**I’ve been wittering on about China quite a bit in recent videos – a bit TOO much for some people’s liking in fact, judging by some of the eloquent prose I’ve read in the comments section in the last few weeks.**

**I’m not focussing on that country because I’m some kind of pinko-‘commy’ China fan boy shill M-F, as one learned observer suggested, but simply because it’s just an unavoidable reality of modern-day life that**

**China is a growing economic force that has stolen a march on western nations in many industrial and infrastructural sectors, particularly in the Far East and Africa.**

**And now it has its sights very firmly set on Europe and North America with the aim of fully infiltrating those markets with what it calls New Energy technologies, including wind turbines, solar PV, and of course electric vehicles. I can remember when a similar automotive invasion was mounted by Japanese car makers back in the late seventies and early eighties.**

**At first, they were pilloried and persecuted in the press for poor quality and nasty designs, but then they started building really good cars that were better and still cheaper than western competitors, and people started buying them in their millions. Eventually, western lawmakers saw the writing on the wall and invited big firms like Toyota, Nissan and Honda to set up production facilities over here so that we could provide well paid skilled jobs for our own workers and keep some of the profits flowing around our own economies rather than flowing back out to the Japanese motherland.**

**It’s not a difficult concept if you apply a bit of logic to it. But here we are again, apparently making the same mistakes with Chinese automakers, who by the way already went through the crappy design and quality stage with their cars about TWENTY YEARS ago and are now hitting us with some of the best electric vehicles that money can buy. Our response has been to apply one hundred percent tariffs over in the USA and near fifty percent tariffs here in Europe, driven largely by political expediency rather than rational critical thinking.**

**The question is, can those kinds of adversarial tactics keep back the Chinese EV Tsunami? I think you and I both know the answer to that, don’t we? But keep watching anyway eh, just for fun?**

**Hello and welcome to Just Have a Think,**

**In the early two-thousands the Chinese government identified the automotive industry as a pillar of economic growth and started lobbing in some pretty hefty subsidies and creating policies to encourage domestic production. But they knew they were too far behind to catch up with existing internal combustion engine brands from overseas and they also knew those gas guzzlers had saddled them with a heavy dependency on imported oil. So, by the early twenty-tens they had embarked upon a new energy revolution via renewable technologies and electric vehicles.**

**By the time we reached the tail end of COVID, Chinese EV makers had expanded their reach into international markets, with companies like BYD, NIO, and Great Wall Motors exporting vehicles to Europe, Australia and New Zealand, Southeast Asia, and Latin America. Huge investments were going into improving battery technology, and companies like CATL and BYD became de facto global leaders in battery production and innovation, backed up with continued support from the Chinese government through long-term strategies like the "Made in China 2025" initiative, aimed at making China a global leader in high-tech industries.**

**But in June twenty-twenty-four a European Commission investigation concluded that electric vehicle value chains in China were benefitting from what they described as ‘unfair subsidies’ and applied a range of punitive tariffs onto Chinese EV imports, based on the amount of state subsidy each manufacturer had been deemed to have received. BYD, who cooperated fully with the EU investigation, will be hit with a seventeen-point four percent levy, but that number rises to twenty percent for companies like Geely joint owners of Volvo and Polestar, and as much as thirty-eight-point-one percent for SAIC, which owns the MG brand.**

**And all of that is on top of the ten percent tariff on all foreign EV imports into the EU that’s already in place. That means an almost fifty percent penalty for the hardest hit.**

**Meanwhile over in the States, in May twenty-twenty-four, the Biden administration announced a suite of tariffs affecting about eighteen billion dollars of Chinese imports, including steel and aluminium, semi-conductors, solar panels, medical products, battery components and, of course, Chinese electric vehicles, which see their tariff rate rising from twenty-five percent to one hundred percent.**

**At this point we could, of course, turn a critical mirror on western state support and do a whole video examining the billions of dollars in subsidies that the Inflation Reduction Act has, quite understandably, pumped into the US green energy industry in the last eighteen months, and the billions of Euros that the EU is similarly pumping into its net zero manufacturing base in the form of grants and loans via the Green Deal Industrial Plan**

**But I’ll let you argue among yourselves about that potential hypocrisy, or maybe have rant about it in the comments section below if you like. That’s not what this video is focussed on though. The question being posed today is simply whether the tariffs will actually achieve what they’re designed to achieve?**

**According to analysis by the Rhodium Group, a New York based independent industry research organization, the Chinese car market is pretty saturated, and intense competition there has led to a price war, forcing manufacturers to boost efficiencies in the pursuit of ever-lower production costs. At the moment, companies like BYD are charging a premium in Europe in an attempt to compensate for their squeezed margins back home. Rhodium’s research found that BYD makes around fourteen-thousand-three-hundred Euros in profit on each SEAL U model sold in the EU, compared to only thirteen-hundred Euros on units sold in China.**

**The new tariffs will most likely scupper that strategy, but will it stop those cars coming? Probably not, because even with tariffs in place the likes of BYD could still be competitive, albeit much less profitable. And with a typically long-term Chinese mindset, getting a foothold in a new market for the duration may be deemed to be well worth the short-term pain.**

**According to this June twenty-twenty-four article in the Financial Times, BYD shares actually increased on the news that the EU tariff applied to them was only about half what investors had been expecting.**

