of global manufacturing capacity for the defined emerging strategic sectors, divided by value chain segments, 2024



Notes: BEV: battery electric vehicles; FCEV: fuel cell electric vehicle; PHEV: plug-in hybrid electric vehicle; REE: rare earth element. Electric vehicles*: For PHEVs and FCEVs, sales shares are used as proxies because no direct production breakdown is available. FCEV data refer to 2023. REE**: only REEs used for permanent magnets. The dashed line marks the 40% concentration threshold above which the FDI requirements of the Industrial Accelerator Act apply.

Sources: Based on International Energy Agency (2022, 2024a, 2024b, 2025a, 2025b); International Energy Agency Photovoltaic Power Systems Programme (2025); Rhodium Group (2025); Statista (2024) and U.S. Geological Survey (2025); authors' calculations and illustration.

distribution of manufacturing capacity across the emerging strategic sectors covered by the IAA.

The data strongly illustrate that the chapter is primarily designed with Chinese investments in mind. China dominates manufacturing capacity across most value chain segments in solar, batteries and electric vehicles. The picture is more differentiated for critical raw materials, where resource-rich countries such as Australia are highly significant at the extraction stage, while China remains dominant in refining and processing.

The EU already coordinates an FDI screening framework focused on security and public order. The IAA goes be-

yond this defensive logic: rather than merely blocking security-sensitive transactions, it introduces a rule-based authorisation regime that seeks to steer FDI towards specific contributions to the Union economy. The 40% global capacity threshold signals concern not only with firm-level behaviour but also with systemic dependency, while the six approval conditions covering ownership structures, intellectual property, R&D spending, employment and local sourcing combine geopolitical and competitiveness objectives in a single investment regime.

FDI can generate substantial benefits such as technology and knowledge transfer, productivity spillovers and global value chain integration, but these benefits are not auto-

matic (Alfaro, 2017). They depend on domestic absorptive capacity and competitive markets. The EU's large and attractive market strengthens its bargaining power, but its openness and trade agreement network also allow firms to serve the EU from third countries, weakening the leverage of conditionality. Conditions such as mandatory R&D spending, intellectual property licensing and workforce requirements may under certain circumstances support capability building, but they are demanding and costly, and there is a real risk that the regime imposes substantial requirements without consistently generating the intended spillovers. At the same time, overly burdensome conditions may discourage some investments and thereby also reduce the very spillovers the regime seeks to promote. Effectiveness will therefore depend critically on whether the conditions are matched to genuine market failures or strategic vulnerabilities and can be monitored over time.

The governance of the regime is institutionally demanding. Member states must designate investment authorities, while the Commission may issue opinions, require a more detailed assessment where national decisions diverge from its view and, in specific cases, undertake the assessment itself.⁶ The economic case for such a regime therefore depends not only on its intended objectives, but also on whether it can be implemented in a transparent and proportionate way.

The key implication is that the EU should preserve its openness to FDI to sustain knowledge transfer, spillovers and integration into global value chains. Where geopolitical concerns arise, conditions should be clearly defined, proportionate and linked to measurable vulnerabilities. Any investment requirement should remain narrowly targeted, transparent and consistent with existing screening mechanisms.

China as a source country of FDI

In assessing the EU's proposal to introduce conditions on foreign investment, a key question is how foreign investors would respond to these new requirements in practice. The Chinese case is particularly relevant in this regard. Although Chinese investments account for only a relatively small share of total inward investment in the EU, China differs markedly from Europe in its political system and in the role of the state in economic governance. The China case therefore provides an important test of whether the IAA's conditionality is likely to achieve its intended effects.

⁶ See Articles 18, 20 and 21 of the IAA proposal. The Commission may issue opinions on national decisions and, under Article 21, undertake the assessment itself for investments above €1 billion or those affecting more than one member state.

