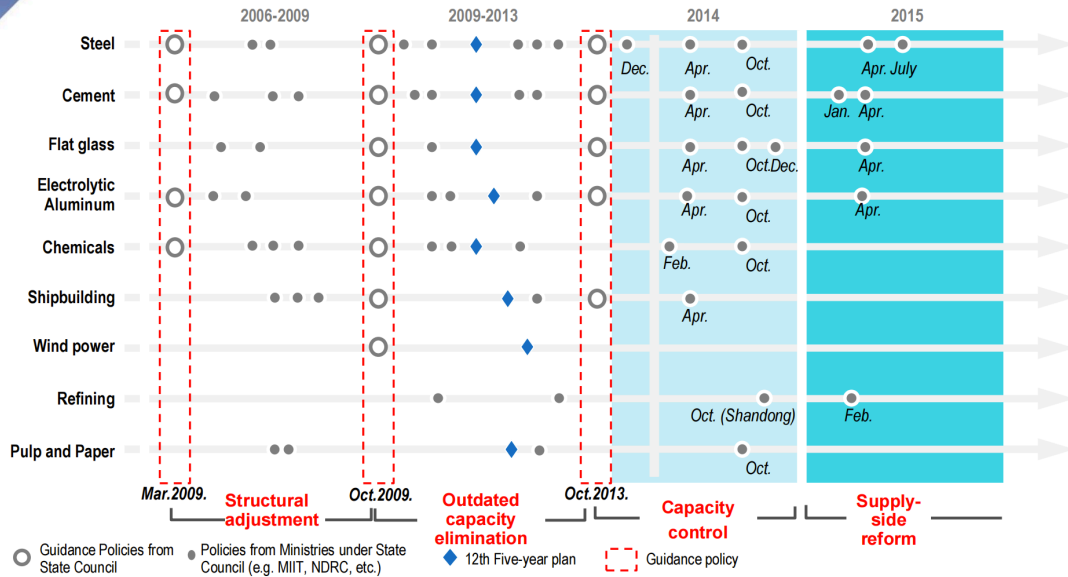


China-EU New Production Capacity Cooperation

Last Round of Overcapacity

Central Government Action to Curb Overcapacity (2006-2015)

www.europeanchamber.com.cn



Utilisation Rates in Six Industries



China's New overcapacity in 'New Three' Industries

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Global Edition
May 24, 2024

HOME OPINION VIDEO WORLD CHINA TECHNOLOGY BUSINESS CULTURE TRAVEL

• Macro

Why China's 'new three', green push irk West

By Zhang Yansheng | China Daily | Updated: 2024-05-13 09:41



CAI MENG/CHINA DAILY

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Yellen Wants G7 'Wall of Opposition' to China's Excess Industrial Capacity

By Reuters | May 23, 2024, at 5:12 a.m.



REUTERS

FILE PHOTO: U.S. Treasury Secretary Janet Yellen delivers remarks on "Next Steps in the Evolution of Development Finance" at a Center for Strategic and International Studies (CSIS) in Washington, U.S., February 9, 2023. REUTERS/Leah Millis/File Photo

By David Lawder

STRESA, Italy (Reuters) -U.S. Treasury Secretary Janet Yellen said on Thursday that she wants market-driven countries to present a "wall of opposition" to China over its state-driven industrial policies, a key issue she is pushing at a G7 finance meeting this week.

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China's New overcapacity in 'New Three' Industries

Ain't No Duty High Enough

April 29, 2024

Gregor Sebastian (gsebastian@rhg.com), Noah Barkin (nbarkin@rhg.com), and Agatha Kratz (akratz@rhg.com)

The European Commission is likely to impose countervailing duties on imports of electric vehicles (EV) from China in the coming months to head off the risk of subsidized cars damaging Europe's auto industry. We expect the Commission to impose duties in the 15-30% range. But even if the duties come in at the higher end of this range, some China-based producers will still be able to generate comfortable profit margins on the cars they export to Europe because of the substantial cost advantages they enjoy. Duties in the 40-50% range—arguably even higher for vertically integrated manufacturers like BYD—would probably be necessary to make the European market unattractive for Chinese EV exporters. As countervailing duties at this level are unlikely, policymakers in Brussels may decide to turn to non-traditional tools to shield the European auto industry, including restrictions based on environmental or national security-related factors.

