Starmer must face up to our China problem

Allowing cheap electric cars to flood the British market comes with both economic costs and security concerns

Ed Conway, The Times – Thursday 11th July 2024

If you were looking to make a pilgrimage to the place where Britain's motor industry really began, you could hardly do better than to seek out a 70-acre site on the outskirts of Birmingham. Opened in 1905, the Longbridge plant was one of the first British automobile factories. This was where the "Baby Austin", Britain's equivalent of the Ford Model T, was conceived and built, followed eventually by the Morris Minor and the Mini.

By the 1960s, Longbridge and its enormous workforce were turning out more than 200,000 cars a year. Then in the 1970s, when the sector faced its darkest hour, Longbridge became a badge of British industrial shame: strikes, inefficiency and, eventually, collapse. In 2005, a century after the factory's formation, the rump of what was left, MG Rover, was sold off to a Chinese company.

Back then China was a bit of a joke among motoring aficionados. Despite having invested billions in trying to build a car industry, it was still struggling to turn out a decent internal combustion engine. Today, China has leapfrogged Japan, France and Belgium to become the second-biggest source of cars in Britain (after Germany). Seemingly out of nowhere, it is the world's biggest car exporter, bar none.

If this sounds surprising, perhaps it's because most of our Chinese cars wear marques that sound, well, not very Chinese. There's all those brand-new MGs, for starters. If you're driving a Tesla Model 3, you are driving a car made in Shanghai; same thing for many Model Ys.

Polestars are made in Chengdu and many western brands, including Mercedes and Volkswagen, are producing electric cars via joint ventures in China. But the stealth invasion will soon give way to an influx of new, unfamiliar car brands from BYD, Nio and even the smartphone manufacturer Xiaomi.

Today, Chinese carmakers are making vehicles cheaper than pretty much anyone else. The most popular example is the BYD Seagull, a small electric hatchback that sells for about £8,000 in China. That China can make cars this cheap owes a lot to what we in the West call "industrial strategy".

Chinese firms may never have been terrific at making petrol engines but, many years ago, Beijing realised it had a fighting chance of competing on electric vehicles. So it showered its producers with a host of subsidies, cheap loans and tax breaks that, according to OECD estimates, are nine times more generous than anything on offer anywhere else in the developed world.

And as Britain and the US fixated on the political soap operas of Brexit and Donald Trump, Chinese policymakers got busy cornering the market for pretty much every component you need to make an electric car.
The upshot: China controls 83% of global battery production. It also controls 84% of the market for the cathode chemicals that provide all the lithium inside those batteries, and 92% of the graphite needed in those batteries.

This is deep industrial dominance of the like we've never seen. When Herbert Austin opened the Longbridge plant, no single country dominated car production in the way that China dominates the production of these battery components. You could say something similar about the manufacture of solar panels and, to a slightly lesser extent, the production of steel and aluminium.

All of which brings us to the big economic news on this front. A couple of months ago President Biden announced 100% tariffs on Chinese electric vehicles (as well as other tariffs on Chinese solar panels, metals and a host of battery components). This month the EU followed suit with its own (slightly less punitive) tariffs.

The UK has yet to formulate its own response. Indeed, since this issue didn't come up at all during the election campaign, we still have no idea what the new Labour government will do about it. But since the EU and US have already acted, there is little time to waste.

If we were to ape Biden, it would have far-reaching consequences. While Chinese imports are a tiny fraction of American sales, they account for nearly one in five automobiles sold in this country. Are British consumers really ready to see the price of those cars rise by 100%? Moreover, given that we are mostly talking about electric cars, a tariff would do serious damage to the government's net zero aspirations.

Ask folks in Whitehall what they think about the White House's move and you tend to hear what you might call the conventional economist's case. In short: to warn that imposing tariffs could land us in a full-blown trade war, much like the one in the 1930s that prefigured the Second World War. Surely, they argue, it would make more sense to remove tariffs, allow the Chinese to subsidise their car factories, buy up their £8,000 cars and save a few pounds in the process? Voilà, we would all be better off.

Except that this misses a couple of important points. The first is that it's not a given that we're all better off. It's far from clear that the benefits of being able to buy a cheaper car from China outweigh the economic impact of all those shuttered factories, lost jobs and displaced workers — especially if China isn't reciprocating by buying other British exports (which it isn't).

Second, and more saliently, this is not only about economics. It's about security too. In the First and Second World Wars, the Longbridge plant was co-opted by the government to build shells, guns, aircraft and engines. Thousands of Hurricane fighters and Lancaster bombers were built in a "shadow factory" at the site through the 1940s. Motor workers quickly became weapons makers — after all, making a car engine wasn't all that different to making an aircraft engine.

That raises a question: in the event of war, what happens to a country that has deindustrialised to the extent that Britain has? The short answer is: we don't really know. In previous wars Britain was never self-sufficient; but it was considerably better equipped to be able to fight than it is today.

Perhaps this stuff doesn't matter, but it is at least part of the rationale for why the US is taking the threat of deindustrialisation so seriously.

Car tariffs didn't feature in Labour's manifesto. They are unlikely to be near the top of Sir Keir Starmer's immediate to-do list. But he would do well to visit Longbridge (and not just because it is another part of the Midlands that Labour won back from the Tories in last week's election).

There he will find the car assembly buildings are all gone. The machinery that once made the munitions that helped Britain win the war has been cleared away, replaced with retail outlets and housing.

Ed Conway is economics editor of Sky News and author of Material World

