



**Shifting geopolitical and economic gears:
Which roads for the global automotive industry?**

Transcription of the podcast interview with:

Stéphane Colliac

Head of Advanced Economics, Economic Research, BNP Paribas Group

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Journalist, Noémie Lefebvre-Mâarek [NLM]: Welcome to "*On the Move*", the podcast where BNP Paribas experts decipher the challenges of sustainable mobility. Today, a seemingly simple question: why does your car cost more? And what do geopolitics have to do with that? A few points of reference before getting to the heart of the matter. The European Union is aiming for the end of new combustion cars by 2035. More than three out of four electric vehicles in the world are now manufactured in China. China, which also produces eight out of ten batteries. Question: how are geopolitical tensions, trade wars, shortages and inflation reshaping the entire value chain of the automotive industry? We're going to try to get to the bottom of this fascinating question, thanks to Stéphane Colliac, who I have the pleasure of receiving today. Hello Stéphane.

Stéphane Colliac [SC]: Hello Noémie.

[NLM]: You are an economist in the BNP Paribas Economic Research Department. Thank you for being with us. A little warning as a preamble, this episode is recorded in July 2026, so to you who are listening, the geopolitical situation and some of the figures we cite may have evolved. First question Stéphane, for our listeners, I would like to ask you to describe in a few words how BNP Paribas's Economic Research works and what your role is.

[SC]: Noémie, BNP Paribas Economic Studies represents a team of about twenty economists who cover the world's economies with a particular focus on the financing of the economy. At Economic Studies we work for the different departments of the Bank and our publications are available externally, which means on our website, but also on social networks. Through our forecasts and analyses, we aim to inform economic choices, we articulate the short and the long term. Many choices are made by decision-makers for 15-20 years, and it is important to correctly capture long-term trends. But this is not enough, and less and less so. The economy is punctuated by shocks - such as in 2025 with American protectionism or this year's conflict in the Middle East - which impact growth, inflation and interest rates and that are important to understand. And in all this, my role is to head the team that follows advanced economies including the United States, Europe, Japan, and more specifically, as a French economist, to follow growth, inflation and public finance forecasts for France.

[NLM]: So, Stéphane, for our listeners, could you give us the main orders of magnitude for the automotive industry today? Basically, who and where do we buy, where do we produce? And then what is the dynamic? In short, are we selling more cars or is it the opposite? How is the automotive industry doing, "Doctor"?

[SC]: So, it's an industry that is undergoing transformation, that's obvious. It's both a geographical transformation, and also the car itself is no longer the same as it was a few years ago. And in a few years, it won't be the same as it is today. What we can say is that 90 million vehicles were sold worldwide in 2025 which is a slight increase compared to 2024. We can see the glass as half full, but it's also unfortunately a little half empty since that's less than in 2023. It's also less than in 2018. We are producing and selling much more in Asia today than in the past, especially in China, which accounts for more than a third of global sales. It's not just important in terms of production. China is important in terms of the market as well. At the same time, the European and American markets are more mature, which means that they have had strong growth and they are now more in the process of transforming than increasing in these markets. And all markets are concerned, to varying degrees, by the transformations underway. The first one we can think of is the electric vehicle, of course, which in 2025 accounted for more than a quarter of vehicle sales worldwide. China's lead is major. Firstly, because it relies on an imposing domestic market, in which electric vehicles represent 55% of sales in 2025, and probably more this year. Europe is lagging but has made clear progress in recent months. 30% of sales are electric, but we'll come back to that. The United States, on the other hand, has a share of electric vehicles that remains more marginal, close to 10%, and in the context of an administration that does not currently make it a priority.

[NLM]: Let's talk about macro-economics now. In recent years, the automotive industry has endured various crises, the Covid crisis, the shortage of electronic chips, geopolitical crises, inflation and then, of course, the rise of electric vehicles. So, can we talk about serial shocks, in your opinion? What has marked the automotive industry the most in recent years?