The EU's anti-subsidy probe

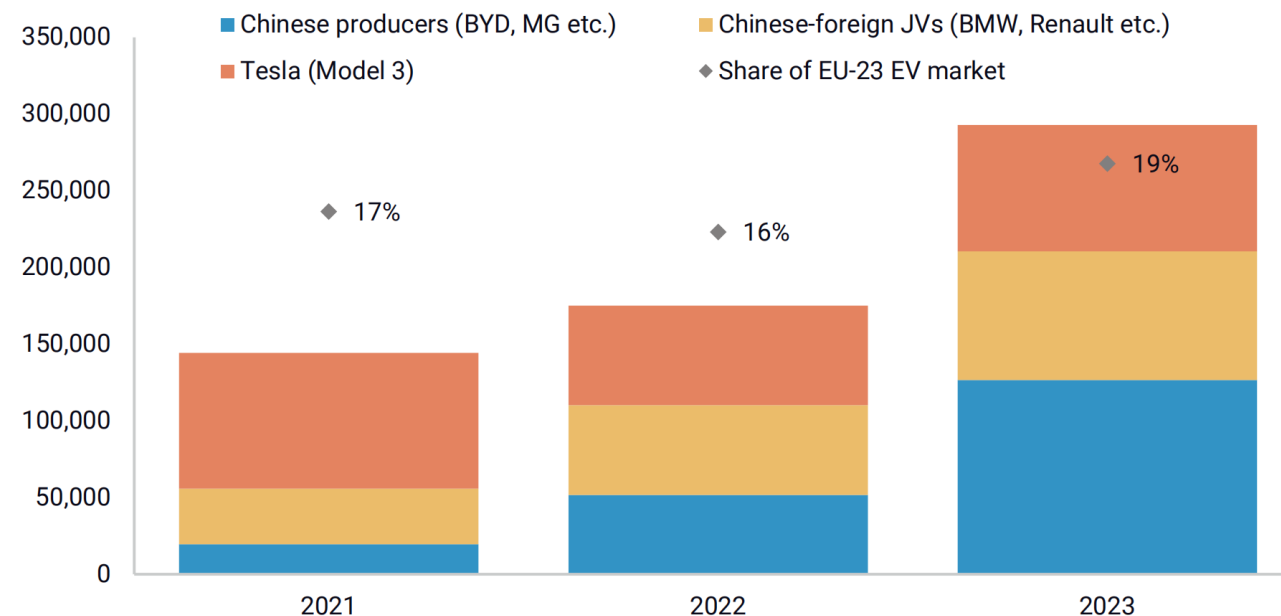
In the biggest EU trade case against China ever, the Commission initiated an anti-subsidy investigation into EV imports from China in October 2023. Should it determine that China-based producers have benefited from subsidies in ways that harm EU-based manufacturers, it could place provisional countervailing duties on China-origin EV imports anytime from now until July 3, and final duties by early November. In March 2024, the Commission asked European customs authorities to track imports of EVs from China, a signal that it could impose provisional duties in the near future.

The EV probe stands out for several reasons. First, the Commission initiated the investigation *ex officio*, without a formal complaint from industry, which is a rarity in such cases. Second, there is a divide within Europe's car industry—which accounts for 7% of the EU's GDP and 8.5% of its manufacturing employment—on the desirability of the probe. German carmakers, which are heavily reliant on the Chinese market, oppose it out of fear that Beijing could retaliate against them, while French counterparts, which are far less exposed to China, support it. Third, the probe is based on the threat that cheap EV imports from China could cause damage to European manufacturers in the future, rather than an assessment that this damage is already taking place. Finally, the probe is perhaps the most political case of its kind in recent memory. Commission President Ursula von der

EU imports of EVs from China ballooned from \$1.6 billion in 2020 to \$11.5 billion in 2023, accounting for 37% of all EV imports in the bloc.

