



HAL
open science

Proposals for an Innovative EU Strategy at the Crossroads of Chinese EV Trade and Geopolitics

Sebastian Contin Trillo-Figueroa

► **To cite this version:**

Sebastian Contin Trillo-Figueroa. Proposals for an Innovative EU Strategy at the Crossroads of Chinese EV Trade and Geopolitics. China-US Focus, 2024. hal-04667996

HAL Id: hal-04667996

<https://hal.science/hal-04667996>

Submitted on 6 Aug 2024

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Proposals for an Innovative EU Strategy at the Crossroads of Chinese EV Trade and Geopolitics

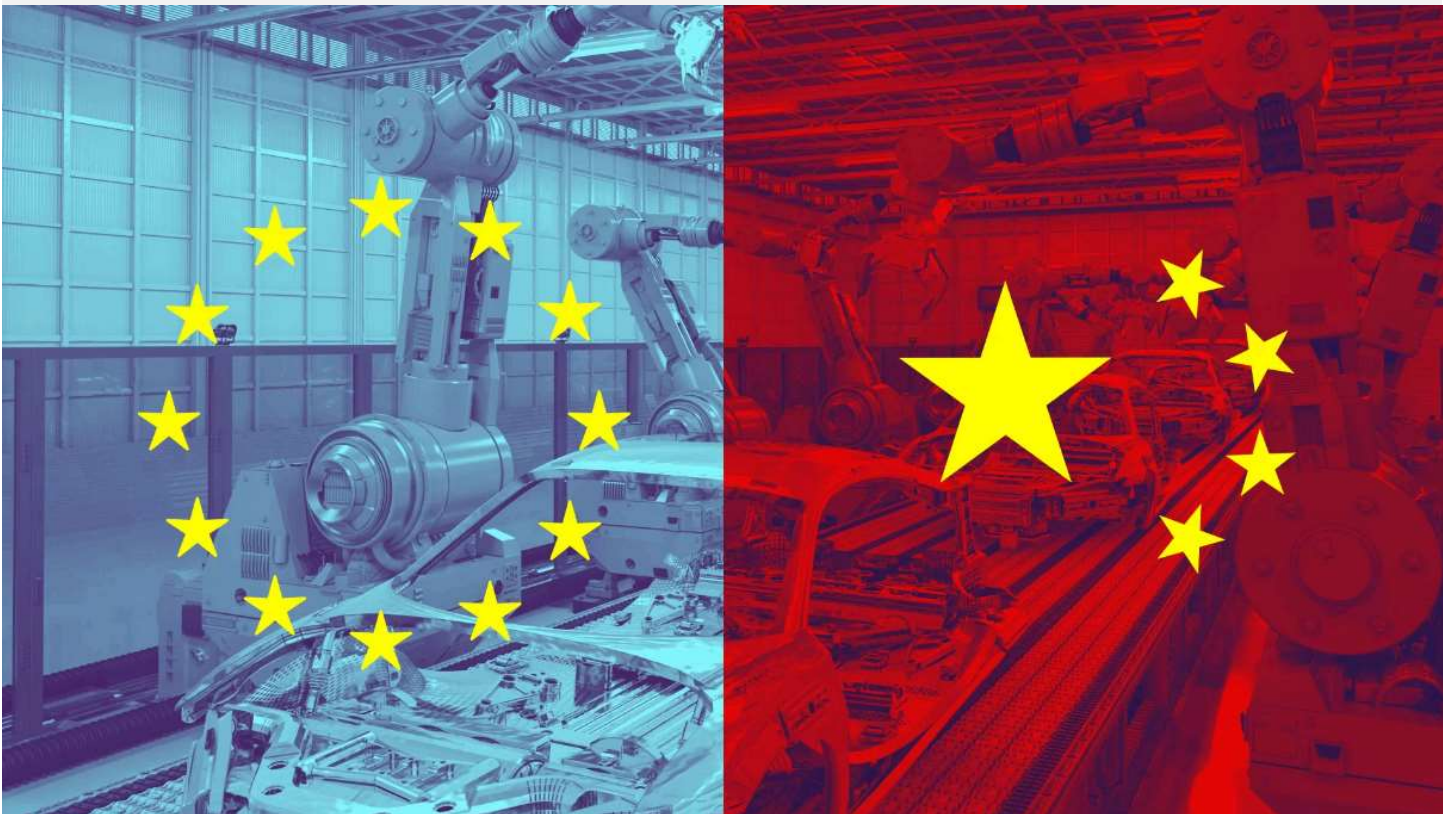
Aug 05, 2024

Tweet



Sebastian Contin Trillo-Figueroa

Geopolitics Analyst in EU-Asia Relations and AsiaGlobal Fellow, The University of Hong Kong



The European Commission is betting its political capital on a confrontation with Chinese electric vehicles (EVs), a high-stakes gamble where any misstep could spell dire consequences for Europe.

