

Business and Trade Committee

Oral evidence: China and the UK economy, HC 124

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Members present: Liam Byrne (Chair); Dan Aldridge; John Cooper; Alison Griffiths; Justin Madders; Charlie Maynard; Mr Joshua Reynolds.

Questions 116 to 137

Witnesses

I: Silvia Gavornikova, Head of Export Credits and Competition Division, Trade and Agriculture Directorate, Organisation for Economic Co-operation and Development (OECD); George Magnus, Research Associate, University of Oxford China Centre and Former Chief Economist, UBS; Soumaya Keynes, Author, "How to Win a Trade War" and Columnist, Financial Times; Joerg Wuttke, Partner, DGA Group and Former President, EU Chamber of Commerce in China.

Examination of witnesses

Witnesses: Silvia Gavornikova, George Magnus, Soumaya Keynes and Joerg Wuttke.

Q116 **Chair:** Welcome to today's session of the Business and Trade Select Committee as we commence our second session looking at the UK-China economic relationship. Thank you so much to our witnesses for joining us today.

George Magnus, I am going to start with you if I may. In policy land, we now talk about China shock 2.0. Could you give us a sense, from your point of view, of what the threats to the UK economy are from China shock 2.0?

George Magnus: Where do I begin? That is presumably why we are all here. Just to start off, the primary distinction with the first China shock, which was from 2000 to 10 or 15 years after that, is that that was essentially, as we all remember, about China's integration. It was about China coming in from the cold into the global economy, taking its part in the global system and utilising its innate resources of plentiful cheap labour to manufacture low-value products, which we were very happy to outsource to China. Essentially, it was a one-off in that, once that adjustment had happened, it was not going to happen a second time.

The reason that I think the original authors of China shock came up with the new recalibrated version of 2.0 was that this is something quite different. It is enduring. It is permanent in the sense that nobody can see at this juncture how it is going to be ended or how it is going to resolve itself.

It is really about building an industrial ecosystem, the raw details of which you can see in the 15th five-year plan that was recently approved at the National People's Congress in March. It is not just about being the factory to the world; it is about being the brains, as it were, of an industrial ecosystem, which begins with raw materials, resources, inputs, software, semiconductors and all the stuff that is in the upstream level of the global supply chain, so to speak. It is much further removed from the consumer and the downstream areas, which were the principal areas of activity in the first China shock.

The reason that we need to be anxious about this and certainly scrutinise what it means and what the implications might be for this country and for British businesses is that it obviously confers a huge amount of leverage and coercive power to the Chinese state. It slots in perfectly with the policy of mercantilism, which describes how the Chinese conduct their trade policy, essentially, to enhance state power.

It obviously creates a huge competitive threat in three ways. One is, of course, that cheap Chinese exports threaten competition for local producers and suppliers in this country, for example. It also means that



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British producers are competing in third markets with much stronger Chinese suppliers. It also means that there is almost a last man standing problem, which is that the Chinese can outcompete us on price and scale.

We have to think very carefully even where we are not worried about national security issues. Of course, that is something that we should worry a lot about, but, even where we do not worry about that, we have to worry about how we address the competitive threat in particular areas where we still think we would like to compete.

Q117 Chair: That is a beautiful setting of the stage. Soumaya Keynes, you are in New York today, and you are there because you are launching a book called "How to Win a Trade War". We are in the market for advice on that, but first give us a sense, based on what you have just heard from George and from your own work, of where you think the sectors or indeed the places are in our country that might be most in peril from the kinds of shifts that George Magnus has just described.

Soumaya Keynes: In terms of the sectors where Chinese dominance is really extraordinary, there has been a lot of discussion of electric vehicles and products key to the green transition, which is obviously a concern when we have a global energy price shock. If we end up diversifying away from oil because it is very unreliable, and then essentially concentrating our purchases from a different supplier that is willing to use its coercive power, that is also a problem.

Building on what George said, the real change is that China has obviously moved up the value chain. Before, it was fine. In the UK manufacturing sector, we could let sippy cup and toy manufacturing go overseas. That was quite low value added, but the UK still has a reasonably good high-tech, high-end manufacturing sector. The threat now is to that high-end bit of the chain. We have specialised in wind turbines and all those high-end technologies, and China is very aggressively targeting strength in all of those.

