

Louvain School of Management

What are the stakes of the EU's imposition of anti-subsidy measures on Chinese electric vehicles?

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Abstract: This thesis examines the strategic, economic, political, and social stakes of the European Union's imposition of countervailing duties on Chinese electric vehicles. The study demonstrates the European Union's vulnerability in this sector and the ability of Chinese manufacturers to easily absorb these protectionist barriers through their margins or to circumvent them by establishing themselves directly on European territory. These taxes also have the effect of worsening the internal political division among Member States. The results reveal that Chinese competitiveness rests on a sustainable structural advantage that goes beyond simple state aid. As taxes only constitute a temporary shield, the Union should rapidly adopt a centralized industrial policy and impose strict local content requirements to give its industry time to develop in order to preserve its automotive sovereignty.

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1. Introduction

1.1. Context

In recent years, China has taken a considerable lead in the electric battery sector, a key element to dominate the electric vehicle industry. This lead is based on a long-term industrial vision, notably linked to the "Made in China 2025" strategy. As early as 2012, the Chinese government was already setting production capacity targets for its national leaders to strengthen their international competitiveness. This dominance was consolidated by the Chinese state's implementation of a subsidy system that privileges Chinese manufacturers. For electric cars to benefit from public subsidies, they were required to be equipped with batteries produced by companies certified by the Chinese state (Holzmann, 2018).

This policy enabled the emergence of national champions such as CATL and BYD. China also encouraged strategic alliances to bring together all actors in the production chain to build a strong and autonomous industry. Subsidies allowed Chinese automakers to transform into international champions capable of competing worldwide (Holzmann, 2018). Thanks to this strategy and lower labour costs, China arrives today with low prices that disrupt the European electric vehicle market. European manufacturers must now compete with high-performing cars, but produced at much lower costs (JATO Dynamics, 2023). This challenge is even more pressing given the European Union's objective to ban the sale of new internal combustion engine vehicles by 2035 (European Parliament, 2023), forcing the industry into a transition toward electric mobility.

Faced with this situation and the rapid increase in exports of low-priced Chinese cars sold on its territory, the European Union decided to intervene. According to a European Commission press release published in October 2024, an official investigation concluded that Chinese producers benefit from subsidies deemed unfair by the EU, which could, according to the Commission, threaten the future of European producers. To countervail this, the EU implemented anti-subsidy measures, taking the form of additional taxes called "countervailing duties" for a duration of five years on imports of Chinese vehicles, calculated based on each manufacturer's situation. According to Valdis Dombrovskis, Executive Vice-President responsible for trade, the EU wants to protect its industrial base but leaves the door open to a negotiated solution. The objective is not to close the market or block all forms of competition, but to ensure that competition is based on fair rules (European Commission, 2024c).

1.2. Research question and structure

This thesis studies the stakes of the EU's imposition of anti-subsidy measures on Chinese electric vehicles. The objective is to assess the stakes of these measures and evaluate whether the tax is effective in a globalised world facing an urgent ecological transition.

The work will begin with a summary of the Commission's investigation and an assessment of the current balance of power between the EU and China. It will then address Europe's strategic fragility due to its heavy reliance on China for the supply of batteries and critical raw materials, before evaluating the risks of trade retaliation. The study of the historical solar panel case will serve to try to understand China's usual response mechanisms.

The remainder of this thesis will focus on the internal division within the EU, resulting from differing national interests and positions in the face of the Chinese offensive. This division enables the phenomenon of "Tariff Jumping," which will be analysed alongside the evolution of foreign direct investment (FDI) flows to explain how Chinese manufacturers can bypass taxes by producing locally. The establishment of Japanese manufacturers in the United Kingdom in the 1980s, as well as the highly current partnership between Stellantis and Leapmotor, will support the analysis. The final section is dedicated to the impacts of these taxes on European consumers.

A discussion of the results will complement the research to evaluate the effectiveness of these anti-subsidy measures in the current context, but also to gain perspective on the EU's position and explain why China possesses a structural advantage over Europe in the electric vehicle market that goes far beyond subsidies, on which Chinese manufacturers no longer directly depend.