[SC]: We have a concomitance between four factors that interact and we need to understand how they interact with each other to understand the evolutions. A market that tends, in the long term, to be very regionalized. That's a structural trend that we always come back to. We have to produce in the continent where we sell in the future. In the short term, this can be different. The second point is that a new entrant, China, can in the short-term produce at home and export in the same way Japan did during the 80s, without a strong local presence in other continents. The third point is a transformation of the car. It's not the same as yesterday, we'll get back to that. We're moving towards a vehicle that is more dependent on electronics. That's already very much the case today, and it will be even more so in the future: a lot of on-board electronics to support the uses of tomorrow. Today, we are putting chips that are ready to accommodate new features even before they exist. But in the future, they will exist. But first, electrification, that already exists.

[NLM]: And that increases the cost of vehicles too!

[SC]: Exactly. And let's also mention the autonomous car which will also be an important element. So, it increases production costs effectively, structurally. And then there's also a cyclical side to all this. There are shocks that accentuate the impact on costs, particularly through the price of semiconductors as during the Covid period, perhaps also in the coming months since semiconductors are also increasing due to AI. These shocks also affect demand because higher prices mean lower demand. And the rise in inflation also implies interest rate increases which also has an impact on demand.

[NLM]: And which of these transformations, Stéphane, have surprised you the most and what new features can we expect?

[SC]: Regarding electrification, we have a market that works at "both ends", you could say.

[NLM]: What does that mean?

[SC]: By that I means that, paradoxically, first we were afraid that premium manufacturers would be in trouble before switching to electrification because they were

building cars that emitted a lot. So, we anticipated that it was going to be complicated for them to make the transition to electric cars. But in fact, what happened is that we have buyers of these cars who have greater purchasing power and for whom price is less of a problem. So there weren't as many difficulties as for other more mid-range manufacturers to electrify their fleet.

[NLM]: So on the high-end it's not a question of price, basically?

[SC]: It's much less of a subject and it's not surprising. It's like in other sectors than the automotive industry, when you're in the high-end segment, the price is less of a problem. Then the surprise, that's obviously starting to appear. I'd say a novelty more than a surprise: it's the entry-level model. The entry-level model has suffered from a cost issue, particularly in Europe, though less so in Asia where it has remained important. But in Europe, especially during Covid, with the increase in costs, it was difficult for manufacturers to remain profitable with entry-level vehicles. The problem was that they were selling well, that there was a demand. It wasn't profitable for manufacturers, so they stopped the small models like the C1 (Citroën 1), the 108 (Peugeot 108), that kind of model. And the Asian competition weighed more on this sector, since price is much more important for entry-level models. What we see today is that manufacturers from all over the world, but especially in Europe, are managing to make EVs a little smaller, a little more affordable. There is a beginning of orientation towards this end. This trend also allows for a relocation of production, which we will talk about a little later. There are some fairly clear successes, such as the R5 (Renault 5) for example, that have intervened, and so we can see that can work.

[NLM]: This brings me to the next question, if we talk about sustainable mobility, states are putting, and have put, a lot of money and rules on the table to guide this transition, so, I'm asking you the question a little head-on: what works and what doesn't?

[SC]: Let's say it right out, a transition is costly and aid is necessary to carry it out. That has been demonstrated, it's also obvious. When aid decreases, we can see that demand also decreases. For example, in France, this was estimated by a 2023 report by [France Stratégie by Jean Pisani-Ferry and Selma Mahfouz](#), which showed that the objectives of reducing CO2 emissions by 2030, 55% less than in 1990 or carbon neutrality in 2050, could only be achieved with aid equivalent to two points of GDP per year.

[NLM]: That's huge!

[SC]: That's a lot! It's a lot and we have to find these means. It's difficult, there's a budget deficit, there are other needs to finance, so it's difficult. But as far as the car industry is concerned, this funding is of two kinds: at the same time, we need to support the production of electric cars so that they are produced more in Europe and a little less elsewhere. And that means subsidies for both cars and for entrants: batteries, semiconductors being the main ones. And the other type of subsidy makes it possible to reduce the price gap between combustion and electric for the consumer. In this respect, China is a perfect example of this dual strategy, with a significant amount in subsidies paid over the past ten years to develop the entire sector, and the sale of vehicles. We can see that it has worked very well. In Europe, on the other hand, this support has been less constant and less substantial because it is subject to budgetary constraints. Budgetary constraints are greater in Europe. For example, in France, we know that the deficit is high. But even in Germany, where it is lower, there are constitutional rules that limit its size and recent decisions in terms of support, which is now more moderate in China, and now a little more substantial in Europe. These issues explain developments at the beginning of 2026, which are a bit paradoxical compared to the previous trend: a decline from a still high level in China and an increase from a lower level in Europe.