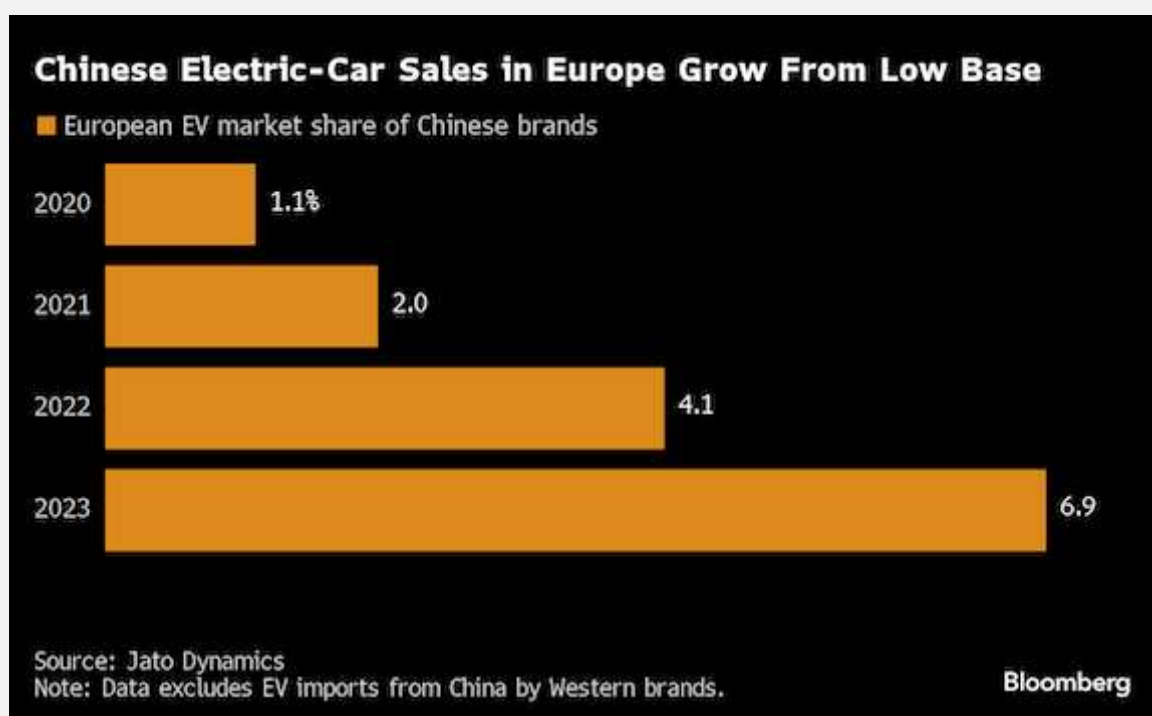
Ursula von der Leyen and her team have initiated this skirmish, potentially igniting a trade war that will reveal both sides' strengths and weaknesses. The European Union's geopolitical test revolves around the outcome of the anti-subsidy probe into Chinese EVs. Could Beijing be more fragile than perceived? Might Brussels be stronger than it appears? Or is Europe playing a game it cannot afford?

The bloc stands at a critical juncture after responding to extraordinary crises. Pandemic recovery programs, costly energy decoupling from Russia due to the war in Ukraine, and sanctions on Putin's regime have tested its resilience. Critics argue that the sanctions have faltered; initially deemed the sole viable response, Russia skillfully circumvented them with substantial—and unexpected—economic support from China and India.

This exemplifies how measures intended to have one outcome can backfire and produce the opposite effect. Another economic restriction, provisional duties on EV imports from China up to 47.6%, incites provocative questions: What benefits will this bring to the European automotive industry, traditionally focused on exports? How can EU cars strive globally if they avoid competition? What strategies will Europe adopt to innovate and offer affordable pricing?

Internally, the EU grapples with conflicting interests among member states regarding the protection of the single market through economic security measures and de-risking. Even countries like Germany, with a coalition government divided, lack unanimous domestic positions. Automotive companies are similarly split: some advocate for penalties, while others, particularly those with production bases in China, see such measures as counterproductive.

Certainly, increasing tariffs on Chinese EVs is not just a political maneuver but a risky gamble. Beyond economic implications, it poses significant geopolitical and climate defies. The EU aims to phase out combustion vehicles by 2035, but higher levies raise concerns about accessibility, when EV demand in Europe is currently weak. Will European consumers buy vehicles priced significantly higher? Which demographics can afford such increases, and how will EV expansion proceed on European roads?



China's Reaction

Although overall EU restrictions on Chinese products currently impact slightly over 1% of total trade, China perceives the EVs countervailing duties as significant (termed a “[witch hunt](#)” by Chinese businesses in Europe), though less severe than the 100% imposed by the U.S. Xi faces a dual contest: having identified EVs as one of China’s “new three” critical sectors for the future of industry, trade, and the environment, other middle powers like Brazil (35%), Turkey (50%), and India are also raising tariffs on Chinese EVs.

The dilemma for China lies in the EU’s inability to back down now. The stakes are immense, and there’s no room for reversal without losing geopolitical credibility or appearing weak. China’s response will be multifaceted, with retaliation seen as inevitable.