The thesis will conclude with a general conclusion of the study's results, the author's position along with the formulation of some recommendations, as well as the limitations encountered and future research perspectives.

2. Methodology

Data were obtained using a mixed approach combining quantitative and qualitative analyses to address the complex stakes of this study.

The quantitative aspect relies on the use of statistical data such as market share trends or foreign direct investment (FDI) flows. These indicators, drawn from official sources such as the ACEA (European Automobile Manufacturers' Association) or Eurostat, provide a clear understanding of the current situation and balance of power, while also evaluating the various impacts of the taxes.

The qualitative analysis deepens the reflection through the study of reports from think tanks such as MERICS, the Rhodium Group, or Bruegel, scientific articles, and official publications. To analyse these data, this work relies on the mobilization of several economic concepts. These include, for instance, theories and concepts related to protectionism and trade retaliation (such as Tariff Jumping, Politically Targeted Trade Retaliation, price undertaking, and distorting competition), as well as economic concepts that explain the foundations of China's structural advantage (Marshallian districts, vertical integration, and first-mover advantage).

The methodology also includes an analysis of case studies, such as the historical example of Japan, the recent partnership between Stellantis and Leapmotor, or concrete cases of brands like BYD and Volkswagen, to illustrate certain mechanisms in practice.

This work therefore focuses exclusively on processing reliable secondary sources. This cross-referencing of statistical data and documentary analyses creates a solid foundation for answering the research question of this thesis.

3. The balance of power

To understand the scope of the impacts of anti-subsidy measures on electric vehicles, it is essential to assess the economic balance of power between the European Union and China. After exploring the European Commission's investigation that led to the imposition of these taxes as well as China's position on the matter, this section will evaluate the importance of the electric vehicle market for the EU and the evolution of market shares.

3.1. The Commission's investigation and the Chinese response

The anti-subsidy investigation was officially opened by the European Commission on October 4, 2023. It launched this procedure "on its own initiative," without the European industry requesting it. It justified this by the strategic importance of the electric vehicle sector for the Union's economy, "in terms of innovation, value added and employment." The Commission's main argument concerns the existence of subsidies provided by Chinese public authorities, which, according to the Commission, allowed domestic producers to rapidly increase their market share to the detriment of European actors. The Commission mentions an "imminent threat of injury." This threat therefore also rests on China's overcapacity. Indeed, its production capacities far exceed its domestic demand, which encourages Chinese producers to export, partly toward Europe given its attractive market. For the Commission, the European industry, already weakened by an expensive transition to electric vehicles, is vulnerable to the massive arrival of low-priced Chinese models that could cause unsustainable financial losses (European Commission, 2024a).

The Commission's investigation reveals a subsidy system taking various forms. On the one hand, it can take very direct forms, such as cash grants or tax exemptions. Indeed, the Chinese state has adopted a policy sacrificing part of its tax revenues by reducing the tax rate for high-tech enterprises as well as allowing a tax deduction on research and development expenditures. On the other hand, beyond direct aid, the Commission identified preferential financing granted by state-owned banks to these high-tech companies at low rates to encourage investment, as well as the provision of goods and services by the Chinese state at prices "less than adequate," notably batteries and lithium (an essential component for battery production). According to Beijing, this assistance primarily serves consumers through lower prices, but the EU does not share this view. According to the EU, this money primarily serves manufacturers to lower their costs and thus strengthen their competitiveness and flood the European electric vehicle market, causing a distortion of competition due to state support that European manufacturers do not benefit from (European Commission, 2024a).

The investigation resulted in the imposition of countervailing duties at rates varying according to the manufacturer's level of cooperation during the investigation. These rates are listed in the table below.

Figure 1: Countervailing duties by manufacturer

Manufacturer	Countervailing duties
BYD	17%
Geely	18.8%
SAIC	35.3%
Tesla (Shanghai)	7.8%
Other companies that cooperated	20.7%
All other companies	35.3%

Note: Adapted from Commission Implementing Regulation (EU) 2024/2754, by European Commission, 2024, Official Journal of the European Union.