Made-in-China EV sales and market share in Europe

Units sold, market share in percent



China's New overcapacity in 'New Three' Industries

Volkswagen and BYD EV model comparison in Germany and China

Prices in euro

OEM	Model	Price in Germany	Price in China	German price premium relative to China	Battery kWh	Horsepower
Volkswagen	ID.4	46,335	31,011	49.4%	77	204
BYD	Seal U Comfort	41,990	21,769	92.9%	72	218
Volkswagen	ID.3	32,975	21,011	56.9%	58 (CN: 52.8)	204 (CN:170)
BYD	Atto 3 Comfort	37,990	17,923	112.0%	60.5	204

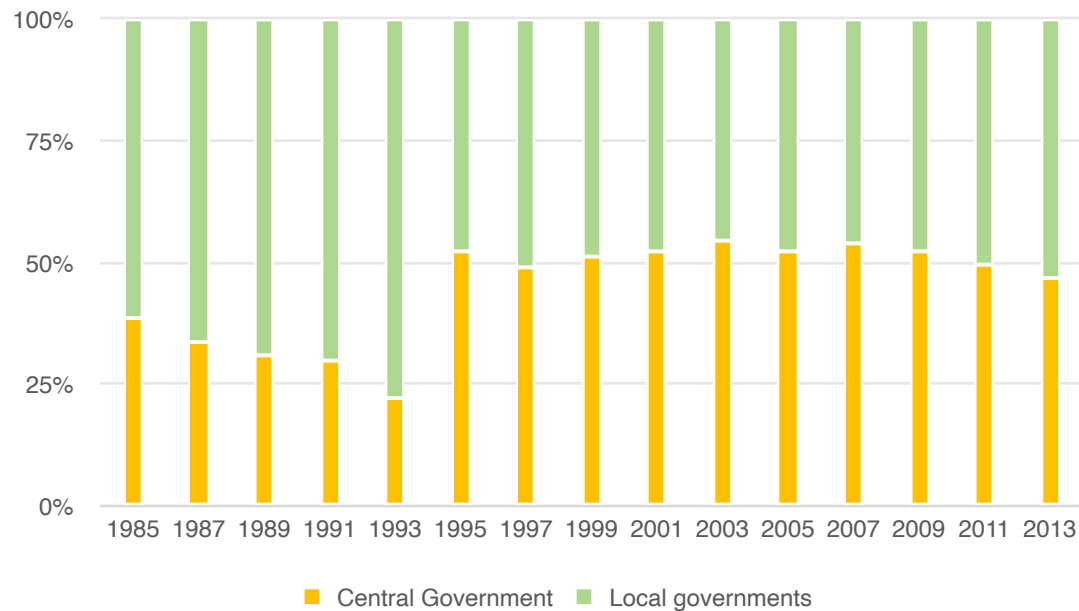
Rhodium Group expects duties on Chinese EVs in 15-30% range.

Will and how does it work?

