

The U.S. Response to China's Dominance in Clean Energy

To compete in the global transition to electric vehicles, America's automotive industry needs Chinese parts, technology, and investment —on U.S. soil.

The shift from the production of cars with internal combustion engines (ICEs) to new electric vehicles (NEVs) is critical to the transition to clean energy. The legislative achievement of the previous administration was to use this major technological challenge to reinvigorate American manufacturing and to reinvest in many rust belt states.

Bringing advanced manufacturing to the United States makes America's automotive sector more competitive in the global marketplace for electric vehicles (EVs). It's good for business. Linking the green energy revolution to new jobs in regions hit hard after China's accession to the World Trade Organization in 2001 will build political capital with American workers. It's good for labor.

But China is now a long way ahead of other economies in the transition to NEVs. It controls much of the access to crucial mineral inputs and processing; it dominates the production of EV batteries; it manufactures at lower cost and at a higher scale than any other economy; and its consumer market is large and already buying EVs at a pace not seen in the United States or the European Union. The United States, meanwhile, is lagging, despite the ambition of the Inflation Reduction Act (IRA). With some in the new administration calling to roll back the IRA, the overall strategy is also in peril.

Rather than reject the Biden agenda, the Trump administration should evaluate how to adapt existing policies to avert a crisis in the U.S. auto industry. It will need to be clear-eyed about the benefits, not just the risks, of Chinese investment in this sector (see the Nahm memo in this report) and take a reasonable and strategic approach to vetting Chinese companies.

DO OR DIE


This is an existential moment for the auto industry. Legacy automakers in the United States and Europe were complacent and slow to notice China's growing strides in NEV production. Companies such as General Motors, Ford, and Volkswagen now face stiff competition from Chinese firms, in China, where they face steep declines in market share, and in their other markets. Exports from China are soaring globally. Chinese car companies are dealing with excess capacity in internal combustion engine vehicles and are seeking to expand into new markets with EVs, especially the EU and Southeast Asia.

Western governments, meanwhile, have not done enough to build the infrastructure needed to support the transition away from combustion engines. Some have politicized the issue for electoral advantage. During the 2024 presidential campaign, both Donald Trump and J.D. Vance campaigned against electric vehicles and Biden's policies that encouraged EV purchases. But blame games won't help.


So far, the main weapon of choice is tariffs. In May 2024, the Biden administration placed 100% tariffs on Chinese-made EVs, and the EU has announced its own tariff levels. These should be a stopgap measure only. Used strategically, tariffs can protect the domestic market while building capacity, technological expertise, and human capital.

But tariffs without innovation will leave the United States a technological backwater. A slower and more expensive transition to EVs will put the United States and American companies permanently behind. Some companies that already produce significant quantities of EVs in China, such as Tesla and BMW, might become even more dependent on the nation, for production and as a vibrant market. A tariff-only approach also risks losing the global market to Chinese brands who will easily fill the gap opened up by a lagging United States.

Reducing the world's reliance on China as the manufacturing epicenter of NEVs means allowing Chinese companies to invest in the United States. This is especially true in the production of EV batteries. Here Chinese companies are so dominant, they can quickly bring down the costs of making EVs in the United States. This would be the lifeline U.S. firms need to compete on price, and boost consumer interest and investment in the charging infrastructure.



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That is Ford's strategy in striking a licensing agreement with CATL, China's largest EV battery maker, to build a new battery factory in Michigan.

Such Chinese battery companies are keen to expand production abroad. In China, cutthroat competition, fueled by easy state-supplied credit and industrial policy, makes it difficult to turn a profit. Moving production overseas enables these companies to be more integrated into domestic supply chains, especially in high-tariff environments like the United States. Already Chinese companies that make EV batteries have invested in Michigan and Illinois. But political uncertainty has caused some to pause plans or redirect to more hospitable destinations in Southeast Asia and Europe.

HOME ADVANTAGE

Objections to allowing Chinese investment into the United States include supply chain dependence, the theft of intellectual property and technology, and concerns regarding China's approach to human rights, the environment, and unionization (see the LeClercq memo in this report). In each of these areas, the threats to the United States are greater if NEV production and its supply chains continue to concentrate inside China.

First, building the EV supply chain domestically will reduce U.S. dependency on China, a key national goal after the shocks of the COVID-19 pandemic. Already Chinese companies produce 75% of all batteries for EVs globally. For U.S. automotive makers to remain competitive, they need more batteries on the ground, where they are close to hand.

Second, Chinese companies lead on intellectual property in this sector. American companies will benefit from licensing arrangements that allow them to use this IP for manufacturing within the United States. The alternative is for U.S. companies to be increasingly dependent on technology produced elsewhere. Finally, on environmental and labor concerns, the United States is far more able to regulate and investigate production problems on home turf. Outsourcing production to China makes it harder for workers and activists to make their concerns heard.

There are other benefits of enriching the domestic supply chain with Chinese investment. It will boost employment, technological innovation, and union influence in the United States. In the last United Auto Workers strike in 2023, a key bargaining point was a demand for the inclusion of battery plants in new contracts. If the Trump administration is to deliver a pro-worker agenda, maintaining domestic auto production is critical.

Of course, there must be a careful evaluation of the benefits and potential risks of planned Chinese investment in the U.S. auto sector. Many recent cases have met stiff opposition for ill-defined reasons. Local communities often find out far too late that a Chinese company intends to invest in their town. With little direct community engagement, rumors and vague concerns come to dominate and can lead to an increase in anti-Asian discrimination and violence (see the Kusakawa, Chen, and Johnston & Kim memos in this report). The strategic advantages of allowing some Chinese production on U.S. soil often get overlooked.

As many communities suffer the increasing costs of natural disasters made more severe by rising temperatures, America needs to reduce its dependence on fossil fuels—including through sensible engagement with Chinese companies that are leading in the EV sector.

FURTHER READING

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