Germany’s Automotive Reckoning and America’s Industrial Illusion

written by Jack Lifton | July 20, 2026

“Germany must learn software. America must relearn manufacturing. China already combines both—and industrial leadership will belong to the country whose companies can deliver qualified products that consumers purchase year after year.” – Jack Lifton, Critical Minerals Institute (CMI)

The London *Telegraph* recently published a sobering analysis of Volkswagen’s predicament under the headline *RIP Volkswagen?* It portrays a company confronting collapsing sales in China, shrinking competitiveness in Europe, excess manufacturing capacity, and the possibility that some of Germany’s most famous automobile factories may ultimately assemble products designed in China rather than Germany.

Most readers will conclude that this is another story about China’s rise. I believe it is something much more important. **It is a comparison between two very different industrial cultures, each now confronting the consequences of decisions made over the past quarter century.**

Germany’s Strength Was Capability.

Germany did not become an automotive leader because it possessed the largest domestic market. It became the world’s benchmark because it accumulated industrial capability. The German automotive industry was built around engineering excellence, apprenticeship, supplier qualification, precision manufacturing, and an extraordinarily sophisticated network of specialized component manufacturers—the famous *Mittelstand*. Every OEM sat at the center of an ecosystem whose purpose was continuous improvement rather than quarterly financial performance.

That system produced vehicles whose quality justified premium prices worldwide. But the foundations supporting that system have begun to erode simultaneously. Cheap Russian energy disappeared. China no longer needs German technology as it once did. Software has become as important as mechanical engineering. Electric drivetrains have dramatically reduced the complexity of the automobile itself. Most importantly, Chinese manufacturers learned not merely how to build automobiles but how to redesign the entire production system around software, batteries, vertically integrated supply chains, and extraordinary development speed. According to the *Telegraph*, Chinese manufacturers now introduce new models in roughly half the time and at a fraction of the development cost of their German competitors.

Germany’s problem is therefore not that it forgot how to engineer. It is that engineering excellence alone is no longer sufficient.

America’s Different Weakness.

The United States faces an entirely different problem. Unlike Germany, America did not lose its engineering culture because someone else outperformed it. It voluntarily abandoned much of its manufacturing capability in pursuit of financial efficiency.

For decades, American corporations discovered that designing products domestically while manufacturing them elsewhere produced superior quarterly earnings. Wall Street applauded. Institutional investors applauded. Consumers benefited from lower prices. Manufacturing capability quietly migrated overseas.

America still possesses world-class designers. It still possesses extraordinary research universities. It still leads many advanced technologies. What it increasingly lacks is the accumulated industrial experience necessary to manufacture complex products at scale. That distinction between capacity and capability is fundamental. Capacity can be purchased. Capability must be accumulated. One factory does not create an industry. Neither does one government subsidy.

China Understood the Entire System

Much Western commentary continues to describe China’s success as the consequence of subsidies. That explanation is comforting. It is also incomplete. China certainly invested enormous sums in electric vehicles. But capital alone never produces industrial leadership. China simultaneously built mining. Chemical processing. Refining. Metallurgy. Battery manufacturing. Motor production. Power electronics. Semiconductor packaging. Software. Artificial intelligence. And perhaps most importantly, the supplier relationships connecting all of those industries together.

It built an industrial ecosystem. Germany built one over seventy years. China built another over twenty. The United States is now attempting to rebuild one almost from scratch.

OEMs Decide Who Wins

This is where the German and American stories converge. Neither country will determine the future of its automotive industry by political speeches. Nor by tariff policy alone. Nor by government grants.

The future will be determined where it has always been determined. Inside OEM purchasing departments. OEMs purchase from qualified suppliers. They purchase predictable delivery. They purchase reproducible quality. They purchase long-term cost stability. They do not purchase political aspirations. This is precisely the mistake currently being repeated throughout the American critical minerals industry.

Far too much attention is devoted to announcing mines, processing plants, demonstration facilities, and “mine-to-magnet” business models. Far too little attention is devoted to asking the only question that matters: Who has already qualified this supplier?

Until that question is answered, there is no industrial supply chain. There is only a proposed one.

Germany’s Advantage

Despite today’s headlines, Germany still possesses something extraordinarily valuable. It possesses industrial memory. Its engineers understand production. Its suppliers understand quality systems. Its workforce understands precision manufacturing. Those capabilities can evolve. America’s challenge is more difficult. Many of its experienced manufacturing organizations disappeared entirely. The people retired. The factories closed. The supplier networks dissolved. Rebuilding those capabilities will require far more than constructing new buildings. It will require rebuilding industrial culture.

The Lesson for Investors

Investors should resist treating Volkswagen’s problems as uniquely German. They should instead recognize them as an illustration of how quickly industrial leadership can disappear when technology changes faster than organizations. Germany must learn software. America must relearn manufacturing. China already combines both. That should concern every Western policymaker. It should also concern every investor. Because in the end, successful industries are not built by governments. They are not built by financial markets. They are built by companies capable of delivering qualified products that OEMs willingly purchase year after year.

That has always been true.

The only thing that has changed is the country best positioned to do it.