[NLM]: If we go back a little bit, concretely we are talking about subsidies, customs taxes too, relocation. In your opinion, what is the most economically efficient tool, and which weighs most on consumers?

[SC]: Tariffs are the worst tool, we can say that, because it's hard to imagine that the country that is suffering from them won't respond, first. Because that means that another sector will be taxed by the country that is targeted. So that still represents a significant cost. China has been taxed on the automotive industry but French spirits, and even more broadly, have been taxed by China in retaliation. What we can also say is that it is the consumers who pay this tariff in the end. It is not the producing country that pays it because it increases the purchase price. It is not taken from the production price so it penalizes the consumer. It is a tax on the consumer. Obviously, intermediaries can take on part of it themselves so as not to suffer too much loss of market share, but in the end, it is the consumer who risks suffering.

[NLM]: So customs taxes don't work?

[SC]: It doesn't work too well, no. A more promising strategy in the long term, since it is in the long term that we want to change the place where things happen, lies in the "carrot and stick dialectic". What is a carrot? It's subsidies for example. And the stick. The stick can be a purchase malus.

[NLM]: For combustion cars, of course.

[SC]: There you go, it finances the strategy, brings in tax revenues, reduces the cost to the budget, so it can have an advantage on that side. This "carrot and stick" strategy can be mobilized, especially since the aid is conditional on local content. So we have both a strategy of bonus-malus subsidies, for example, and localisation, both of which are articulated. I would add that it's the same thing from a production point of view. All the major countries already treat vehicles more favourably in a high proportion and produced locally. So that means not just assembled, but there are really inputs that are produced locally. These regulations are effective in re-localising production, particularly in Europe. Specifically, we know Central Europe and its preponderant weight for the automotive industry, which is undeniable. Central Europe continues to develop as a production area for European industry and more broadly now also Chinese. But the regulations that are being negotiated, and we must talk about them with caution since they are not yet final, should also allow the European Union's trading partners to benefit from local content, particularly Morocco, which can benefit from them as it is also, like Central Europe, already a production area, but it can still develop in the future through this intermediary.

[NLM]: So, another question is consumer behaviour, we just talked about it a little bit. Are these geopolitical crises - in the Middle East, in Asia - and therefore the uncertainty that follow ... basically: If I order a car today, will it be delivered to me a few months later? Does that weigh on consumer behaviour, on the choice of manufacturers, the type of vehicle purchased or other choices such as leasing?

[SC]: The cost of buying the vehicle and the resale value are really the two key elements in explaining consumer behaviour. Implicitly, a buyer is more inclined to buy a vehicle. It's the same thing for other types of expensive goods, such as real estate, for example. They imagine that they can get a good price when they want to resell it. So, there's a kind of "hidden value" which is the resale value, and that will finance the next purchase. And if, obviously, they consider that it's worthless - by going to the extreme - or that the value is not guaranteed, they'll think twice before buying. When the prices of new vehicles go up, this inherently reduces demand. But when buyers have doubts about the resale value because they are faced with a new technology, as was the case at the very beginning when we saw a sharp drop, for example, in sales in Germany, which was largely explained by this in 2018. Consumers are faced with a new technology that they have not yet experimented with on the second-hand market, so they will be more inclined to rent than to buy, because it is less of a risk. We commit less money by renting: by dint of it we end up committing the money, but in the short term we commit less. This reasoning applies to a household, but it is all the more true for a company. Because if there are costs and if these costs are difficult to estimate, the company will tend to outsource the strategy

and therefore will seek to rent as well. And so we will have more leasing, more elements like that and less "pure sugar" sales.

[NLM]: And does the cost of credit and leasing weigh as much as the delivery time in purchasing decisions?

[SC]: It is indeed an important element, especially since it is less difficult to anticipate than delivery times, which can depend on parameters unknown at the time of purchase. The quality of the leasing offer is now a decisive element for manufacturers to increase their sales. That's another subject, but I think that the great success of social leasing, for example, which is not at all the same thing though there is "leasing" in it, demonstrates this shift from the sales market to rental.