Just to add to some of the things George said, one challenge is the lack of need to make profit for these Chinese companies. That is the extraordinary thing. Also, the really striking trend over the last few years is not that China has a massive export surge, although that is important; it is also that China is not importing. This China shock goes both ways. It is the lost opportunity for that high-end UK manufacturing sector. If you look at our car exports to China, they are falling. Why would they buy cars from us when they have such a thriving car sector? The threat is in our exports and also competing in third markets.

Q118 Chair: It may be just too early for us to tell this, but obviously the work of David Autor and others on China shock 1.0 helped us understand what was going on with the political economy of significant parts of the midwest in the United States. That obviously had a political effect. George Magnus, do you think it is just too early to tell at this stage whether there will be spatial impacts that could be especially problematic



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from China shock 2.0? Is it just too soon to tell?

George Magnus: No, it is not. It is too early to be conclusive because it is still early days. Let me put it this way. The Federal Reserve board has published a very interesting paper on export similarity. It constructed an index to depict how, over the last several years, the export structures of the UK, the EU, the United States and Japan have been mimicked, as it were, by China, as it did all the things that Soumaya was just talking about.

The UK, the US and Japan have obviously had to countenance competitive threats in additional areas of expertise. In other words, the Chinese are competing with us in things that we used to be very good at, and probably still are, but where we are not as competitive as we used to be.

In the EU, the situation is dramatically worse. I am sure that Joerg will be able to address this very poignantly, but a lot of it is in the automobile industry and the chemical industry, which he is an expert in. Europe is essentially still a big industrial exporter, which we and the United States are not to the same degree.

It is not too soon. We already have quite a lot of evidence about how this is playing out.

Q119 **Chair:** Soumaya, do you see any particular parts of the UK that are vulnerable to China shock 2.0?

Soumaya Keynes: It is going to be those manufacturing clusters. They are the ones in competition.

It is worth pointing out that, with China shock 1.0, lots of the focus was on the US, but sometimes the focus on the US can be because that is where the famous academics do their research. There has been research looking at the impact of China shock 1.0 on the UK, and there were effects on employment and wages. It is not that we were spared. I am fairly sure there was also a connection to Brexit, so there were political consequences that time.

This time, manufacturing is a smaller share of the economy. It is only 8% or 9% of GDP. It is a very small share of employment, so maybe those political consequences will not be the same, but, to the extent that places are reliant on those manufacturing clusters, that is where you will see the pain.

George Magnus: Can I just add a quick supplementary? I spotted an interesting thing in the 15th five-year plan. Of course, we think we may be relatively immune because we are much more of a service-producing economy than other places, but, in the 15th five-year plan, data and digital, and AI services, are specifically mentioned as areas that the Chinese want to catch up on, and "catch up" for them means leapfrog.



Chair: That is a very helpful point. Thank you.

Q120 **Charlie Maynard:** Silvia Gavornikova, thank you very much, to you and your colleagues, for all your work and for hosting us in January as well. We saw a chart that you showed us in January with regard to state subsidies, whether it is grants, income tax concessions or cheap loans. I have it in front of me. I was just wondering whether you could talk through generally what you are seeing in terms of China's support there as state aid compared to other markets globally?

Chair: Feel free to give us a sentence of introduction on the brilliant MAGIC database to which this Committee is addicted.

Silvia Gavornikova: Thank you so much. That was my intention. George Magnus mentioned that we have the evidence but we believe that, as a major provider of the evidence base as OECD, the eight years' work of the team of Jehan Sauvage and the colleagues around it proved that there is a completely different way.

We took a completely different angle, as we started to collect the database using a bottom-up approach, with firm-level financial information from the annual reports of listed companies, and bond prospectuses of non-listed companies, because we believe that not all Governments budget, identify and measure subsidies. Also, they are not as transparent as we would expect, especially other Governments around the world. When we speak about China, we also rely on the data that we can see in the annual reports of the companies rather than the macroeconomic data provided by the Government.

We have consolidated all this data that we collected manually here at OECD into a database on industrial subsidies that is named, as you said, MAGIC, or the manufacturing groups and industrial corporations database. It estimates industrial subsidies in the form of grants, tax concessions and below-market borrowings.