In response, the Chinese Ministry of Commerce (MOFCOM) denounced these measures, qualifying them as "unfair, non-compliant and unreasonable protectionist practices." According to Beijing, the success of its electric vehicles is not based on subsidies, but on "continuous independent innovation." China expresses that these protectionist measures, which it believes are contrary to WTO rules, could negatively impact international trade and the confidence of Chinese companies wishing to invest in Europe (Ministry of Commerce of the People's Republic of China [MOFCOM], 2024).

Furthermore, it believes that by acting in this manner, Europe is not only slowing down its own ecological transition but also, more generally, disrupting global efforts to combat global warming. MOFCOM explains that the imposition of these taxes will not solve the problems anyway and that China is ready to react by adopting the necessary measures to protect the interests of its companies. It concludes by expressing its willingness to resolve this dispute through dialogue and negotiations (MOFCOM, 2024).

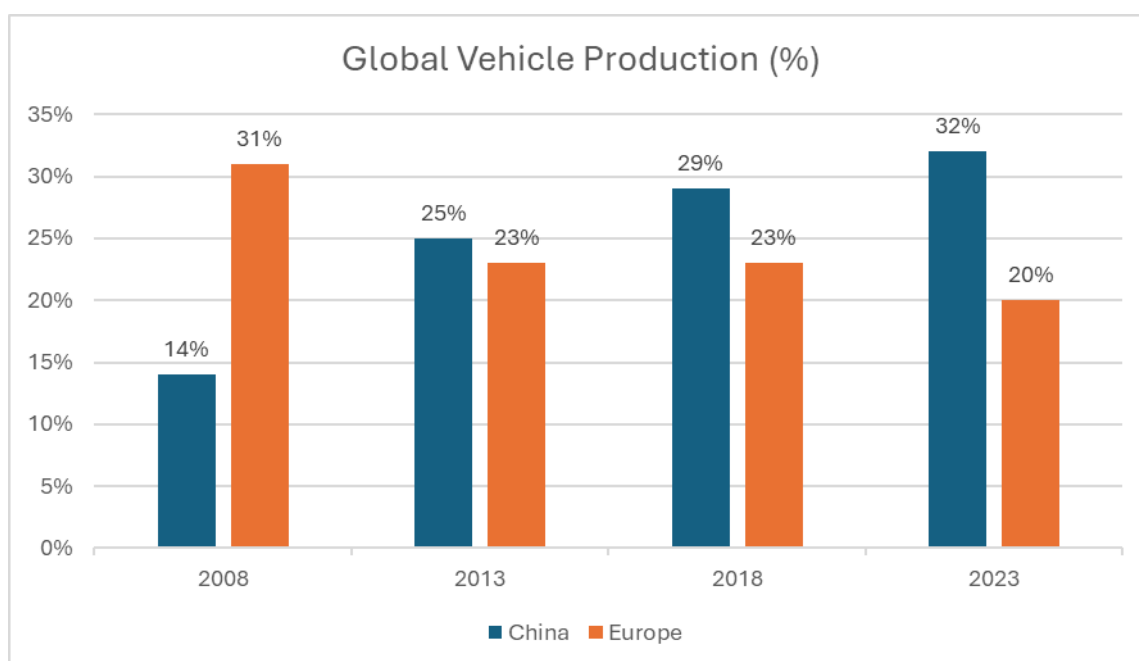
3.2. Strategic weight of electric vehicles for the EU and current trends

Today, the automotive industry contributes 7% to the European Union's GDP (European Commission, 2025) and boasts an extra-EU trade surplus of 93.9 billion euros, making it a critical sector for Europe. Its strategic dimension is even more visible when looking at its share

of the EU's total R&D, of which it represents 34% with 84.6 billion euros invested (European Automobile Manufacturers' Association [ACEA], 2025a). Moreover, the automotive sector is the leading private investor in R&D in the Union (Joint Research Centre, 2025). All these elements make this industry one of the main drivers of the European economy. Beyond these financial indicators, the automotive sector accounts for 6.9% of EU employment, providing 13.6 million jobs (ACEA, 2025a). The 2035 deadline set by Europe to end the sale of new internal combustion engine vehicles (European Parliament, 2023) makes the transition to electric mobility not only an ecological objective but also an economic imperative for the Union.

