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THE PENINSULA

How Tariffs and Connected Vehicle Risks Limit Chinese EVs in the United States

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US policymakers are concerned about the competition that Chinese electric vehicles (EVs) may pose in the US and global economy. This concern is heightened by the rapid rise of Chinese EV manufacturers like BYD. EVs, which encompass battery electric vehicles (BEVs), plug-in hybrid electric vehicles (PHEVs), and fuel cell electric vehicles (FCEVs), are claiming an increasing portion of global car sales, driven in large part by a growth in BEV sales. Though Tesla reclaimed its title the next quarter, BYD briefly became the top-selling BEV maker in the world for Q4 2023 and, depending on its 2024 sales numbers, could surpass the US automaker to claim the 2024 annual title as well.

In the United States, however, Tesla is still the overwhelming market leader for the overall EV category on an annual basis. Tesla holds a wide gap over Ford, Chevrolet, and Hyundai, whose respective market shares follow in descending order. Meanwhile, Chinese automakers are noticeably absent from the list.

What is keeping Chinese automakers like BYD from capturing the same foothold in the United States that they enjoy globally? In addition to a lack of brand presence or retail network in the United States, a 27.5 percent tariff on Chinese-made EVs, which was put in place by the Trump administration under Section 301 of the Trade Act of 1974, has been successful in shutting them out of the market. The Biden administration elevated the tariff in May 2024 to 102.5 percent—a move replicated by Canada this past Monday.

Because these provisions apply to *Chinese-origin* vehicles, Chinese EV makers are seeking to navigate around the massive tariff by shifting production outside of China. BYD is reportedly eyeing a production facility in Mexico, where it is possible that Chinese EVs could be imported to the United States tariff-free under the US-Mexico-Canada Agreement (USMCA).

This would likely create drastic implications for US domestic EV manufacturers, including Hyundai and Kia's EV-producing plants in Georgia and Alabama, and could serve to upend future plans aimed at expanding EV manufacturing. An excess capacity of Chinese EVs, which enjoy deep cost efficiencies due to substantial government subsidies, could create price competition in the United States, where incentives regarding EV subsidies already limit product affiliation with Chinese suppliers of critical minerals or battery components.

Moreover, as more than two-thirds of new vehicles sold in the United States will need to be EVs by 2032 under the EPA's new tailpipe emissions standards, the mass introduction of low-priced Chinese EVs to the United States through Mexico could create a form of weaponized interdependence in an industry deeply tied to the United States' infrastructure and ability to conduct trade.

Much like the public consternation surrounding potential backdoor surveillance from Chinese-affiliated 5G technology, imports of Chinese vehicles to the United States through Mexico have opened a host of concerns regarding their potential use as listening devices through the vehicle's built-in internet-connected software, a concept under the umbrella term of "connected vehicles," or vehicles capable of connecting over wireless networks to outside systems.

In February 2024, the US Department of Commerce began the process for the government to consider connected vehicles a national security risk, and Commerce's Bureau of Industry and Security (BIS) has since sent these measures as a proposed rule to the Office of Management and Budget on August 20 under the title, "Securing the Information and Communications Technology and Services Supply Chain: Connected Vehicles." This has also been paired with legislation introduced in the Senate advocating along similar lines.

With a final rule from Commerce expected to be released in the fall, it still remains to be seen how such proposed rules on Chinese-origin software may ultimately affect China's ability to export EVs to the United States through production in Mexico. But the concerns it raises around Internet of Things (IoT) technology in EVs add a new dimension to the eco-friendly vehicle sector. The final ruling will help to better determine the inroads that Chinese EVs produced outside of China may be able to have in the US market, as well as where the US EV industry ultimately stands in the mix between the green energy transition, free-market principles, and intensifying geopolitical competition.

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