Since your question was focused on the eight that are provided, we are following the three main instruments of the subsidies. Based on this, we have collected data across 15 sectors, from 525 industrial groups. These data collection efforts on subsidies received by these industries have enabled us to identify key findings on the scale and extent of industrial subsidies, as well as their effect.

When George Magnus said that British competitors are competing with much stronger Chinese competitors, I would say that they are mainly competing with the competitors who have strong state, local or any type of government subsidies behind them. It is a very uneven competition at the moment. That is what the MAGIC database proves.

Q121 **Chair:** Silvia, it is probably worth just giving us the headline of how uneven it is. Mr Maynard, you have the data in front of you, but it is a very significant gap.



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Silvia Gavornikova: In the graph that we have provided, you can compare the amount of provided subsidies from the side of China. I have to stress also that within MAGIC we only have 28% of Chinese companies, but you see the amount of subsidies that are listed there.

Overall subsidies reach about 1.3% of revenues, which in 2023 were on the nominal level of \$105 billion. When you compare the subsidies towards China that they provide, at that time we had 14 key industrial sectors. As you can see, the main ones were the below-market borrowings; the overall amount was 3% of annual firm revenues. The below-market borrowings, which you see in front of you in the yellow chart, was the main one. When we focus on this part, the general terms of the below-market borrowing of the other firms from OECD countries is around 0.4%, while the Chinese are on the level of 1.6%. This is where they are moving around.

Chair: Thank you for setting that out.

Charlie Maynard: Sorry, I have to refer Members to my entry in the Register of Members' Financial Interests and the stake I held in BDA Partners, which I founded in 1996.

Q122 Going back to this, thank you, Silvia. You have this wonderful database. Who else has access to it now? What I am worried about is that the OECD has this wonderful jewel that is kept undercover in Paris and maybe in other places, and it does not get out around the world. It is very relevant and useful, and I would love to have a bit more knowledge about what is being done with this information now, to your knowledge.

Silvia Gavornikova: I completely agree with you. We have seen that this is a threat for the future, so we have started a very long process since October 2025 from the trade committee of the OECD, where we got approval from members to launch the MAGIC database publicly. Of course, that is not the full spectrum of the confidential information, because there are the firm-level data, but we will launch the aggregated data of the public MAGIC database. That will happen on 1 June this year; that is in less than 12 days now.

Q123 **Charlie Maynard:** Wonderful. Thank you. What is your view on Chinese firms' price advantage with regard to an undervaluation or otherwise of the renminbi?

Silvia Gavornikova: There are different impacts of the subsidy. They do not need to be only positive. We have very clearly marked this negative effect of subsidies in our paper that was just released in January on solar panels. I really encourage you to have a look at this one.

With our work on impact, the major finding is really the market share. That is the dealbreaker. In the data that you have in front of you, between the years 2005 and 2023 you can see the tremendous amount of market share gain in many of the sectors. Solar wind is one of the



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largest ones; there is also glass or aluminium. This is the way of shutting down huge industry companies or firms within the other OECD countries.

Charlie Maynard: Soumaya, would you like to give a comment on that?

Soumaya Keynes: The recent estimates are that the yuan is roughly 20% undervalued. Assessing the extent of currency undervaluation is more art than science, but that is definitely a contributor to China's competitive advantage. If you just look at China's massive external surplus, its currency really should not be that weak.

Chair: I want to make sure that the Committee has a full list of the structure of those subsidies, Silvia, just to build on that. We have just added undervaluation of the Chinese currency. We also have evidence that energy costs are obviously much lower. The carbon price is obviously much lower. The labour cost is obviously much lower. The subsidies are much higher. George Magnus, have I missed anything there in just understanding the full panoply of things that are ensuring that the playing field is not level?

George Magnus: You missed out land prices, which is not unimportant. Implicit guarantees from banks is a ubiquitous problem in the Chinese financial system. Then there is just nondescript regulatory and trade protection, procurement and this kind of stuff.