In China's political system, the state plays the central role in planning and steering economic development. This party- and state-led governance model has been further reinforced under President Xi Jinping, through the call to build a "new type of whole-nation system" (National Development and Reform Commission, 2023). Against this background, Chinese firms' outward investments cannot be understood as purely market-driven decisions. Outward investment projects are subject to approval procedures requiring firms to report on implications for national interests and security (National Development and Reform Commission, 2017), while capital controls and state-controlled banks channel financing aligned with national development strategies. The alignment between Chinese policy objectives and outward investment patterns is well documented, for example for rising investment into Belt and Road countries (Du & Zhang, 2018) and into sectors prioritised under Made in China 2025 (Xia & Liu, 2021; Zenglein & Holzmann, 2019), and policy encouragement for FDI to ensure access to critical raw materials (Bickenbach & Liu, 2023). These patterns suggest strategic direction rather than purely commercial logic.

Future Chinese investment in Europe must therefore be assessed in light of this broader strategic agenda. For 2026-2030, Chinese development strategy emphasises "high-quality development", technological self-reliance and the orderly cross-border development of industrial and supply chains (State Council of China, 2026). With rising geopolitical tensions, weak domestic demand and overcapacity in key sectors (Bickenbach & Liu, 2023, 2024), outward investment is encouraged where it preserves foreign market access and supports value chain upgrading, but not at the cost of weakening China's domestic industrial base.

From this perspective, the EU remains an attractive destination for Chinese investment because of its large market size and high purchasing power. This attractiveness matters not only at the firm level but also from the standpoint of the Chinese government, which has an interest in maintaining access to advanced markets. Stricter European requirements concerning ownership structures, technology transfer, local employment or supply-chain integration may therefore not automatically deter Chinese investment. However, the response of Chinese firms, potentially supported by state coordination, could take several forms. Firms may comply selectively, for example by localising production while limiting the transfer of frontier technologies. Alternatively, investment strategies may shift towards third countries such as Morocco or Turkey, from which firms can continue to serve the EU market while potentially facing lower regulatory constraints and production costs. This emphasises that the effectiveness

of the IAA's FDI regime will depend not only on its legal design, but also on how targeted firms adapt in practice.

Conclusion

The IAA's central weakness is not a lack of ambition but a lack of precision. It combines decarbonisation, geopolitical and competitiveness goals under a common framework without sufficiently distinguishing their respective economic rationales or aligning instruments accordingly. The strategic sector definition is broad yet insufficiently forward-looking; it covers wide swathes of incumbent industry while giving insufficient weight to strategic emerging and enabling technologies that are likely to shape long-term productivity and Europe's geopolitical position.

The LCRs introduced through Annexes II and III are better understood against the backdrop of China's rise in electric vehicles and batteries, yet their justification differs depending on whether the underlying goal is resilience, competitiveness or decarbonisation. Applying them without that differentiation risks raising input costs and creating administrative burdens without resolving the specific problem at hand. The FDI chapter is institutionally novel and primarily aimed at China, but conditioning approval on ownership structures, R&D spending and workforce composition conflates geopolitical and industrial policy objectives in ways that complicate effectiveness assessment.

The case of China illustrates clearly the limits of this approach. In a political economy where outward investment is embedded in a state-coordinated development strategy, stricter EU conditionality may not deter investment but rather encourage selective compliance, limited technology transfer or diversion through third countries with preferential market access. The effectiveness of the IAA will therefore depend not only on its legal design, but also on how firms adapt in practice.

Successful industrial policy requires more than ambition. It requires a clear distinction between objectives, careful instrument matching and a sustained commitment to openness where this strengthens rather than weakens Europe's long-term competitiveness.