**Chinese firms are also knocking down a physical barrier to exports too – namely a lack of boats to actually take the cars to their destination. According to the Rhodium report twenty-twenty-three sea freight charter prices skyrocketed by seven hundred percent compared to twenty-nineteen, not least because of Houthi attacks in the Red Sea.**

**So, Chinese carmakers and shipping companies have placed orders for new vessels that’ll raise shipping capacity to an estimated five hundred and sixty thousand cars a year by twenty-twenty-five and perhaps as many as one-point seven million by twenty-twenty-six.**

**Not all those boats will come to Europe, of course, but if they did then that shipping volume would represent fifty percent of Europe’s entire EV market.**

**Chinese firms are also now looking to set up shop within the new territories to make their cars in local factories and circumnavigate the import levies altogether, just like the Japanese automotive industry did forty-odd years ago. So, how’s that going then?**

**Well, as with most things Chinese, its going quickly. Chinese EV makers are already building factories all over the world, from South-East Asia to Africa and the Middle East and even in Europe and Central and South America. Battery maker and VW partner, Gotion, for example, has secured one-point-three-billion dollars of investment to set up a twenty-gigawatt hour battery plant in Morocco that it says will ultimately be ramped up to a hundred-gigawatt-hours with a further investment of six-point-five billion. Morocco is only a very short distance from Europe, and it enjoys a free trade agreement with the EU, AND the United States.**

**The less well-known Chinese firm Chery Auto has taken over an existing plant in Spain that was shut down by Nissan in twenty-twenty-one, and it’ll start producing its Omada vehicles there in the final quarter of twenty-twenty-four. Spain is actually Europe’s second largest car producing nation behind Germany, so there’s plenty of skilled workers there ready and willing to take up employment.**

**Perhaps the best known and most ambitious of all Chinese EV brands though, is BYD. It’s building a one-billion-dollar facility in Turkey, which has a Customs deal with the European Union that allows free movement of industrial goods, and the company is now planning a further facility in Hungary, which is a MEMBER of the EU – so no tariffs would apply there at all. BYD is already well established in the Far East and Australia, and it has a new facility in construction in Brazil that’ll employ some ten thousand workers and produce the extremely popular Dolphin model, and the compact little Seagull which is already selling like hot cakes in that country with a price tag of twenty thousand US dollars. And the Chinese behemoth is closing in on the United States too with a deal near completion on a huge new facility in Mexico.**

**You don’t have to be a genius to realise that Mexico is a blindingly obvious back door into the USA, courtesy of the United States-Mexico-Canada Trade Agreement that Donald Trump signed into being to replace the previous NAFTA agreement while he was in office.**

**And despite his threat to apply a one hundred percent tariff on all vehicles shipped in from south of the border if he gets re-elected in November, it’s very difficult to see how he could implement that without dismantling a major trade treaty and jeopardising imports and exports not just with Mexico but with Canada as well.**

**According to Michael Dunne, CEO of Dunne Insights, a specialist consultancy in the EV and battery industry, despite there being no Chinese EV brands currently on sale in the USA, many American consumers know about them and would be happy to own them, especially in the younger demographic. Dunne recently pointed out that more than a hundred Chinese owned automotive companies already have a presence in the US, mainly concentrated in Detroit and Silicon Valley but also spread across thirty states, in anticipation of what they believe will prove to be unavoidable consumer pressure to access great quality vehicles that are smaller and less expensive than US EV brands and are better suited to the urban lifestyle that more and more Americans are moving towards.**

**Analysts like Dunne and others argue that the focus should not be on trying to keep Chinese EV makers out of western markets like King Canute trying to push back the tide, but instead LAWMAKERS should be constructing policy frameworks in which western nations can allow Chinese EV sales but only when manufacturing facilities are built and operated locally in joint partnerships with western automakers. That’s precisely what China did to European and American companies who went there more than a decade ago, so why not do the same in reverse?**

**There are a couple of other reasons why punitive tariffs might not be such a smart idea. China could retaliate of course, which they’re already threatening to do,but perhaps more worryingly, the tariffs themselves could really hurt western sub-suppliers who source raw materials from China, and big automakers including BMW, Mercedes Benz, Volkswagen, General Motors and Ford, all of whom have set up huge production facilities over there and who currently ship some of that production back to Europe and the States. They will face the same tariffs as other Chinese manufacturers which ultimately hurts the consumer and puts a brake on the much-needed acceleration of the energy transition.**

**So, I think we can safely say it’s a bit of a mine field folks, and all part of the slightly cliched ‘Wild West’ frontier of the green energy transition that companies and countries are struggling with as they wrestle to establish their positions in a very uncertain market that is expanding far faster than predicted and which is proving to be a bit of a handful to say the least.**

**No doubt you’ve got your own views on this one, and I imagine you may be quite keen to express those views as soon as possible! So, as I mentioned earlier, if you’re feeling that urge right now, then the place to leave your thoughts is in the comments section below.**

**That’ll do us for this week though. A massive thank you, as always, to our amazing Patreon supporters who keep this channel completely independent AND enable me to keep ads and sponsorship messages out of your way. If you feel like you could support my work for about the price of a coffee each month, then why not jump over to patreon.dot.com forward slash just have a think to get involved with other like-minded folks, influence future content by voting in monthly polls, watch exclusive news updates from me and get early access to all my videos.**

**And of course, you can massively support the channel absolutely for free by hitting the like and subscribe buttons and selecting all notifications. That’s just a simple click away either down there or on that icon there.**

**As always, thanks very much for watching! Have a great week, and remember to just have a think.**

**See you next week.**