I am sure Silvia knows this better than I do, but there is an IMF paper that came out last year that estimated only the things that the IMF said it could measure. Lots of these things were left out. It calculated that China's industrial policy support was about 4.4% of GDP, which is easily manipulable up to around 5% or 6% of GDP per annum. That is just a multiple of anything that OECD countries do.

Chair: We have also missed out low-cost credit from our list. Joerg, did you want to come in briefly on that?

Joerg Wuttke: The subsidies, of course, are manifold. I lived in China for 35 years. I had a manufacturing company there, BASF. Foreigners also get subsidies to a notable but lesser extent.

The European Union did an investigation in 2024 to look into the subsidies of EV vehicles. It looked at the entire supply chain from the coalmine to the energy costs to the transportation, and it found that, depending on the company, it was either 9% for Tesla, about 18% for BYD or 20% for Volkswagen, Mercedes and BMW. It is not that these companies get direct money sometimes, but they benefit from the entire supply chain subsidy structure that is there.

Then, of course, the most important is the evergreening of loans. China is notoriously producing overcapacities. For example, we have 136 car brands. The Government are desperate to get it down, but they cannot because it is creating jobs, and hence local government is extremely



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protectionist. There is a lot of protectionism within China, not just against foreign suppliers.

To George's point, a wonderful report came out last week by Rhodium and the US Chamber of Commerce. It showcases a heatmap that comes from a 2016 study by a German think tank, MERICS, which I used in my report on "Made in China 2025". It showcases that the three most exposed countries are South Korea, Germany and Ireland—Ireland of course being pharmaceutical. The UK and USA are much lower because their manufacturing sector is much smaller than in Germany. It was already predicted 10 years ago that Germany is going to face a hard time.

Chair: That is really helpful. Thank you.

Q124 **Justin Madders:** I have a question for you, Soumaya. Playing devil's advocate for a minute, obviously we know that household budgets are stretched. What is wrong with giving consumers the best possible value options?

Soumaya Keynes: For years that was the idea. We would essentially outsource the stuff we did not want to do. That would mean cheap stuff. If the Chinese Government want to subsidise our consumption, then that is maybe not ideal for them, but it may be okay for us.

What has changed now is that, first, there is the issue of coercion that George mentioned. There is also an increase in the rate at which people are asking whether there might be some kind of innovative capacity that is lost with that offshoring of manufacturing, essentially allowing China to produce everything. This is an area where I do not want to overstate the quality of the economic evidence that we have, but one of the concerns is that, by not making stuff anymore, we lose the ability to innovate, and that is a drag on the economy.

If you look at manufacturing productivity before and after the global financial crisis, the decline in manufacturing productivity growth is a major contributor to that fall. It does not explain all of it, but it explains some.

Again, this is an area where we do not have definitive evidence, but we know that, when you have huge import competition, that can harm the research and development capacity, particularly of your smaller businesses. There was a research study on that more recently.

That is offset when you have big export markets, but if the challenge is that China is not importing anything, and it is competing everyone else out of business in third markets, then those export opportunities are not going to be there as much. I am as concerned about protectionism and raising costs unnecessarily as the next economist, but there are trade-offs that we have to recognise.



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On the coercion issue, it might just cost us a bit more to be safer from that coercion. In terms of long-run productivity and innovation spillovers, that is the idea of this short versus long-term trade-off. In the short term, it could be that we have lower prices for consumers. The danger is that, in the long run, that does something to our innovative capacity and harms our ability to raise incomes.

Q125 **Chair:** That is very clear. George, do you buy that?

George Magnus: Absolutely. It is an incredibly pertinent question. When I do my talks to the University of the Third Age, I constantly get questions like, "Why shouldn't we buy cheaper goods from China? If BYD can sell me an electric car at a fraction of the cost of Jaguar or whatever, what is wrong with that?"

It is a very relevant question, and it is not just British consumers who would think that. I know that there are countries, such as Vietnam, the Philippines, Indonesia and Mexico, where lots of people are wrestling with this idea, as Soumaya said, about the trade-off of cheap goods that make people better off because they do not have to pay so much money versus what, for them, is the de-industrialisation problem, which has knock-on effects on jobs.

Another way of expressing Soumaya's point is that, if we lose not just knowledge but know-how, and the ability to know how to solve problems in making things, modern technologies, manufacturing and so on, it is gone forever.

