

## Das Auto and the Second China Shock: Industrial Policy and the Disruption of Technological Incumbency

Why has Germany, despite EU's strong climate regulation, advanced manufacturers, and deep industrial finance, fallen behind China in the electric-vehicle (EV) transition? Focusing on Germany's automotive core, this paper challenges explanations that attribute Europe's predicament primarily to Chinese "unfair competition" or to an inevitable curse of incumbency. The alternative being proposed is a co-evolutionary yet ultimately state-anchored framework that integrates neo-Schumpeterian insights on incumbency with developmentalist state theory to explain divergent outcomes in the electric-vehicle transition. In technologically complex and capital-intensive sectors such as automotive manufacturing, technological change depends on the interaction between firm-level capabilities and institutional environments. Neo-Schumpeterian analysis explains why incumbent firms often delay radical transitions: asset specificity, sunk costs, and entrenched organizational routines bias firms toward incremental innovation within existing technological regimes. Developmentalist perspectives, however, highlight the capacity of states to reshape these conditions. The paper argues that incumbency is mediated by policy regimes that can either permit delay or compel strategic recombination. Comparing Germany and China, it shows that China's dirigiste state coordinated the EV transition across critical minerals, batteries, electronics, demand management, finance, and infrastructure, creating incentives for rapid firm-level EV adaptation while destroying demand for and investment in internal combustion cars. Germany's state lacked comparable coordination and credible long-term commitments, allowing incumbents to hedge and delay. The central contribution is to show that incumbency matters but is conditional: legacy firms delay or leapfrog depending on how institutional environments structure risk, coordination, and time horizons. The paper thus reframes Europe's EV lag as a failure of institutional coordination rather than firm strategy.