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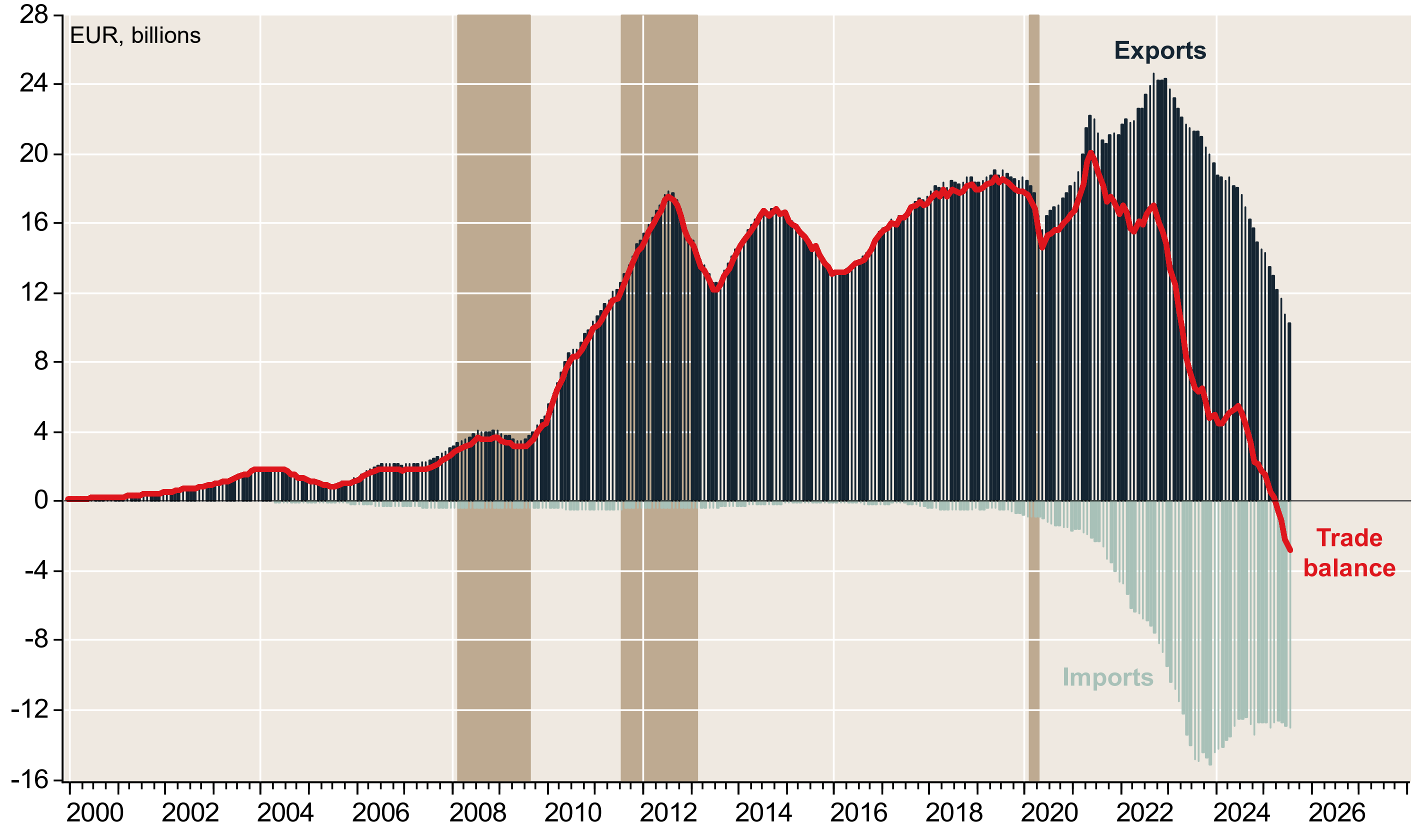
EU Watch

By Jocelyn Paquet

We have repeatedly expressed our concerns in recent months about the erosion of Canada's industrial base. However, this phenomenon is not limited to our homeland, as evidenced by the latest trade data published by Eurostat. After recording huge surpluses in previous years — up to €20 billion per year just four years ago, as today's Hot Chart shows — the European Union's trade surplus with China in the automotive sector has declined at a staggering pace since the pandemic. In fact, the latest data shows that the surplus has now turned into a deficit, a scenario that would have been considered far-fetched just a few years ago, when European car manufacturers still viewed the emergence of the Chinese middle class as a windfall. What has happened since then? Massive investments (and subsidies) in the electric car sector in recent years have transformed China from a marginal player into a leader in the field. The increase in car production has been so large that domestic demand can no longer absorb it, even amid a cutthroat price war. Car manufacturers have responded by turning to foreign markets, enabling China to surpass Japan in 2023 as the world's leading exporter of motor vehicles. In the European Union, this has resulted in an increase in imports from China from almost nothing just a few years ago to around €13 billion per year today. To halt this phenomenon and protect its local producers, the European Union decided in October 2024 to impose customs duties of up to 45% on Chinese electric cars. While this did not reverse the trend, it stopped the increase in imports. What tariffs failed to do, however, is stem the collapse of exports to China, which have fallen from around €24 billion per year in 2022 to just €10 billion today. This is a worrying trend in countries most exposed to the automotive sector, such as Germany, Slovakia, and the Czech Republic. And even if this reversal of the trend has not had only negative consequences – the influx of cheaper Chinese cars has certainly helped to lower inflation on the Old Continent – we do not believe it will be welcomed in European capitals. In fact, we expect more measures aimed at protecting local producers, both in the European Union and in other jurisdictions. New fronts could yet open up in the global trade war.

EU27: The automotive trade balance with China now in deficit

Merchandise trade with China: motor cars and other motor vehicles principally designed for the transport of persons, 12-month moving sum



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