Q126 **Justin Madders:** Yes, I get that. Can I just ask a little bit more, Soumaya, on the long-term perspective? How long do we have? If you look at the penetration of Chinese producers into the car sector, they have got to a level that the Japanese got to in a fraction of the time. The price point they are hitting, even on the EV subsidies, is far more competitive. Take that as an example of a sector. How long do you think we have before there has to be a more robust response from the Government if they are to take those long-term ambitions on board?

Soumaya Keynes: You do not want to hang around. This is not an issue that is going to go away from the Chinese side. There were similar concerns about Japan's industrial strength in the 1980s. That eventually subsided, but it took a very long time. China is just so massive, with so much capacity, that it is going to be years before it manages to retrench, if that is even what the Chinese Government want to do. In the meantime, this pressure is going to be really acute.

We have just had data out of China that its domestic economy is really quite weak. It is not doing well. That is the fundamental factor forcing this. It has domestic weakness and it is exporting its way out of that. While that domestic weakness is still there, that pressure on other countries, including the UK, is going to be there.



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I suppose the question is how long the car industry can survive against these extremely competitive producers. They will hopefully tell you, "A very long time", but they are competing with people who do not have hard credit constraints.

Chair: Let us move on to what the defences might look like.

Q127 **Justin Madders:** What sort of things do you think the UK Government could do to help? Could the Trade Remedies Authority have a role, or are there other things you would like to suggest?

Chair: The French are obviously gearing up for their presidency of the G7. They published a very interesting paper back in February, through the high commission for strategy and planning, that proposed option one, a general tariff protection of 30% across-the-board tariffs on Chinese industrial goods; and option two, co-ordinated currency rebalancing of 20% to 30% based on the Plaza accord. We are quite interested, as Mr Madders says, in just unpacking what the armoury needs to look like.

Soumaya Keynes: I am not sure the UK has the clout that the EU does on the currency issue. If you wanted to do something on currency, you would have to do it with the Europeans. They both would adjust relative prices.

The concern with both of them is that prices adjust. You could have a currency revaluation, but then the car companies could say, "Fine, we will lower our prices". You could try the tariffs, but, again, they might accept lower prices. Both of those are options that we should be much more open to than is the received wisdom.

One interesting option that the Europeans were exploring was minimum prices, where you hardcode in what that competitive pressure should be. The Chinese might quite like that—can they get higher prices for their goods? The Europeans tried and failed because it was just so difficult to co-ordinate between the various players, but that could be another option to look into and potentially co-ordinate with the Europeans.

Q128 **Justin Madders:** Looking at it from the other perspective, we had a long list of areas where China is more competitive. Do you think the Government would be better off trying to address UK competitiveness in those sectors instead?

Soumaya Keynes: With all of this stuff, it is not an either/or. You have to tackle high energy costs in the UK. One of the challenges is that often being competitive means getting cheap components from China, and then we are back to this coercive risk that George was mentioning.

Slightly retracting what I just said, once you get into the world of minimum prices, you are negotiating on a sector-by-sector basis, which is extremely challenging. The currency revaluation is the broad measure that means you do not have to micromanage what you think the disadvantages are in every single sector. The currency just does it much



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more efficiently. Whether that is achievable is the question for the British Government.

George Magnus: It is absolutely right to say that there is nothing we can do, absent collaborating with our closest trade partners. We are just too small and insignificant to really make a difference.

I am not really sure whether I personally favour that. I know that there is a role for tariffs in terms of import protection, embryonic sectors, market failure and so on. There is nothing we can do to get the Chinese to change their currency behaviour; the Americans could.

There are lots of ways in which we can collaborate with Europe and other countries. On rare earths, for example, we could establish buyers' clubs. We are a long way from this, but we have to think a little bit outside the box about ideas that might work as we accumulate together to counter what is a very substantial competitive and political threat. We should not forget that it is political as well.

On semiconductors and technology, there are lots of things that we could do in cahoots with other countries, but it requires leadership.

Q129 **Justin Madders:** A lot of the suggestions that you have come up with would effectively hit British households in terms of how much they are going to have to pay. Do you think that is a sustainable way forward in terms of where we are at the moment?

