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Trade War Between Europe and China Is Creeping Closer

Europe has announced high import duties on Chinese electric cars. These measures are a bad idea and anything but without risk.

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In mid-May, ***President Biden took the economic war against Beijing to a new height by imposing a slew of new tariffs on Chinese products.*** *We then wondered whether Europe would allow itself to be dragged into a destructive trade war, or whether it would succeed in charting its own autonomous course and building a constructive economic relationship with China.*

A month later we get a definitive answer. Following the example of the US, the EU now also plans to impose high import duties on electric cars (EVs) from China. On top of the existing import duties of 10 percent, there will be additional duties of 17 to 38 percent.

So levies of almost 30 to 50 percent. That is high, but still less than the 100 percent levy in the US. The new tariffs apply to both Chinese brands and Western brands made in China.

This decision follows a seven-month investigation by the European Commission that found that the entire supply chain of China's EV industry is being subsidized by the Chinese government, from the refining of lithium (key raw material for the batteries) to production and transportation of EVs.

"Strategic Competitor"

The new import tariffs did not come out of the blue and are part of a broader trade strategy of the European Union. If things continue like this, the West and therefore Europe will lose its supremacy, both economically and technologically, as a result of the rise of China.

According to Western headquarters, China is also gaining too much influence in Asia, Africa and Latin America. They want to avoid all that at all costs.

To stop this rise and growing influence, the West is increasingly resorting to protectionism. The US is taking the lead in this, Europe with Europe meekly following. In the recent past, the EU has identified China as a "strategic competitor" and Commission President von der Leyen has promised a strengthened trade strategy towards China.

There were already levies on plastic imports from China and new measures may be introduced against Chinese wind turbines and solar panels. Under pressure from the US, the EU is also working on an export control regime to stop exporting 'sensitive' technologies to China.

Chinese investments within the EU will be more severely hampered, while European investments in China will come under strict supervision.

Wrong Accusations

These government subsidies allow China to produce cheaper and, according to the Commission, this causes unfair competition and harms companies and workers in Europe. This reasoning is usually copied uncritically by the mainstream media.

However, these accusations are baseless. It is true that China is subsidizing its EV sector. But just like the US, Europe also subsidizes its green energy production.

Europe, by the way, is ill-placed to play out this argument. For decades, it has been flooding the countries of the South with its heavily subsidised agricultural products at dumping prices, with all the consequences for local farmers there.

The point is that in terms of green energy, China has started much earlier than the rest of the world, has a huge scale and – perhaps most importantly – a very effective economic policy.

According to Volkswagen CEO Ralf Brandstätter, China leads the global market due to its strong focus on and progress in technological innovation. "In no other country is the dynamic of transformation and innovation in the automotive sector as pronounced as it is in China," Brandstätter said.

For these reasons, China has managed to build a large lead, making its competitiveness overwhelming.

It is also not the case that Chinese car manufacturers are trying to sell their EVs here at dumping prices. For example, a BYD car is sold here at twice the price than in China. The car manufacturer does not try to market its cars abroad as cheaply as possible, but on the contrary tries to achieve a high profit margin.

According to *The Economist*, Western car manufacturers can learn lessons from the Chinese experience. In the beginning, the Chinese bought a Tesla as a status symbol, but today they buy a car from competitor BYD because it offers good value for money.

The magazine also notes that EVs in the US or Britain are on average 40 to 60 percent more expensive than non-electric cars, while in China they are about the same price. This is no different in Europe.

"Western makers should fixate less on high-end models and stop neglecting the middle-of-the-road. Until they do, high prices will keep demand subdued and economies of scale elusive," says The Economist.

Bad Idea

Trade tariffs do not lead to more production, but they do lead to higher prices for consumers. These new rates will therefore put a brake on achieving the climate objectives.

> "Adding even the scariest estimates of Chinese EV exports to the EU's own capacity falls far short of what is needed for Europe (…) to be emissions-free by 2030," writes *Financial Times*.

The Economist, which cannot be suspected of having pro-China sympathies, agrees:

> "Western governments worried about climate change and oil prices could do more to speed along the EV revolution, by giving Chinese carmakers more access to their markets".

In addition, the introduction of these duties will inevitably lead to retaliatory measures from China. In 2020, China overtook the US as Europe's largest import and third largest export partner. According to the Belgian business newspaper *De Tijd*, these new measures place Europe "in a vulnerable position".

China's response did not take long. Beijing launches an anti-dumping investigation into pork imports from the EU, which could hit farmers in Spain, the Netherlands, Denmark, Germany and Belgium the hardest.

Other possible countermeasures from China include tariffs on imports of large cars from the EU, which would mainly affect Germany and Slovakia. A third of all cars from German manufacturers are sold in China, while VW, BMW and Mercedes produce and sell many more cars in China than in Germany.

In addition, retaliatory measures can also be expected on European aircraft and luxury goods. An investigation into subsidies in the French brandy sector is already underway, which would particularly affect French cognac.

Apart from potentially large financial losses due to loss of exports to China, the country also has essential goods on which we are highly dependent. Just think of lithium, which is crucial for electric vehicle batteries, or other minerals that are essential for the production of wind turbines, electric vehicles and other advanced technologies. China supplies about 98 percent of the rare earths that the EU imports.

Finally, the higher import tariffs will not be effective. Even with the increased duties, Chinese EVs are still cheaper than what European automakers are currently capable of.

The Economist writes that the tariffs will even be counterproductive in the long term. It will encourage China to establish new factories in Europe that will easily win against their European competitors.

The first Chinese company is already active in Hungary and several contracts have been signed to start making cars in Spain as well.

Disagreement

There is a lot of debate about this measure within the EU. Several Member States, especially those with large automotive sectors such as Germany and Sweden, oppose the tariffs and fear the negative economic impact.

German **Chancellor Olaf Scholz** has emphasized that trade restrictions will only lead to higher costs and economic decline. According to the chancellor, such actions "ultimately just makes everything more expensive, and everyone poorer".

Germany leads a group of states opposing these tariffs. Several European car manufacturers have lobbied their governments against these tariff increases.

The agreements will come into effect on July 4 and become final on November 2 unless there is opposition from 15 member states. However, that chance is slim.

We can only hope that these tariff increases are not the first salvo of an escalating trade war. History shows that this does not benefit anyone and that such a war is often the precursor to a real war.

In the context of the current war fever and increasing militarization in Europe, this is anything but a reassuring thought.

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