[NLM]: So, does electrification of vehicles make the automobile more or less vulnerable to oil tensions, in your opinion? We can think of supply problems, new dependencies such as that of minerals, rare earths or Chinese batteries. How do you see that?

[SC]: What we can say is that the fluctuations in the supply of oil and in the price of oil are significant. Over the past five years, they have been substantial. We have had two waves mainly. The one in 2026 reminded us of the one in 2022. It wasn't that old. And as soon as electricity production is decarbonised, it brings a fairly clear advantage to electricity. And it is quite highly decarbonised now in Europe, it will be 71% in 2025. What does carbon-free mean? It means produced from renewables or nuclear energy. In this case, electricity is not subject to fluctuations in the price of oil and gas. And that's a rather recent phenomenon in fact, to observe less dependence, since in 2022 gas was still heavily used for electricity production in Europe. In France in particular, we have nuclear power. Unfortunately for us, in 2022, nuclear power plants were under maintenance, so we also had to use gas and the price of electricity on the financial markets had changed significantly. That's still an advantage.

[NLM]: So that means it's in favour of electric vehicles.

[SC]: Exactly, since the price of electricity has not followed the price of oil, it has remained much more stable. The arbitration for the consumer has therefore been more favourable towards electric vehicles in recent months. But your question also implies that the price of the vehicle must remain under control. It's not just the mode of propulsion, it's not petrol, it's electricity, it's simply the cost of the vehicle. And that's the case now, we had a drop in the price of vehicles before the outbreak of the conflict in the

Middle East. For the moment, it's not really called into question and that's also very different from 2022. So we really had a concomitance of two favourable elements, both electricity and then the car itself, which doesn't necessarily cost more than in previous months to produce.

[NLM]: So, I have a small sub-question, the electric vehicles we're talking about are becoming "Software-Defined Vehicles", i.e. software-defined vehicles with the key functions of assisted driving, braking, etc. Can this be a hindrance in view of geopolitical and environmental tensions, the rise of AI in the vehicle?

[SC]: In any case, it's the future of the motor vehicle. And of course, we see that when something is the future, no matter how much we say that there are issues, environmental constraints, whatever else, we go for it nonetheless! There's always someone to put it in place. So it's the future, we're moving towards that no matter what. But it's true that, as you suggest, this future is accompanied by stronger strategic dependencies. And that's obvious, especially for Europeans. The current state of global competition, where the technological sectors are dominated by the United States and China, is not going to change fundamentally in the years to come. We see that these dependencies are on hardware, so things that are being transformed, but it's also on critical materials. So it's two-headed, you could say. And in these two areas, in neither of them, is Europe in a leading position. It is important for manufacturers to secure their supply chain and invest in order to reduce these dependencies in the long term.

[NLM]: OK, so we're going to zoom in a little bit geographically, on two regions mainly, and we're going to start with Asia. Can we talk about a "hangover"? Consumption is not growing as much as it has in recent years. What's happening in Asia, Stéphane?

[SC]: For China, that's an image that we can indeed adopt. The "hangover" is a "hangover" from subsidies, that's what the Chinese market was dependent on and that's what made it develop so quickly, because otherwise it wasn't natural for it to develop so quickly. Since the beginning of the year, registrations have fallen by 20%. It's a rather brutal drop that wasn't necessarily anticipated, but it's logical since the reason is the reduction in the tax advantage that previously made it possible to recover all the VAT on the purchase of an electric vehicle. Today, that's only partial and limited in terms of amounts too. So, it's 50%, but it's limited, it's capped. And that's been since January 1.

[NLM]: Does this mean that Chinese consumers have switched to combustion engines or are simply buying fewer vehicles?

[SC]: They are buying fewer vehicles because the share of electric vehicles has increased at the same time. But it's an increase in share that is being done with a decrease in the overall price both for the combustion engine and the electric vehicle: there is a bit of a decrease for electric vehicles all the same. There are two consequences to this situation. Faced with the slowdown in the growth of the domestic market, with substantial production capacities, Chinese manufacturers will need to grow their exports even more, more than in the past, and that was already very substantial.

