Opinion **Inside Business**

China-bashing will get Europe nowhere

The bloc needs to create an environment that will enable its companies to outcompete global rivals

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German chancellor Olaf Scholz, left, and BASF chief Martin Brudermüller at the chemical group's facility in Schwarzheide, Germany, on Tuesday © REUTERS

Peggy Hollinger 11 HOURS AGO

Enough China-bashing, said Martin Brudermüller, BASF chief executive, last week as he reacted to critics of the group's plans to expand in the country while downsizing in sluggish Europe.

Instead of fretting about the chemical giant's $10bn investment in China, Europe would do better to examine its own "deficits and weaknesses", he said.

Brudermüller, who is leading a trade delegation to China with German chancellor Olaf Scholz this week, is not wrong. European industrial companies struggle against some pretty fierce headwinds — not just the unusually high energy prices that have forced the shutdown of swaths of energy-intensive industrial production since Russia's invasion of Ukraine.

There are also the mounting costs of Europe's green ambitions, the accompanying web of environmental regulation and the unfinished project of the single market. All these can make life difficult when facing competition from countries with plentiful and cheaper energy supplies, looser regulations or more consistent and generous government support for business.

But BASF's decision to build a state of the art integrated chemicals plant in China — rivalling its unique Ludwigshafen facility in Germany — is no simple substitute for a lack of growth or competitiveness in Europe.

Designed to run entirely on renewable energy, the plant is the latest sign that China, once content to be the world's factory, is fast becoming the world's innovator with the help of some of Europe's biggest companies.

The old trade bargain that allowed European companies to access China's vast market while still retaining control of the most innovative technologies is changing and the longer-term consequences could be serious for Europe's industrial base.

Just look at the example set by Germany's carmakers. Despite rising global tensions over Beijing's claims on Taiwan and the risks that poses for operations in China, Mercedes-Benz, Volkswagen and BMW have substantially stepped up research and development investment there, according to a study by think-tank Merics.

The investments have been spurred by China's support for electric vehicle development. Today, 55 per cent of all EVs are sold in China, and if Germany's carmakers are to remain competitive globally, they have to access not just the country's consumers but the technological expertise that has been developed there.

In the decade from 2007 to 2017, Mercedes-Benz, Volkswagen and BMW set up just five R&D centres in China. But in the four years since 2018, they have opened 11.

"China is not only a sales market for Germany's carmakers; it has become the world's leading EV market, and it may well be the linchpin for their global competitiveness," says Merics' Gregor Sebastian, author of the report.

Along the way, German car companies have integrated Chinese suppliers into their global supply chains, sought out China's tech companies for software partnerships and begun developing new models for export to the global market from the country. The result has been the creation of new players no longer content to sell just in China, but ready to compete globally, with consequences for supply chains that stretch across Europe.

The decisions to innovate in China's growing market are not irrational. For companies such as BASF, there may even be little alternative. Europe, hobbled by high energy costs, has seen its share of the global chemicals market fall almost a fifth over the past decade to 14.4 per cent and it is predicted to decline to just over 10 per cent by 2030. This year, Europe became a net importer of chemicals by value as well as volume for the first time, implying that even its traditional strength in the speciality segment is eroding.

Meanwhile, China will account for close to 50 per cent of global chemical sales by 2030. If BASF isn't there to exploit that growth, someone else will take its place.

But even as BASF doubles down on China, it has thrown out a challenge to European policymakers. It is not enough for Brussels to focus on buoying up a select few strategic sectors deemed critical to Europe's industrial autonomy. Europe urgently needs to address wider barriers to competitiveness.

Brudermüller is right. China-bashing will not stop the inevitable. The focus now has to be on creating the conditions that will allow European companies to outcompete the very rivals they have helped to create.

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