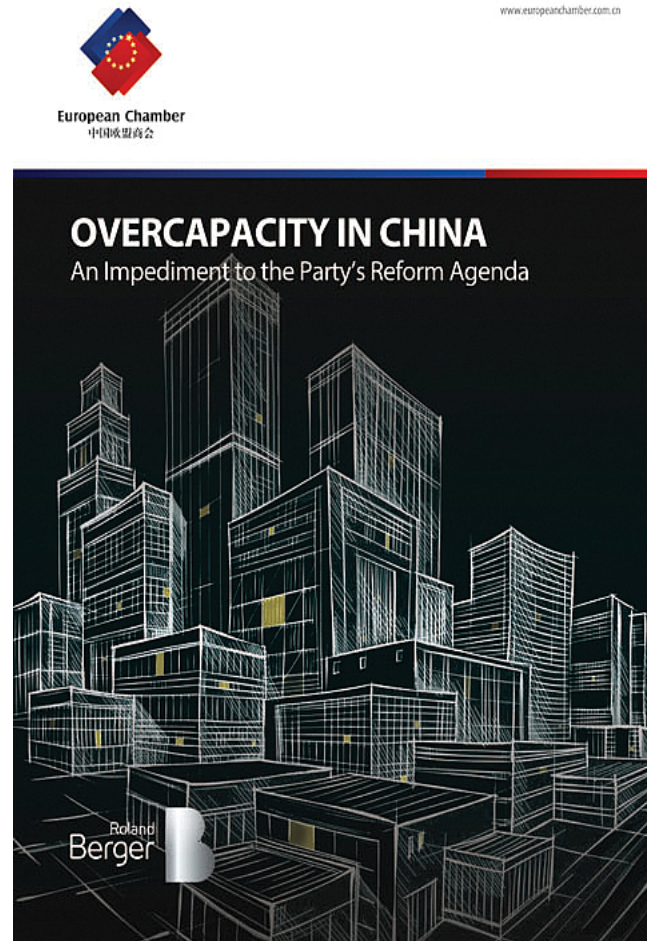
Source: Rhodium Group based on company websites, ADAC.

How the new overcapacity was created?

1985-2014 the fiscal revenue of central and local governments as share in national total



In order to get more fiscal revenue, Local governments catalyzing local companies competing for national and global markets.



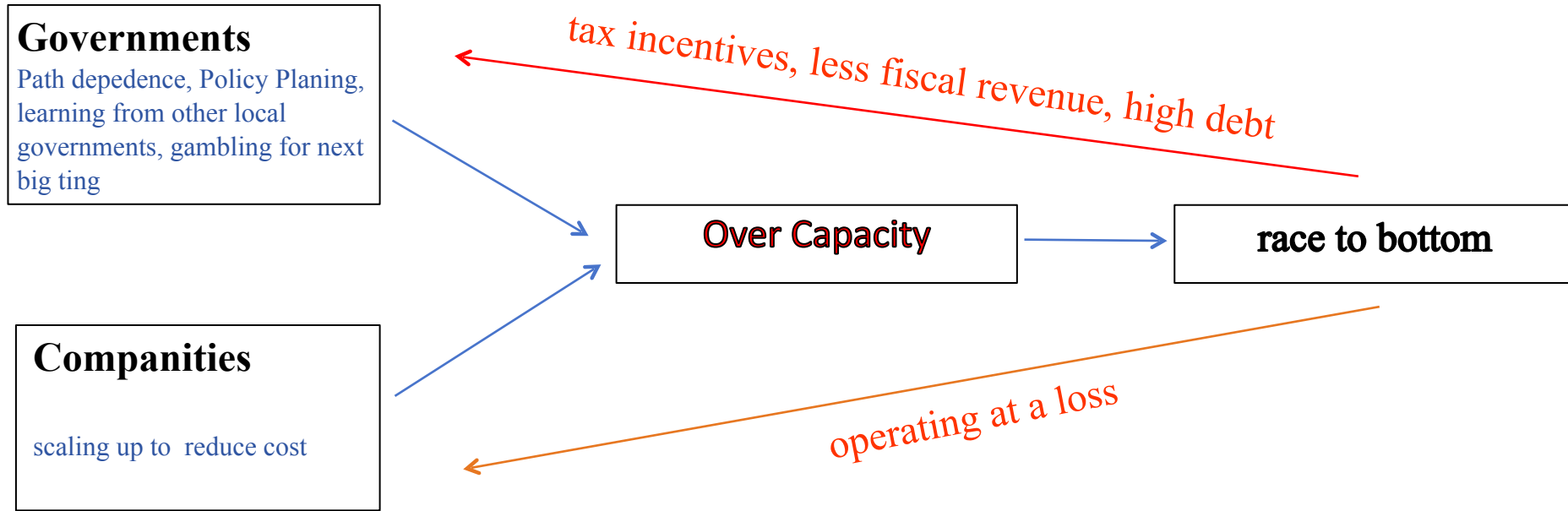
1. Local protectionism and the fragmentation of industries that is driven by regionalism.