Soumaya Keynes: It is really challenging, but fundamentally the problem is that we have a mercantilist actor pushing products that are so cheap that no one else can compete. They are too cheap.

There are two ways you could do it. You could try to raise the cost of the Chinese vehicles, or you could try to make the alternatives cheaper, which British households might like. If you got a subsidy to buy a non-Chinese electric vehicle, that could help the competitiveness of other suppliers. That is expensive too. There are no good options here.

Q130 **Justin Madders:** It would need someone to make a fairly forceful political argument that this was in the national interest.

Soumaya Keynes: Yes.

Chair: That is incredibly helpful.

Q131 **Mr Reynolds:** Silvia, on that same sort of topic then, how are other developed countries looking to address the threats of Chinese economic competition, and what should we be learning from what others are doing?

Silvia Gavornikova: Let me first just add to what Soumaya was saying. We identified from MAGIC a couple of threats that may be interesting for you and are not seen from the beginning. She mentioned that it is a huge threat not to produce any manufacturing stuff anymore. It is, yes, but



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there are also services related to this. We see that, if there is no manufacturing, there is also a drop on the side of the services.

Then, in China, we also see that the supply chains are mainly done by the state-owned enterprises. The buyers are not paying their suppliers. This is also a huge phenomenon that we see from the MAGIC database in recent years. There is a huge outstanding amount that firms are not paying to their suppliers.

The third one I want to mention is the work of the OECD on export restrictions. Even though we still have producers in Europe producing specific wind turbines, for example, they still need a specific rare earth element coming from China. As we know, 95% of the processing is happening in China. With the export restrictions, we also see huge disruptions in the supply chain.

Yes, we have seen the action coming from the EU, as Soumaya mentioned. This was one of the areas of work that I am sure the UK is following. This would be one of the examples. Then what we are trying to do is to provide a forum here at the OECD, behind closed doors, where all the main players could have these types of exchanges of views on how to move forward because, as was mentioned here, times are extremely challenging. This is unprecedented, and there needs to be a way of finding perhaps not a joint approach, but a like-minded approach for sure.

Q132 Mr Reynolds: Is it just price that is a problem, or do we need to start looking at British procurement rules? If you look at the recent Scottish zero emission bus challenge fund, 334 buses were procured from that, 50% of which were from China, so 50% of the £40 million that the Scottish Government put in that went straight to a Chinese firm to manufacture buses. Not very long after that, Alexander Dennis announced that it was going to be closing one of its plants in Scotland. Is there a problem there? Do we, as a country, need to be better at procuring, to take price lower down our list and to have British-made products and British manufacturers higher up that list?

Silvia Gavornikova: I can only mention that the EU, for example, addressed this with the international procurement instrument to prevent this type of situation happening. Other than that, we are also talking to European industry a lot, but also to the overall OECD industry. This was one of the reasons why they could not understand how Governments and state-owned enterprises within the OECD countries can procure from China, exactly as you mentioned. To address this issue would probably be something very similar to what the EU has now put in place.

Q133 Mr Reynolds: Are we the outliers in Europe then, in not having a British-first, French-first or whatever approach to Government procurement?

Silvia Gavornikova: It is usually a reciprocity instrument. I do not know whether the UK would be the outlier, but the EU covers the 27 member



states. We do not know whether Switzerland or Norway have a similar instrument. We would need to look into this and get back to you, so I cannot answer your question with a yes or no. We have not looked into that.

George Magnus: It is quite interesting. One of the things that the Chinese are most upset about at the moment is the Industrial Accelerator Act. It is not law yet but, if they are upset, you know it is a serious piece of proposed legislation. It is quite naked about its ambition to boost European manufacturing over the next five to seven years.

Soumaya Keynes: Procurement preferences is obviously a very live area of debate. In the EU, the original Industrial Accelerator Act proposals were EU first, and then it has since been watered down to include trusted allies and partners.

My point was basically to say that there is a jump between “not China” and “Britain first”. It is important to recognise that “not China” is not the same as preferences for British firms. Once you start doing that, then the risk is that everyone else starts doing that and you lose those export opportunities. We need to make sure that we do not swing too far in the other direction when we are trying to protect against this threat.