References

- Alfaro, L. (2017). Gains from foreign direct investment: Macro and micro approaches. *World Bank Economic Review*, 30, 2–15.
- Bickenbach, F., Dohse, D., Langhammer, R. J., & Liu, W.-H. (2024). Foul play? On the scale and scope of industrial subsidies in China. *Kiel Policy Brief*.
- Bickenbach, F., & Liu, W.-H. (2023). Wie China internen und externen wirtschaftlichen Herausforderungen begegnen will. *Wirtschaftsdienst*, 103(7), 484–490.
- Bickenbach, F., & Liu, W.-H. (2024). Widersprüche in Chinas neuer Wachstumsstrategie. *Wirtschaftsdienst*, 104(9), 656.
- Binder, J., Dohse, D., Görg, H., Schöl, B., Semrau, F. O., & Liu, W.-H. (2026). Ambition Without Precision: Why the Industrial Accelerator Act Falls Short. *IP Lab Policy Brief*, 01.
- Du, J., & Zhang, Y. (2018). Does One Belt One Road Initiative Promote Chinese Overseas Direct Investment? *China Economic Review*, 47, 189–205.
- European Commission. (2026a). Proposal for a Regulation of the European Parliament and of the Council establishing measures for industrial capacity and decarbonisation in strategic sectors and amending Regulation (EU) 2018/1724, (EU) 2024/1735 and (EU) 2024/3110. (COM(2026) 100 final).
- European Commission. (2026b). Trade and Economic Security—Negotiations and agreements.
- Gaulier, G., & Zignago, S. (2010). BACI: International Trade Database at the Product-Level (the 1994–2007 Version). *SSRN Electronic Journal*.
- Hinz, J., Lohmann, A., Mahlkow, H., & Vorwig, A. (2026). America's own goal: Who pays the tariffs? *Kiel Policy Brief*.
- International Energy Agency. (2022). *Solar PV Global Supply Chains*.
- International Energy Agency. (2024a). *Global Critical Minerals Outlook 2024*.
- International Energy Agency. (2024b). *Global EV Outlook 2024: Moving Towards Increased Affordability*.
- International Energy Agency. (2025a). *Global Critical Minerals Outlook 2025*.
- International Energy Agency. (2025b). *Global EV Outlook 2025: Expanding Sales in Diverse Markets*.
- International Energy Agency Photovoltaic Power Systems Programme. (2025). *Snapshot of Global PV Markets 2025*.
- Mahlkow, H., Semrau, F. O., Steglich, F., Pahl, S., & Stucki, V. (2025). Resilient Global Supply Chains in Times of Escalating Trade Costs. *Insights on Industrial Development Policy Brief Series*, No. 26. United Nations Industrial Development Organization (UNIDO).
- National Development and Reform Commission. (2017). *Administrative Measures for Enterprise Overseas Investment* (企业境外投资管理办法).
- National Development and Reform Commission. (2023). *Important Expositions by General Secretary Xi Jinping on Innovation-Driven Development* (习近平总书记关于创新驱动发展的重要论述).
- National Science and Technology Council. (2024). *Critical and Emerging Technologies List Update*. Fast Track Action Subcommittee on Critical and Emerging Technologies.
- Rhodium Group. (2025). *Global Clean Investment Monitor: Electric Vehicles and Batteries*.
- State Council of China. (2026). *The Draft Outline of the 15th Five-Year Plan for National Economic and Social Development of the People's Republic of China* (中华人民共和国国民经济和社会发展第十五个五年规划 纲要 (草案)).
- Statista. (2024). *Global Hydrogen Fuel Cell Electric Vehicle Sales in 2023, by Country or Region*.
- The White House. (2023). *Building a Clean Energy Economy: A Guidebook to the Inflation Reduction Act's Investments in Clean Energy and Climate Action*.
- The White House. (2025a). *National Security Strategy of the United States of America*.
- The White House. (2025b). *Winning the Race: America's AI Action Plan*. Office of Science and Technology Policy.
- U.S. Congress. (2022). *Creating Helpful Incentives to Produce Semiconductors and Science Act of 2022 (CHIPS and Science Act)*.
- U.S. Geological Survey. (2025). *Mineral Commodity Summaries 2025*.
- World Bank. (2026). Manufacturing value added: World Development Indicators, in current USD, Indicator NV.IND.MANF.CD [Dataset].
- World Trade Organization. (2026). *Agreement on Government Procurement*.
- Xia, X., & Liu, W.-H. (2021). China's Investments in Germany and the Impact of the COVID-19 Pandemic. *Intereconomics*, 56(2), 113–119.
- Xinhua News Agency. (2025). *Recommendations of the Central Committee of the Communist Party of China for Formulating the 15th Five-Year Plan for National Economic and Social Development*.
- Zenglein, M. J., & Holzmann, A. (2019). Evolving Made in China 2025. China's Industrial Policy in the Quest for Global Tech Leadership. *MERICS Papers on China*, (8).