[NLM]: Of course.

[SC]: It is already the world's leading exporter, but it's a dynamic that is already at work. We're not that far from having 1 million vehicles exported per month, which is huge because if we just multiply it by twelve, it would be 12 million over the year. Which is an extremely significant amount, when you see that there are 90 million vehicles sold worldwide.

[NLM]: And where do these vehicles go mainly?

[SC]: They go to all parts of the world, they go a lot to Europe, we see that, but they don't just go to Europe, they also go to the rest of Asia or Latin America. They go everywhere. The second lesson, however, when we look at the situation of the Chinese market, also when we look at it from Europe, is that the growth of the market is not necessarily there anymore. It is elsewhere, in markets that are currently even smaller, but which have the potential to increase quite strongly. Asia, excluding China, appears to be very buoyant because we have a market in Asia-Pacific, excluding China, that has grown enormously since the beginning of the year by 80%. Obviously, it starts from a small size, which is why it can increase sharply. But this development is quite strong in Latin America, it is developing quite strongly there too. That's not to say that China is over, but overall it will have to live with less aid, which will happen more with market conditions, but there are other markets that will grow rapidly.

[NLM]: In Europe now, we know that Europe started later in the electric vehicles race and we are seeing the most significant growth. On the other hand, in terms of sales, we are at more than 30% in 2025. That's huge. Does this mean that Europe will turn the page on thermal vehicles? Is this done? And can it become the champion of electric vehicles in the years to come? Or is it really too late for its automotive industrial sovereignty?

[SC]: The answer to the question depends on how do you define "combustion". Because we can be binary and say "there's thermal and electric", but there's hybrid in the middle,

so where do we put the hybrid? Is it plug-in hybrid or non-plug-in? If it's non-plug-in, there are two modes of propulsion: obviously there's electric, but there's always a little bit of combustion in it. If we talk about "pure" combustion engines, i.e. without really any batteries, there are not many that are sold anymore, there are still some, but it's more in the order of 15-20%. It's not more, for example in France. But a market doesn't only work with new cars, it also works with second-hand cars. And on second-hand cars, there are still a lot of combustion engines that remain predominant. On new cars, the transition is now very much done, especially if we include hybrids and electric vehicles, the two combined, that's close to 75%.

[NLM]: New vehicles?

[SC]: New vehicles, for example, in France. But on the second-hand market, there is still progress to be made. The other aspect is that after recording a sharp drop in market share, intra-European production, that of European vehicle manufacturers, is rather set to bounce back because of the constraints that impose local content. And we are already seeing that. Subsidies for the purchase of vehicles that are packaged at the place where they are produced, because it has a lower carbon cost if they are produced locally. This has led, for example, to a rebound in production in France in 2025. And these are things that should continue.

[NLM]: Does that work?

[SC]: It works! In the short term it works, and it makes local production by local manufacturers, it will also mean local production by non-local manufacturers, and in particular Chinese, since they will establish themselves. But it should also be noted that the technology that is imposed for the moment is Chinese. We can talk about vehicle manufacturers and equipment manufacturers. It's an important part of the sector. In terms of batteries, for example, it's the lithium-iron-phosphate alloy that is less expensive and that has tended to prevail, which is Chinese technology. We were starting with a slightly different strategy and a slightly different alloy in Europe. But since this costs less to lower the price of the vehicle, some manufacturers have switched to this technology as well. This example reflects that the technology is not ours for the moment. And in this context, the first thing to do is to ensure technology transfer. It's a reversal from fifteen years ago when we unvested in the Chinese : the benefited from our technology transfers to other sectors. Today, they are the ones who have a head-start and we are the ones who are looking for these technology transfers. So partnership agreements must integrate these technology transfers. But in the long term, it is the R&D effort that will be the key variable for European manufacturers. The technology will

continue to evolve in a way that is not yet known, to identify solutions that are economical, low-polluting and allow vehicles high autonomy.

[NLM]: Thank you very much, Stéphane Colliac. As you can see, geopolitics is not "background noise" for the automobile. It reshapes uses and prices. Thank you very much for these precious insights and meet you soon for a new episode of the On the Move series. Thank you all!