2. Weak enforcement of regulations.

3. Low input prices due to government policies.

4. A fiscal system that encourages local governments to attract excessive investment.

How the new overcapacity was created?



How to manage the overcapacity issue?

--We need a new thinking on China-EU capacity cooperation

INTERNATIONAL MONETARY FUND

The Return of Industrial Policy in Data

Simon Evenett, Adam Jakubik, Fernando Martin, Michele Ruta

WP/24/1

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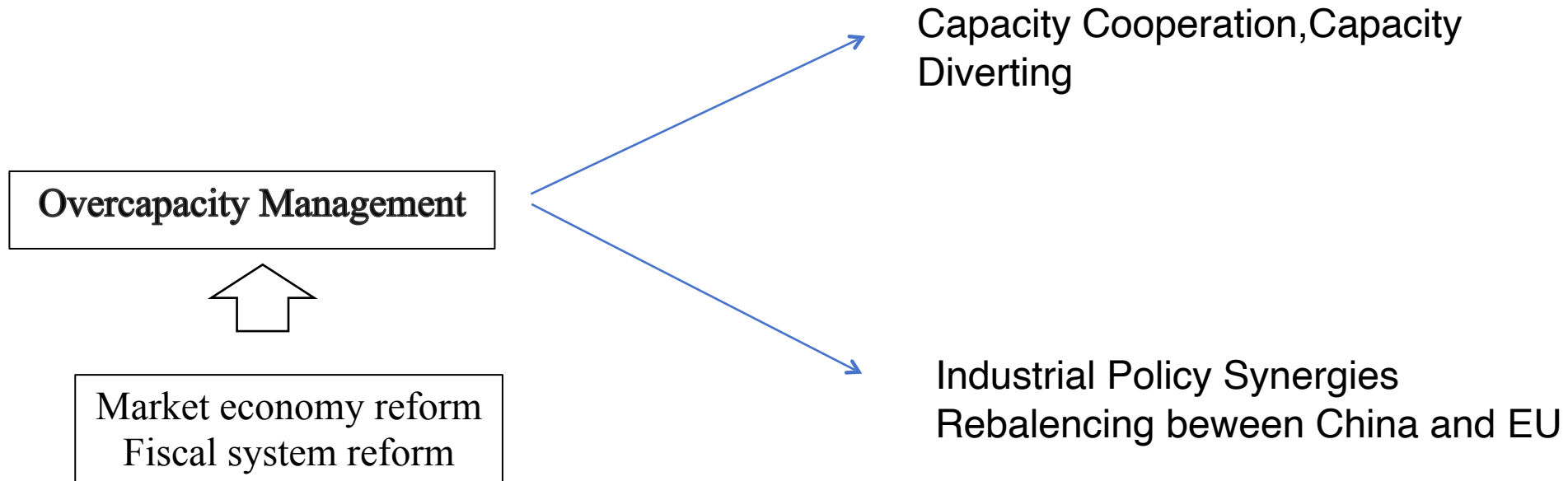
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WORKING PAPER

New Industrial Policies by Region Breakdown of active distortive industrial policies by policy instrument							
Sub-Saharan Africa	6	2	1	0	3	1	0
South Asia	37	26	6	1	73	29	1
North America	209	20	26	4	21	55	22
Middle East and North Africa	7	0	1	0	3	0	0
Latin America and Caribbean	84	7	11	3	104	13	0
Europe and Central Asia	427	47	53	14	68	5	13
Asia Pacific	148	40	55	6	278	15	2
	Domestic Subsidy	Export Barrier	Export Subsidy	FDI	Import Barrier	Localization	Procurement

How to manage the overcapacity issue?



China-EU New Production Capacity Cooperation



Necessity

Rebuilding the industrial base of trade between China and Europe.

Feasibility

cooperation in green and sustainable areas.

Reciprocity

Structural complementarity of strengths and weaknesses between China and Europe

Predictability

Predictable outcomes between China and the EU for sustainable development

thanks for your attention!