However, as illustrated in Figure 2, Europe no longer dominates global production. Its market shares are in decline, overtaken by China, which captured nearly a third of global production in 2023. This illustrates the vulnerability of historical European producers in the face of the arrival of Chinese manufacturers, and also foreshadows European vulnerability in the strategic electric vehicle segment. Although these data concern geographical Europe and not just the European Union, they provide a trend that reflects the Union's decline in the automotive sector, given that the EU-27 accounts for nearly 80% of its total volume, representing 15.8% of global production (ACEA, 2025a).

Figure 2: China's and Europe's shares of global vehicle production

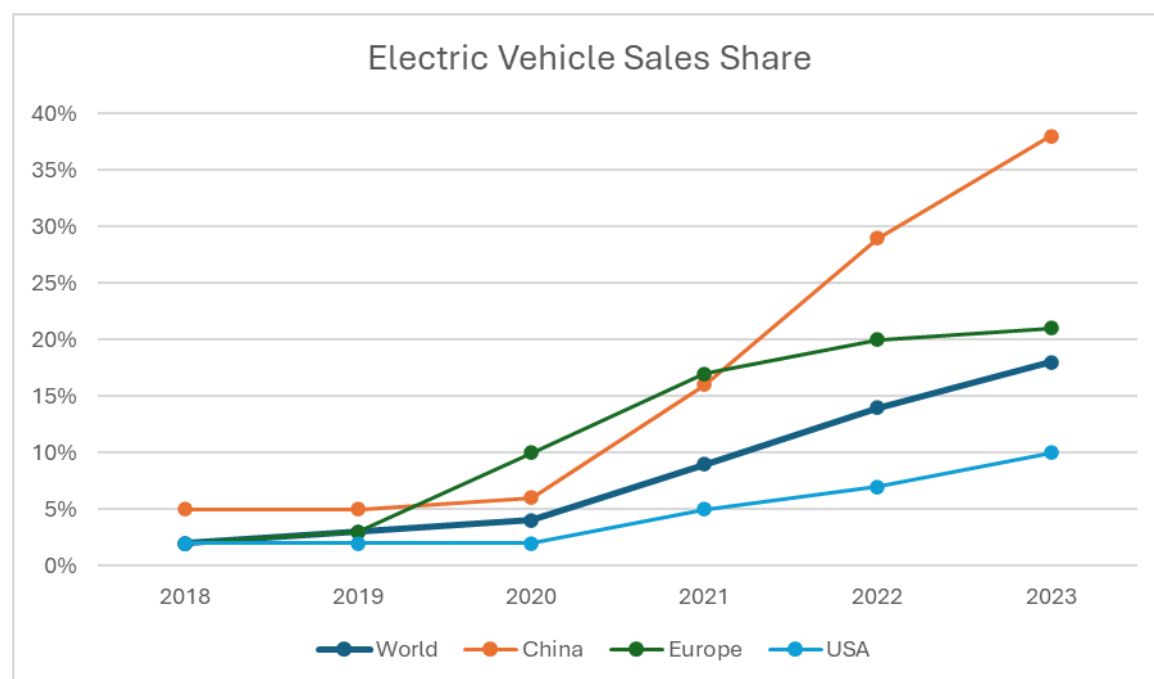


Note: Adapted from The Automobile Industry Pocket Guide 2024/2025, by European Automobile Manufacturers' Association (ACEA), 2025.

