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China-EU Trade Dispute Heating Up

SUMMARY

Trade disputes between China and Europe have been mounting over the past year, with both sides exchanging accusations of unfair competition and protectionism.

BACKGROUND

Just over a decade ago, the EU alleged that Chinese solar panels benefited from massive state subsidies, allowing Chinese manufacturers to undercut European producers. That, in turn, sparked retaliation from Beijing, which first probed steel tubes, then French wine. Europe was divided then, with Germany and 14 other states opposing punitive measures for fear of provoking further escalation. The two sides found an "amicable solution," in the words of then-EU trade commissioner Karel de Gucht, where Europe set a minimum price on imported Chinese solar panels.

China is second only to the United States in trade volume with the EU. This past December, European Union leaders met Chinese President Xi Jinping in Beijing to press him on trade and his support for Russian President Vladimir Putin. It was the first face-to-face meeting between the two sides since the coronavirus pandemic shuttered the world in early 2020. Before the pandemic, such annual summits underscored the importance of the relationship between the two powerhouses. Overall, the summit was chilly, and no breakthroughs were announced, as was expected.

CURRENT STATUS

Last September, the European Union announced an anti-subsidy probe into a "flood" of Chinese electric vehicles (EVs) into Europe; formal investigations started the following month. European officials alleged that EVs made in China benefit from state subsidies, allowing them to undercut models made outside the country. China's surging exports of EVs helped make the country the world's largest auto exporter in 2023, overtaking Japan. Chinese carmakers like BYD now see developed markets like Europe and Japan as their next targets.

Last week, Beijing revealed its response to the European probe: an anti-dumping investigation into brandy exports from France. China imported \$1.57 billion of spirits from distilled grape wine from January to November 2023. France accounts for 99.8% of all EU brandy exports. China's decision to





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investigate expensive French liquor for dumping could start an extended tit-for-tat trade dispute. Beijing has often targeted bilateral trade as a tried-and-tested method to express its displeasure—and in most cases, they say, the tactic helps Beijing get what it wants.

While Europe likely won't stop its anti-subsidy investigations into electric cars, Beijing's probe is a sign that China can "take any measure and will not stop" in expressing its displeasure, Alicia Garcia-Herrero, chief economist for Asia-Pacific at investment bank Natixis, says. In choosing its target, she says Beijing is picking a "big enough" country that it thinks can exert influence in the European Commission. With the solar panel dispute, it was Germany; now, it's France.

Italy's announcement that it was pulling out of China's flagship Belt and Road Initiative, a massive globe-spanning trade and infrastructure effort spearheaded by Xi, further complicated the EU-China relationship. Italy joined the project in 2019, hoping to reap a bonanza of trade and investment. But the move angered many Western allies who saw it as undermining NATO's unity, and it raised debates about whether China was buying access to critical infrastructure and businesses in Italy. Italy's addition to the project signaled a significant shift because it is one of Europe's biggest economies and the first and only G7 nation to buy into China's scheme. During his announcement, Italian Prime Minister Giorgia Meloni said the project had yet to benefit Italy.

As with much of Europe, Italy's trade deficit with China soared even as it participated in the project. Still, some Italian local governments and companies will continue to work with China under the project's terms. Chinese officials were critical of Italy's decision. A spokesman for the Chinese foreign ministry said, "China firmly opposes smearing that damages Belt and Road cooperation." While trade between the EU and China remains robust, European leaders and businesses complain about a growing trade deficit.

IMPACT

European Council President Ursula von der Leyen said the sides discussed the root causes of their trade imbalance, from a lack of access to the Chinese market and preferential treatment to Chinese firms to overcapacities in Chinese production. Von der Leyen is also pushing the EU to become less reliant on China for raw materials that go into making digital technologies. She has accused China of hurting European companies by putting export restrictions on gallium and germanium, goods that are essential to making semiconductors and solar panels. The EU leaders also raised their "deep concerns" about human rights violations in China. They called attention to "systemic human rights violations" in the Chinese regions of Xinjiang and Tibet, forced labor, and the mistreatment of human rights defenders and minorities.





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RESOURCES:

- [EU Leaders Press China on Trade, Russia in First Summit Since 2019](#) (Courthouse News Service)
- [Beijing's Anti-Dumping Probe of French Brandy Could be the "First Bullet" in a EU-China Trade War](#) (MSN)
- [China Targets EU Brandy in Tit-for-Tat Anti-Dumping Probe](#) (Reuters)
- [China and EU Leaders Agree on Need of 'Balanced' Trade Ties](#) (Reuters)

