

# Global Market Outlook and Impact of China's New Energy Vehicle Industry

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**Abstract:** Recently, the China Finance 40 Forum and the China Center for International Economic Exchanges jointly organized the sixth Bund Summit, during which a closed-door seminar was held on New Energy Vehicle Industry: The Global Impact of the Chinese Market.

*Some international experts note that the rapid development of China's new energy vehicles is based on its complete and strong industrial production capacity, which is a reality that other countries must acknowledge.*

*Some international experts believe that most of the overseas markets for China's new energy vehicles have high trade barriers. Meanwhile, China's continued large-scale export of new energy vehicles to countries with mature automobile industries may cause a huge political backlash.*

*The United States (U.S.) and India have the highest barriers, and it is almost impossible for China's automobile companies to set up production plants there due to factors such as high tariffs. Besides, the European Union (EU) is almost certain to continue to impose tariffs on China's new energy vehicles for five years after the conclusion of the anti-subsidies investigation.*

*The meeting has also concluded that subsidies in the new energy sector to compensate for market failures are necessary, and at the same time, discriminatory, inefficient, and non-transparent industrial policies should be avoided.*

*International experts suggest that China look into trade management measures such as moderately controlling the export of some products and boosting local employment and technology levels when setting up factories overseas to ease trade tensions. Countries should also promote the establishment of global guidelines for industrial policy.*

## I. Foundation of the Rapid Development of China's New Energy Vehicles: Comprehensive and Strong Industrial Capacity

YEO Han-koo, Peterson Institute for International Economics (PIIE) senior fellow and former trade minister of the Republic of Korea (ROK) believes that China's new energy vehicle industry is developing rapidly and that China's production level is the world's

leading, which changes China's image as a low-cost, labor-intensive production base. He researched a Chinese new-energy vehicle company, which launched a competitive new-energy vehicle product in just three years after entering the industry, a fast development compared with companies in other countries. Moreover, the production automation rate of this automobile enterprise has reached more than 90%, at the leading level in the world.

According to YEO Han-koo, the main reason for the success of China's new energy vehicles is its comprehensive and competitive industrial production capacity, reflected in three aspects:

First, China has developed a comprehensive industrial chain after more than 30 years of efforts, enabling the establishment of an ecosystem for China's new energy vehicle industry, which covers key minerals, power batteries, machinery, integrated circuits, and software operating systems.

Second, talent resources are abundant. China generates approximately 2.2 million graduates with undergraduate degrees or higher in engineering-related majors every year, three times as many as the U.S.

Third, the Chinese government has provided good infrastructure and environment for the promotion of new energy vehicles.

YEO Han-koo points out that no matter what kind of trade conflict occurs, China's strong industrial strength is objective, which is a fact that other countries should acknowledge.

## **II. China's New Energy Vehicle Exports: Facing High Trade Barriers and Potential Political Backlash**

From the perspective of Rick WATERS, Managing Director of Eurasia Group's China practice and former U.S. Assistant Secretary of State, how large a subsidy China has given to the new energy vehicle industry does not matter, because many countries are resisting China's huge trade surpluses out of populism and self-protection instincts, which raises trade barriers.

He believes that China itself is the largest market for Chinese new energy vehicle sales (about 60% of global demand). However, in the global market, China's new energy vehicle sales will continue to face great difficulties in the medium term, as major overseas markets such as the U.S. and Europe erect higher trade barriers.

The only regions with low trade barriers are Southeast Asia, Africa, and the Middle East, which account for only 3 percent of global demand for new energy vehicles. According to YEO Han-koo, these countries, with a weak industrial base and no vision of developing their automobile industries, are happy to accept China's cost-effective new energy vehicles, and this also helps promote carbon emission reduction. Rick WATERS also thinks that to stimulate the potential demand in these regions, China or other countries may need to help build these countries' infrastructure.

In addition, YEO Han-koo points out that China's continued large-scale export of new energy vehicles to countries with mature automobile industries is likely to cause a huge political backlash. He believes that automobiles are probably the most politically sensitive industrial sector. Economies with a mature automobile industry base (such as Europe, ROK, Japan, Turkey, India, etc.) are struggling during the transition from fuel-vehicle manufacturing to new-energy-vehicle manufacturing because the supply chain of new energy vehicles is different and the scale of employment is greatly reduced. Meanwhile, the automobile industries of these countries are being significantly challenged by new energy vehicles from China, both in their local and overseas markets. China's continued large-scale export of new energy vehicles to these countries may cause a political backlash.

## **IV. The Highest Trade Barriers Set by the U.S. and India, and Europe's Continued Tariff Increases**

According to Rick WATERS, China's new energy vehicles face high trade barriers in countries including the U.S., India, ROK, and Japan, and these countries account for 10% of the global demand for new energy vehicles. Hardly will China's new energy vehicle production capacity be absorbed by these countries.

