Forbes

China Fast Replacing Europe In Global Supply Chain

Kenneth Rapoza Senior Contributor

You already knew that nearly every textile out of northern Italy is made in central China, right? What about the new BMW iX3 sport utility vehicle: German made or China made?

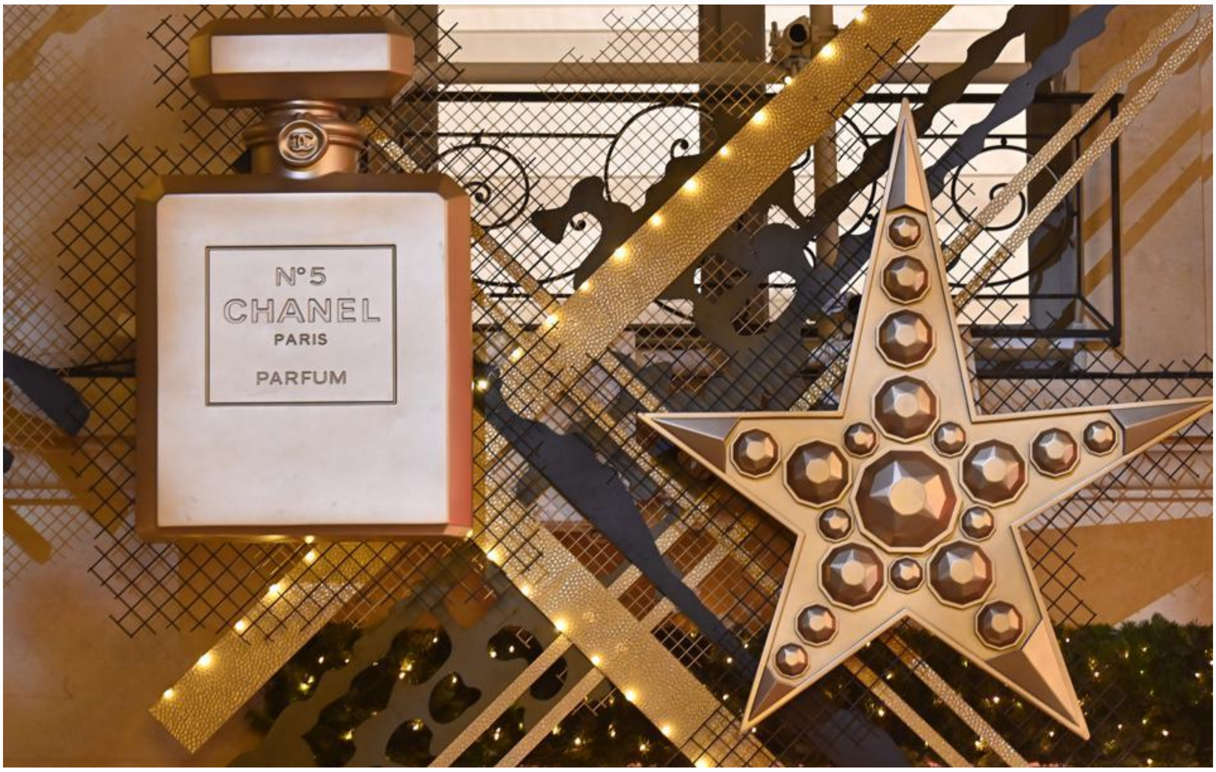
Of course. It’s German engineering, but it’s China built.

Unlike the U.S., which spent the last four years at least trying to fight against China hegemony in the global supply chain — depending on the product line — Europe has acquiesced, rescinded, stepped back and thrown in the towel.

European Union foreign policy chief Josep Borrell speaks during a media conference on The EU Gender ... [+]

So don't take my word for it. Europe is the beta to the China alpha, and seems fine with it. (Wait until the Chinese figure out how to make French wine. Their entire luxury industry lives and dies by China.)

The pandemic has led to disruptions in global supply chains, with medical supplies being the particular standout. Trump signed Executive Orders that require government procurement of essential medication to be sourced domestically, and not abroad. Congress also has a number of bills out there to fund personal protection equipment and make sure supply is localized in case second waves of Covid-19 worsen, or a third wave comes that's just as bad.



Detail view of the illuminated Chanel store of Rue Saint Honoré for Christmas and New Year ... [+]

Some in Washington have advocated for PPE to be sourced between allies. But our allies are all getting it from the same place as we are, and that is often China (for medical gear) and India (for medications).

For the European Union, giving up its manufacturing base to China is a serious electoral problem. Unless the Europeans are going to be totally subsidized, or are lucky enough to work in some high paying professional service profession (finance, legal, medical) or "learn to code", then China is going to eat their lunch. And their desert. And leave them with the bar tab.

Natixis asks "how has the world's most industrially-integrated area and largest exporter become so dependent on China for a large number of products?"

The EU is deeply integrated in global supply chains, mostly because these are smaller states who trade across each other's borders and into Eastern Europe and Russia. It's not all a China story.

However, the EU's regional supply chain is shrinking fast, giving way to Asian manufacturers, led by China. Natixis says it is a "phenomenon that may have a significant relevance for the integration of the EU single market."

Moreover, the EU's decreasing role in global supply chains is linked to its lack of technological innovation and stagnant human capital. On both fronts, China is better.

Where is the German TikTok? Where is the Dutch wind turbine manufacturer? Hint: non-existent and wedded to the China growth story.

The EU pharmaceutical industry is still competitive to China, but that is mostly thanks to the multinationals that are largely interacting between the U.S., Ireland, Switzerland and Germany.

In other sectors, like automotive and semiconductors, the EU is either losing out, or not really a significant player. Loss of EU competitiveness has been especially dramatic for electronics, now run over by the Chinese.

Some analysts in Europe blame Chinese subsidies and dumping. But just as important has been the Italian, Dutch and German multinationals who sold out to China years ago either for cost-price competition, lax environmental rules, and the promise of access to a 1.2 billion consumer market — always a sexy draw.

Back in Europe, those companies have to deal with a tighter labor market, bad demographics, and very strict environmental rules. Good luck dumping fabric dye in an ally in Lombardy. You can probably do it in Wuhan, though.

Individual countries in the EU, and Brussels, need to look into how to remain competitive with China and Greater Asia, in general.

For Natixis, reorienting education, lifelong learning and active unemployment policies to build the knowledge capacities and skills for technological adoption and innovation are key. Like many segments in the U.S., Europe is focusing on other issues, often academic social studies in nature, while China is focusing on growth and high paying jobs.

With low growth, low interest rates, and an aging population, Europe is surviving these days more or less on central bank stimulus. As a result, it’s become a distressed asset.

Investors are just waiting for the bad to get worse before buying. They’ll sell soon as they reach their target price, because long term, at this point, Europe is looking like a nice place to visit, but for corporate and maybe some portfolio investors, not a nice place to invest.