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Putin Taunts Germany as Car Industry Flails and Russians Buy Chinese Cars

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The world-renowned German car industry has taken a dive in the last few years, a byproduct of the West's stand against Russia — and China has been quick to reap the benefits.

While speaking at the All-Russia Exhibition Center in Moscow on Thursday, Russian President Vladimir Putin highlighted the decline of the German auto industry and suggested, perhaps sardonically, that Russia might help them.

"They are now destroying their auto industry," said Putin, per Russia Today, in response to reports that Russia played a role in getting the German car industry off the ground. "They need to be helped somehow."

Putin was asked whether Germany's woes are a result of Russian buyers choosing Chinese vehicles instead of German ones, to which he replied, "not only that," although he did not expand on that response.

Over the last 18 months, the German industrial sector, especially the automotive industry, has faced increasing challenges. The competitiveness of German manufacturers has suffered due to rising energy prices, exacerbated by the loss of affordable gas supplies from Russia. Hildegard Müller, president of the German Association of the Automotive Industry (VDA), cautioned last year that escalating energy costs are causing a significant decline in international competitiveness. Many companies are contemplating relocating their operations to other places.

According to data from VDA, although the production from German car plants increased by 18 percent year-on-year to reach 4.1 million cars in 2023, it remained 12 percent below the pre-Covid levels of 2019. Additionally, German manufacturers experienced a 5-percent decline in orders, with domestic orders witnessing a substantial 18-percent drop.

Numerous top German car makers, such as Volkswagen and Daimler Truck, halted their trade activities with Russia and eventually withdrew from the country altogether, leading to the loss of a profitable market. The gap left by German car manufacturers was rapidly occupied by Chinese brands, which constituted over 90 percent of all car imports to Russia last year.

In the last few years, China has actively sought to become a real force in the worldwide automotive industry. Currently ranking second only to Japan as the leading car exporter globally, China has been steadily displacing European car manufacturers or acquiring shares in their firms. A significant player in the Chinese automotive sector, Geely, took ownership of Swedish carmaker Volvo in 2010. Moreover, in 2018, Geely's founder, Li Shufu, emerged as the primary shareholder of the German automaker Daimler, the parent company of Mercedes-Benz.

Putin's top economic advisor, Maksim Oreshkin, warned in December that "companies like Mercedes and BMW may fade into history in ten years" because they have "neither the market nor the technological advantage that they had five to ten years ago."

It isn't just Russia that's buying Chinese cars in big numbers. Jorge Guajardo, a Washington, D.C.-based partner at Dentons Global Advisors and former Mexican ambassador to China, told CNBC that Mexico ranked as the second most significant market for Chinese cars after Russia.

The outlet reported:

> Chinese-made cars have quickly increased their share of Mexico's auto market, a "new phenomenon" since the central American country has traditionally been highly protective of its auto industry — the top employer in Mexico, Guajardo said in a phone interview.
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> … "The factories, the plants that they had in China that were meant to be for the Chinese market that which they've now lost, you're going to start redirecting that capacity to export from China abroad," he said, noting he think's [sic] "there's a lot of overcapacity in China for auto manufacturing."

The Chinese electric car business has also been booming. By the end of 2023, China had achieved a new electric vehicle penetration rate of 40 percent in new passenger car sales, significantly surpassing the approximately 7 percent observed in the U.S.

BYD, the Chinese battery and electric car maker, beat out Tesla (by over 3 million vehicles) when it came to overall production in 2023, and also sold more battery-powered cars than its American competitor in the fourth quarter.

China is also increasing domestic sales of its own vehicles. Per Francoise Huang, senior economist at Allianz Trade, Chinese car firms are set to raise their share of the domestic market to 75 percent by 2030. This would amount to a 40-percent plunge in European car sales in China.

These developments have caused the European Union to conduct a probe weighing the need for subsidies of its electric car industry.

The boost China has inadvertently gotten from Western sanctions proves that Donald Trump is correct in his call for high tariffs on all Chinese goods. A country whose economy depends on production and the sale of its products to foreign markets stands more to lose from a trade war than the buyer. This can be seen with Russia; the West thought their sanctions would cripple Russia, but they only hurt themselves because their firms depend on access to the Russian market. Russia, on the other hand, simply began buying more Chinese cars.

In the same way, while some political analysts believe China would hold the cards in a trade war because it has the factories, the reality is that it has much more to lose than the United States, because without the U.S. market, China's manufacturing output will merely sit unsold, collecting dust in warehouses.