

China's excess savings and the world market: Xi's "New quality productivity forces" of EVs and trade conflicts

By SAKAMOTO Masahiro

(Treasury Secretary Janet Yellen's warning)

U.S. Treasury Secretary Janet Yellen visited China in early April and stated that excessive investment in the productivity of green energy products (e.g., electric vehicles [EVs], batteries, solar panels), particularly EV productivity, is unacceptable. She stated that the excessive production of these government-subsidized industries far exceeds domestic demand, and cheap exports from loss-making companies flood the world market and hurt other countries. Furthermore, she stated that 10 years ago, China disrupted the world market by exporting steel at low prices, and said that domestic consumption needs to be expanded. China's reaction to these statements has been negative. China stated that subsidies for EVs were abolished in 2022, and that technological innovation rather than subsidies is the reason for strong Chinese EV cars sales. China's policy is to respond to the current depressed economic situation by promoting science and technology and expanding the "new quality productivity forces" advocated by President Xi Jinping. EVs and solar panels are at the core of this policy, and China is promoting cutting-edge technologies such as quantum computers and AI with the aim to overcome economic difficulties and become a modern, powerful nation.

(Excessive savings and trade conflict)

Over the past few decades, China has continued to grow based on a model of excessive savings and excessive investment. The breakdown of the GDP in 2022 included a low total consumption of 53.2% (private : 37.2% + government: 16.1%) and an abnormally high gross savings of 46.8% (domestic investment: 43.5% + net exports: 3.3%) (normally 25–30%). This excessive savings amount contributed to 10% growth in an era when there were many productive investments. However, since 2015, there have been a limited number of effective investment targets, representative examples of which are the real estate industry and infrastructure investment, and as efficiency has declined, the excessive savings/excessive investment model has stalled, resulting in excessive production and excessive debt. Under such circumstances, investment in new energy-generating EVs and the expansion of new quality productivity forces in other areas will not only increase investment efficiency but also alleviate excessive savings pressure. Increases in net exports due to export expansion also absorb excessive savings. However, this capacity to exceed the domestic market, and the expansion of exports to the world market, are precisely what Treasury Secretary Yellen was referring to, and which will provoke trade conflicts with other countries.

(Domestic market with fierce competition and export pressure)

A comparison of the trends in China's automobile industry between 2020 and 2023 shows that nationwide sales increased sharply from 25.31 million units to 30.09 million units, but while sales of conventional engine vehicles decreased from 25.31 million units to 19.88 million units, sales of new energy vehicles such as EVs sharply increased from 1.36 million units to 9.46 million units. Exports increased from 2 million units to 4.91 million units in 2021, surpassing Japan's exports of 4.42 million units to make China the world's first-ranked exporter. The breakdown shows that the exports of new energy vehicles rapidly expanded from 300,000 units to 1.7 million units, while exports of conventional engine vehicles increased from 1.7 million units to 3.7 million units, with exports to Russia accounting for a large proportion. The rapid expansion of new energy vehicles is pushing up domestic demand, and exports, but a notable fact is that this expansion is advancing with fierce entry, competition, and selection among companies. China's automobile industry has grown through joint ventures between German, Japanese, and American automobile companies, but the Chinese government has taken strong measures to nurture its own industries, including large subsidies to its own industry for the purposes of EV promotion, including battery development. At one point, over 200 Chinese companies entered the market and engaged in fierce price competition. Even today, over 100 companies have entered, withdrawn, or gone bankrupt. A symbol of this situation is how hundreds of thousands of EVs from bankrupt companies have been abandoned. Only BYD, which has integrated production starting from the battery stage, is said to be profitable, but the low-priced vehicles of Xiaomi, which is from another industry, have been attracting attention in recent years. Under these circumstances, the American company Tesla, which had previously been leading the EV market in China, has not been performing well, and foreign companies that have focused on conventional vehicles find themselves in a difficult situation, with the withdrawal of Mitsubishi Motors being a representative example.

(From a strong China that uses its import power to a chaotic China that cut in the market with exports)

Recent attention has been focused on the rapid overseas expansion of Chinese companies, including BYD. Of the 83 million vehicles produced worldwide in 2023, 30 million came from China, of which approximately 10 million were new energy vehicles (six times more than the 1.37 million vehicles in 2020). If the production of new energy vehicles continues to increase sharply, then productivity will far exceed that of the domestic market. In reality, EV companies other than BYD are said to be operating at a loss, and as Treasury Secretary Yellen has stated, there is a strong possibility that the cheap exports from loss-making companies will disrupt the world market and intensify trade conflicts. The EU is already considering the raising of tariffs on Chinese EVs. The United States currently imposes a 25% tariff but has also decided to ban Chinese vehicles for security reasons. Above all, there are numerous problems associated with EVs. In addition to issues such as cruising range, charging time, sensitivity to cold, and battery fires, early battery deterioration and the lack of a used car market are also

problematic. Furthermore, the early withdrawal of Chinese companies will create difficulties regarding repairs and trade-ins. Perhaps due to this situation, the recent sales of EVs are predicted to peak at an early stage, but hybrid vehicles are reported to be doing well, as is the company Toyota. Of course, it cannot be overlooked that various improvements have been made to address the problems with EVs. EVs are not the only manner by which China's excessive production is invading the world market. China's economic troubles have led to the excessive production of steel and cement, and the resurgence of cheap exports to the world market is expected to increase trade conflicts. To date, China has conducted coercive diplomacy, particularly by using its import power, which however showed a self confidence for itself. But now, given its economic turmoil, China is trying to cut in the markets with excessive production and exports of various products, including new energy products, which is disrupting the world market and leading to an escalation in trade disputes.

(China's grand construction and grand destruction)

China's development has been extremely rapid and excessive. It creates a grand scale production system in a quite short time, but the excessive competition during this process has resulted in numerous casualties, with a massive number of discarded EVs being abandoned. In his book, *An Ecological View of Civilizations* (Chuokoron, Chuokogyosho, 1967), Professor Tadao Umesao once stated that China's history is a cycle of grand construction and grand destruction, which remains, I observe, an extremely pertinent view of the current situation.

(This is an English translation of the article written by SAKAMOTO Masahiro, Distinguished Research Fellow, the Japan Forum on International Relations, which originally appeared on the e-forum "Hyakka-Somei (Hundred Ducks in Full Voice)" of CEAC on April 18, 2024.)