The evolution of the share of electric vehicles in total sales (see Figure 3) confirms that the automotive industry's shift toward electric mobility has already begun. This trend is accelerating at an exponential rate, as the global average rose from 2% to 18% in 5 years, and even from 4% to 18% in just 3 years (International Energy Agency [IEA], 2025).

With 38% of its domestic sales consisting of electric vehicles (IEA, 2025), a significant market size, and subsidies granted by the state, Chinese manufacturers can benefit from economies of scale and optimize their production costs more rapidly than their competitors. This context could obviously also explain the European Union's desire to protect its industry to prevent this competitive lag from becoming irreversible.

Figure 3: Share of electric vehicles in total sales



Note: Adapted from Global EV Outlook 2024, by International Energy Agency (IEA), 2024.

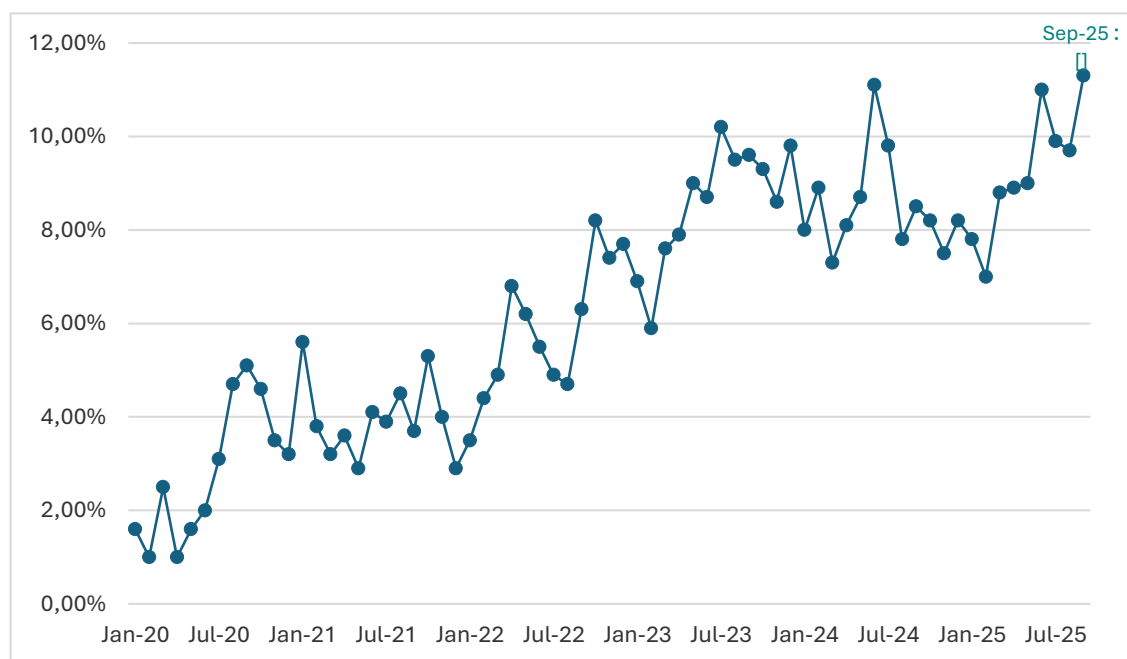
Furthermore, the share of vehicles sold in China that originate from Europe has experienced a very sharp decline in recent years. This negative trend affects the driving countries of the Union, as even Germany and France, which together account for 96% of automotive exports to China, are seeing their market shares lose momentum (Brugier, 2025).

Indeed, Germany, the European country that exports by far the most vehicles to China, saw its market share drop from 24% in 2020 to 15% in 2024. This decline is also reflected in the number of vehicles sold, with sales plummeting by 25% between 2018 and 2023. This is mainly

explained by the preferences of Chinese consumers shifting toward electric vehicles, a segment where German brands are less present and less competitive than Chinese producers, especially when facing purchase subsidies for domestic brands in China. The same phenomenon is observed on the French side, with, for example, the collapse of Stellantis's share of the Chinese market, which fell from 2.37% in 2014 to just 0.28% in 2022. The Chinese market is therefore no longer a priority for France (Brugier, 2025).