Indeed, China has recently taken measures targeting EU exports or restricting its own exports of critical raw materials such as gallium, germanium, graphite, and key rare-earth technologies—all crucial for advancing the green agenda. Should tariffs be imposed, China might escalate from threats and restrictions to direct retaliatory measures like tariffs or quotas on key European exports in high-value, symbolic or emblematic sectors like luxury goods and automobiles. This includes combustion cars, aerospace manufacturing (notably Airbus), agriculture (brandy, dairy, pork), and industrial machinery.

However, targeting these sensitive sectors risks self-inflicted damage if a full-fledged trade war ensues, which might not be in China's best interest. Despite the interconnectedness of both markets acting as a natural deterrent, such actions could still exert significant pressure on major EU economies like Germany, France, Italy, and Spain, where these industries play a crucial role.

If this scenario unfolds, the EU would need to rally member states to present a united front, potentially offering subsidies to affected industries—a task undoubtedly fraught with difficulties—or seeking alternative markets. The EU would need to expedite its strategic autonomy initiatives, diversify partnerships, accelerate the signing of pending FTAs, pursue nearshoring and friendshoring, invest in domestic production, and secure alternative suppliers.

While Eurocrats reassure that there is nothing to fear from China's retaliation, framing it as the cost of asserting geopolitical agency, they should explain this stance to the sectors that will bear the brunt of these consequences. This becomes especially pertinent as European institutions themselves have made decisions that appear advantageous for China.

For instance, Northvolt's recent [struggle](#) to meet demand, despite receiving nearly €1 billion in state aid from Germany, vividly illustrates the challenges the EU faces in competing with China in the EV supply chain. The auto industry alone contributes up to 10% of GDP in countries like Germany and Spain, highlighting its critical role in export markets that will be significantly impacted.

Beijing is anticipated to escalate its diplomatic pressure in key capitals with the classic "divide et impera" tactic, aiming to sway their positions across two critical stages: first, a non-binding vote among the 27 member states by the end of July; second, a decisive vote on November 4 to establish tariffs for a five-year period. Securing votes from the largest and most influential countries will be pivotal as the agreement requires "qualified majority." China's goal is to thwart the final tariffs' approval. What implications would this scenario hold for Europe's geopolitical position?

Simultaneously, Beijing is expanding its EV strategy through multiple FDI projects. Beyond Hungary—with substantial Chinese investments—, countries like France, Spain, and Slovakia are embracing electric battery and vehicle factories. This move enhances China's economic influence and could disrupt EU unity—Germany already [pressured](#) on their behalf before the provisional duties. To counter this, Europe must strengthen its economic presence and offer competitive investment alternatives within the constraints of EU single market regulations, an arduous task.

Exploring Alternative Solutions with China & ASEAN

Considering the uncertainties mentioned above, the new Commission could reassess the effectiveness of intertwining geopolitics with trade, aiming to minimize self-inflicted economic harm. While aggressive trade wars and strict policies may appease certain allies, they often highlight political discrepancies without clear discernible objectives.

Emphasizing practical Chinese EV trade solutions over confrontational approaches can bolster Europe's resilience. Both parties should negotiate three key points: supervising the factories opening in member states to prevent overexpansion, licensing European car manufacturers to produce for Chinese counterparts, and monitoring the number of vehicles produced in China that could be sold in the single market, subject to annual review. This will help prevent disruptions in the European industry.

While China may perceive the EU's policies aimed at addressing subsidies and industrial overcapacity as antagonistic, these actions also highlight broader concerns about maintaining a level playing field—an undertaking Beijing has struggled to address adequately. Brussels' objective is to safeguard economic interests and ensure fair competition across industries. Given that China's "[whole supply chain is subsidized](#)," accepting these terms is crucial. Other global powers are implementing similar duties and measures that impact this strategic industry, encouraging China to seek an agreement with the EU to explore innovative solutions.

Furthermore, China, a significant EU trading partner, has two more strategic interests in maintaining positive relations: firstly, to prevent the EU from aligning closely with the U.S. confrontational stance and jointly imposing further comprehensive economic sanctions and trade barriers; secondly, to avoid retaliatory measures that could erode Beijing's soft power, potentially fueling increased anti-China sentiments worldwide. This approach guarantees the Mainland to sell strategic products in Europe under clear and well-defined regulations.

Additionally, Europe should continue to prioritize de-risking while leveraging ASEAN's potential in the automotive semiconductor supply chain. Highlighted by Kaewkamol Pitakdumrongkit from Nanyang Technological University, ASEAN's EV market was valued at US\$500 million in 2021 and is projected to reach US\$2 billion by 2027. This growth offers Europe substantial opportunities to secure competitive pricing and penetrate new markets, enabling partnerships or procuring a set number of vehicles to support the green transition at competitive prices.

In essence, the path forward requires wisdom and balance, steering clear of aggressive trade conflicts to foster robust and prosperous economic—and alternative—partnerships decisively.