Among them, the U.S. is the most hostile market for China's new energy vehicles, followed by India. The biggest difficulty Chinese automakers may encounter

in the U.S. and India is not tariffs but investment-related national security scrutiny, which makes it almost impossible for Chinese automakers to set up factories there (India has already refused to allow Chinese automakers to set up factories there). ROK and Japan's restrictions on China's new energy vehicles are mainly in the form of non-tariff barriers.

Rick WATERS believes that if Donald Trump wins the U.S. election, he will urge Mexico to restrict Chinese companies from setting up factories there. In addition, in line with "The United States-Mexico-Canada Agreement", the U.S. will also prevent China's new energy vehicles from bypassing Canada or Mexico into the U.S.

Medium trade barriers regions including Europe, Brazil, and Mexico, accounting for 27% of the global demand for new energy vehicles, will set high tariffs and relatively few investment restrictions. According to Rick WATERS, the EU is almost certain to vote in November to continue a five-year anti-subsidies tariff on China's new energy vehicles. This July, the European Commission decided to impose temporary anti-subsidies tariffs, and this temporary tariff will last until November 2, when the EU's anti-subsidies investigation ends. At that time, the EU will call member states to vote. If at least 65% of the EU population on behalf of the 15 countries vote against the tariffs, they will not be formally implemented; otherwise, the tariffs will continue to be implemented for 5 years. Rick WATERS believes that in the current situation, the result will not be against the tariffs, and the EU tariffs on China's new energy vehicles will continue to be implemented.

While Brazil is open to the investment and production of foreign car companies, it may prefer European automobile companies.

#### The Necessity to Introduce New Energy Industry Policies and Avoid Discrimination and Inefficiency

YEO Han-koo thinks that the new energy industry has a positive externality and that the government's introduction of subsidies and other industrial policies

is to internalize the externality, making up for market failures, thus necessary. Participating experts have the following views on how to use industrial policies.

First, industrial policy should be non-discriminatory. According to YEO Han-koo, if countries implement industrial policy in a discriminatory way, subsidizing their products only, the rules-based trading system will fall apart and global trade will become chaotic. In his opinion, it cannot be denied that China had provided discriminatory subsidies to its enterprises, excluding foreign enterprises, at the early stage of new energy vehicle development.

Second, it is necessary to pay attention to the efficiency of industrial policy. Rick WATERS points out that the political atmosphere in the U.S. makes it difficult to tolerate the inefficiency of industrial policy. He presented an example that the U.S. had industrial policy support for solar panels during the Obama administration but then failed, which made the U.S. renewable energy subsidy policy unpopular thereafter. He also pointed out that Donald Trump said that if he won the election, he would cancel the new energy subsidy policy in the Inflation Reduction Act and turn to an energy-neutral position.

Third, the lack of transparency and coordination mechanisms in countries' industrial policies is the main challenge at present. Rick WATERS believes that due to the current industrial policies with low transparency and coordination, trade barriers between countries on industrial policies have increased, and industrial policy incoherence and the deadlock brought by trade barriers will continue to deteriorate in the short term. In new energy vehicles, this stalemate will reduce competition and demand for innovation worldwide, not conducive to technological innovation and the long-term development of the industry.

## V. Policy Considerations

First, measures to manage trade are necessary, such as moderately controlling the export of some products.

According to YEO Han-koo, when China's new energy vehicles enter countries with a mature automobile industry base, serious consideration must be given to possible changes in the political and economic environment of other countries. If Chinese companies take all the overseas markets by virtue of superior quality cars and low prices, trade tensions may be exacerbated in the long run, to China's disadvantage. In his view, China may consider policies to manage trade and moderately control the export of some products to ease the trade tension caused by the excessive surplus.

Second, Chinese automakers should continue to promote investment and set up factories overseas, and during this process, they need to boost local employment, technology, and labor levels. Experts at the meeting have agreed that Chinese automakers setting up factories overseas is a significant way to ease trade tensions and promote international exchanges of new energy technologies. However, YEO Han-koo once

got feedback from African countries that past Chinese projects in Africa achieved a lot, but the spillover effect was limited because Chinese companies employed few local workers. Therefore, he believes that when Chinese companies invest and set up factories overseas, they should pay attention to training local workers and upgrading local technology. In this way, they can gain more support from other countries while advancing China's industries overseas.

Thirdly, it is significant to strengthen the global governance of industrial policy and establish global guidelines on industrial policy. Participating experts think that in the impasse of uncoordinated industrial policies and rising trade barriers, countries need to engage in global dialogues on industrial policies and establish global guidelines on industrial policies which will become the minimum standards that countries should follow in implementing industrial policies. 📌