While Europe is retreating in Asia, China is experiencing overproduction relative to its domestic needs, which it seeks to export. In 2024, this surplus amounted to 7 million cars. This represents 4 times the annual French market. This overproduction, among other factors, led to a 17-fold increase in electric vehicle exports from China to the European Union between 2021 and 2023 (Brugier, 2025). Exports originating from China accounted for 20% of electric vehicle sales in the Union in 2023. However, it should be noted that out of this 20%, only one-third concerns Chinese brands. The remainder corresponds to manufacturers that have relocated their production to China, such as BMW, Dacia, or Tesla (Le Bec, 2024). Nevertheless, the evolution of Chinese shares in the European electric automotive market has experienced strong growth in recent years, as illustrated in Figure 4 below.

Figure 4: Market share of Chinese brands in the European electric vehicle market



Note: Adapted from Plus de 10 % des voitures électriques vendues en Europe sont de construction chinoise [More than 10% of electric cars sold in Europe are Chinese-built], by Le Grand Continent, 2025. Data from Dataforce and Bloomberg.

Among the leading Chinese manufacturers, we notably see the progression of BYD, which experienced a 300% increase in its exports in one year in September 2025 compared to the same period the previous year. Saic increased its exports to Europe by 26% (Le Grand Continent, 2025). This graph also shows that the taxes imposed by the EU do not seem to curb the volume of Chinese exports, but rather have the effect of reducing their profit margins (Le Bec, 2024).

The trade balance between the 2 economic powers has therefore inverted in the automotive sector, and electric vehicles are largely responsible for this asymmetry (Brugier, 2025). As previously explained, it is this context of subsidized overproduction that led to the imposition of additional taxes by the European Commission, shifting from an approach based on market conquest to an approach of defending its industrial base.

3.3. Immediate impacts of trade defence measures

The imposition of countervailing duties on Chinese electric vehicles aimed to rebalance competition. However, the direct impact of these taxes seems to be financial rather than commercial. Indeed, the taxes can be absorbed by the very high profits that Chinese manufacturers make in Europe, allowing them not to slow down their sales. This is mainly explained by the considerable profit gap between Europe and China. According to the Rhodium Group report, as an example, BYD's "Seal U" model would generate a profit of 14,300 euros in Europe, compared to only 1,300 euros in China, which is due to the huge difference in selling price between the two territories. Countervailing duties of around 50% would be required for exports to Europe to no longer be attractive to them (Rhodium Group, 2024a). However, they are only 17% for the BYD group (European Commission, 2024a). This additional profit therefore allows BYD to remain highly profitable despite these new taxes.

The figures for the year 2025 also confirm that sales have not slowed down. On the contrary, the offensive continues despite the barriers. The market share of Chinese brands indeed reached a record in September 2025 with 11.3% of the European electric vehicle market (see Figure 4), mirroring BYD which quadrupled its sales in one year on European soil (Le Grand Continent, 2025). The continuation of this growth is explained by the saturation of the Chinese automotive market and by the rise of electric vehicles themselves, which led to a 2-fold division of profit margins between 2015 and 2023. Profit margins in the Chinese automotive sector have therefore dropped to just 4.3%, prompting domestic manufacturers to continue exporting to Europe where they achieve their largest profits, even with taxes (Rhodium Group, 2024a).

Finally, these defence measures cause a negative effect on the European industry itself. Given that they apply to all electric vehicles produced in China, European manufacturers producing there (i.e., BMW and Volkswagen) are also penalized. Moreover, these brands are much more fragile than their Chinese counterparts in terms of profitability, given that local companies benefit from greater support from the Chinese government, although they receive subsidies in both cases. The Chinese manufacturers are also more vertically integrated (Rhodium Group, 2024a), and can also take advantage of the possibility, if needed, to obtain components at prices below market rates, such as batteries (European Commission, 2024a). In this way, the affected European brands risk losing money or seeing their profitability collapse. This is the case for BMW's iX3 model, which already had an "additional profit" of only 9% by selling its models produced in China to Europe, compared to around 50% for BYD's Seal U model (Rhodium Group, 2024a), while the taxes imposed by the EU exceed this figure with a threshold of 20.7% for BMW (European Commission, 2024a). This means that it will become less profitable for them to sell the iX3 in Europe rather than in China, cancelling out the initial competitive advantage of offshoring. The other direct consequence is harming the strategy of European companies to use China as an export hub toward their local market (Rhodium Group, 2024a).