Q134 **Mr Reynolds:** You are effectively suggesting that we almost need that ring of steel that suggests that these are our trusted friends and our preferred procurers. It is a ring of steel approach.

Soumaya Keynes: Yes. Identify the problem and then “not that” would be my preference. That essentially means minimal restrictions.

Q135 **John Cooper:** Joerg, there seems to be a consensus around the idea that we cannot act alone and that Britain is simply too small to have any real effect on this. Do you think, then, that there is a realistic prospect that we can ally with Europe and present a united front?

One of the difficulties, as Mr Reynolds touched on, is that even within Britain we do not have a unified approach. There was another example, again involving Scotland, where the Scottish Government were very keen to get Ming Yang to invest in a wind farm factory, but the UK Government took a different view. The UK Government blocked that on the basis that it was a threat to national security. If we cannot present a united front in the UK alone, can we ever ally with Europe?

Joerg Wuttke: In some segments, it has to be done together. George mentioned rare earths, and there are other areas where we should make sure that we work together. The Industrial Accelerator Act is something where we have to watch out to what extent we have become protectionist, or to what extent, while it hurts our supply chain, it is absolutely necessary that we safeguard our industries and that we do it with allies.



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Again, if you already have these kinds of different, divergent ideas, rest assured that we have them in the European Union in an even more pronounced way, but we have to act. That is the thing. I was briefing the German Chancellor before I went to Beijing, and it is clear that the house is on fire. We lose 10,000 manufacturing jobs in Germany every month, particularly in the car industry, so there is no time to waste.

Other countries are acting. For example, there are 55 countries that have put up tariff barriers against Chinese aluminium and steel. Even Russia, after it was nearly killed by the imports of Chinese cars, put up a \$7,500 recycling fee on Chinese cars. That brought down imports per month from 165,000 to 15,000. Frankly, even Russia had to act in order to safeguard the little that is left of its car industry.

Q136 John Cooper: That is remarkable. Is there a coalition of the willing, if you like, that we could put together that is beyond Europe? I am not saying that we would necessarily be lining up with Russia at the moment, but are there other countries beyond Europe that we might want to talk to about this? It is a global problem, is it not? China is not targeting us specifically; this is a mode of operation and behaviour right around the globe.

Joerg Wuttke: Yes, China is not targeting us. This is just like a safety valve. It has to survive by exporting its way out of trouble on the home front.

There are like-minded countries. I am sure the OECD countries, in particular, are interesting partners. Our problem right now is that the United States has distorted this picture by closing up its economy to Chinese imports. Hence, they have to go somewhere. In a way, this kind of protectionist behaviour from Donald Trump has re-routed the goods more into our ports, emphasising the problem. Europe, the UK and EFTA definitely have to open up communication in certain areas where we have to co-operate.

Q137 John Cooper: Again, going back to that leadership question, we heard leadership being mentioned again. Is someone interested in taking a grip of this and taking the lead? Could we have that role?

Joerg Wuttke: It has to come from highly industrialised countries and it has to be a smaller group, because 27 simply does not work. Germany, France, Italy and the UK have to sit together and say, "What do we do? Should we have a price floor?" The European Union has introduced price floors for imported EV cars, then volume constraints, for example, that even hit German brands such as Volkswagen in their exports from China into the European Union.

We also have to be aware that there is a diverging interest between German car brands and Germany as such, for example. These car brands become more and more Chinese. The localisation factor in China for BMWs is 95%. Our exports nosedived 16% to 18% last year. In a way,



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German brands, for example, are not necessarily coming as German added value into our economy when it comes to China.

Again, we have to have a level playing field. Certainly, our consumers might suffer from higher prices, but, if it is not fair and square, why they should benefit from a distorted market mechanism?

Chair: Thank you very much. The clock is slightly against us, but that has been an extremely useful canter around the debate. Thank you very much indeed. We would be very grateful for any further advice you want to give us, in either book form or memo form. Does anybody have books out recently?

We would be very grateful for any advice on making sure that we have the list of instruments that China is using to skew the playing field, and your views on the countervailing instruments that the UK might deploy either unilaterally or with allies. That concludes this session.