In summary, instead of solely protecting its industry, the measures put in place by the Commission also harm its own manufacturers. They reduce the profits of European brands without really succeeding, so far, in blocking the arrival of Chinese vehicles, which have much larger margins to withstand these new taxes.

4. The EU's strategic vulnerability regarding batteries

Europe is producing more and more batteries and experienced an increase of around 45% between 2021 and 2023. The growth of its local production allowed it to cover 55% of its needs in 2023, but its sovereignty over this sector remains fragile as it still depends heavily on other actors (Direction Générale des Entreprises, 2024). This vulnerability could be critical since batteries represent the major element of production costs for components specific to electric powertrains, with a share ranging from 83% to 86% of this total depending on the manufacturer (Transport & Environment, 2026).

4.1. The lack of control over production on European soil

Production in Europe is largely controlled by Asian groups, particularly Korean ones such as LG or Samsung. Indeed, 75% of the installed production capacities in the EU are managed by Korean companies, half of which is represented by a single LG factory located in Poland. In addition to risking a supply shortage in the event of a failure at this factory, the European industry is also, and above all, dependent on the strategic decisions of foreign groups. Furthermore, although the final assembly of these batteries takes place in Europe, most of the essential components come from China, making the EU more of an assembly workshop close to its manufacturers rather than an autonomous producer (Direction Générale des Entreprises, 2024).

4.2. Dependence on China

Among the 45% of imported batteries, it can be observed that Europe has become tied to and dependent on China. According to Eurostat data (see Figure 5), this dependence has become almost exclusive, with China now accounting for 90% of extra-European imports of this strategic component. This dependence even seems to be strengthening, given that the share of extra-European battery imports coming from China increased between 2024 and 2025, and that the value of these batteries imported from China increased by nearly 30% (Eurostat, 2026).

Figure 5: The EU's dependence on China for batteries

	EV Batteries (In billions of euros)		Share of Extra-EU27 Imports	
	2024	2025	2024	2025
Extra-EU27	22.888	28.463	100%	100%
China	19.616	25.611	85.7%	90%

Note: Adapted from EU trade since 1988 by HS2-4-6 and CN8, by Eurostat, 2026.

4.3. The lack of a viable alternative

Two factors largely explain why the European Union struggles to diversify its supply sources and find alternatives to Chinese imports. On the one hand, China has reached price levels that its international competitors fail to match. On the other hand, China dominates global battery production and controls the critical materials required for battery production. These two aspects will be studied in this section.

4.3.1. Cost competitive advantage

China dominates in terms of low prices, with an average battery price of \$84/kWh in 2025. For comparison, average prices in North America and Europe are respectively 44% and 56% higher, making Chinese imports highly competitive and wiping out almost any form of competition (BloombergNEF, 2025). It is important to mention that this European extra cost therefore also affects batteries produced by Korean leaders manufacturing on EU territory, such as LG or Samsung (Direction Générale des Entreprises, 2024). This means that even Korean producers, who nevertheless possess alongside Japan the most developed midstream battery industries behind China—which handle materials processing—cannot compete with Chinese costs (IEA, 2026). Furthermore, battery prices decreased in all regions, leading to an 8% drop in the global average price in 2025, but this decrease did not reduce China's advantage since it was the one that benefited from the largest decline (BloombergNEF, 2025). These observations are also verified by the International Energy Agency (IEA, 2026).

This huge price gap in batteries is explained not only by better productivity and the existence of subsidies, but also by an imbalance between supply and demand. With production nearly 2 times greater than its local needs (Direction Générale des Entreprises, 2024), China logically chose to sell off its stocks abroad. In the same way as for the electric vehicles themselves, this practice drives battery prices down. This therefore makes foreign alternatives less economically viable (Rhodium Group, 2024b).

China also possesses a paramount technological advantage in this price war: Lithium Iron Phosphate (LFP) technology. Having become the benchmark for low-cost batteries, it allows for prices that are on average 40% lower than other alternatives. However, China controls almost the entirety of this sector. Even Korean producers, who are nevertheless also quite advanced in battery production, struggle to offer a competitive LFP alternative despite their

investments. Chinese leaders can indeed benefit from structural production costs that are much lower than those of their Korean competitors, as they are already solidly established in this field. For their part, the Japanese have also fallen behind on LFP technology, which remains almost exclusively supplied by China. This does not allow them to compete with Chinese prices either (IEA, 2026).

Finally, the Chinese advantage also relies on the experience and technical expertise of already established producers, which allow them to generate economies of scale. This is an advantage that other regions have not yet developed, leading to a significant maturity gap with China, which achieves a share of defect-free products exceeding 90%. For its competitors, reaching such a level of efficiency will require time and continuous investments, but the lack of economies of scale and losses related to defective products due to a lack of experience will penalize their profitability (IEA, 2026).

4.3.2. China's dominance of battery production and critical materials

The lack of a viable alternative for Europe is not limited to the advantage of low prices, but also stems from a dominance in production and the value chain. In 2025, China still accounted for more than 80% of global battery production, compared to only 7% for Europe and 6% for the United States (ACEA, 2025b).

One of the main challenges in competing with Chinese production relates to cell manufacturing, which are major elements for the proper functioning of batteries due to their role in supplying electricity (Direction Générale des Entreprises, 2024). Dependence is almost total in this area, since China controls 90% of global cathode production capacity and 97% for anodes (ACEA, 2025b), two essential electrodes for manufacturing cells (Direction Générale des Entreprises, 2024). Furthermore, in addition to drastically reducing battery prices, LFP technology plays a role in electricity storage. It is used in more than 90% of energy storage applications. Once again, the world is dependent on China in this field, as it is responsible for nearly all LFP batteries produced and possesses the associated expertise (IEA, 2026).

It is also important to specify that China holds a monopoly on the refining stage. Even if raw materials are extracted in other countries, they remain dependent on China, which dominates practically all refining stages, such as those for lithium or nickel. Europe relies heavily on these, as it needs to import 100% and 75%, respectively, of these refined materials for its battery

production (ACEA, 2025b). This also explains why more than 70% of vehicles produced outside of China are dependent on either Chinese components or the batteries themselves, making China an almost mandatory step in at least one stage of the supply chain for batteries produced worldwide (IEA, 2026).

Finally, although Japan and South Korea are technologically advanced, they do not constitute a complete alternative that would allow bypassing China, since they themselves depend on the latter for their supplies (IEA, 2026). This situation directly impacts European production capacities, which are mostly owned by Korean companies (Direction Générale des Entreprises, 2024) and therefore also depend enormously on China, as they import almost all their components from there (ACEA, 2025b).

In summary, the lack of a viable alternative to Chinese batteries is not only the result of unbeatable prices, but also of Beijing's lock on the sector and the absence of a competitor capable of producing a sufficient volume to compete. Since even Korean and Japanese leaders cannot do without Chinese materials and components, and their production volumes remain insufficient, China has established itself as a must-have on the market. It is therefore currently not possible for the European Union to diversify its battery supplies.

4.4. Obstacles to European autonomy

Nowadays, the idea of complete autonomy for "made in Europe" batteries remains quite difficult to imagine. Even though 50 battery factories are planned on the continent by 2030, with the ambition of producing one-third of the world's batteries, several obstacles still prevent independence in this sector (Transport & Environment, 2023).

In reality, 68% of production capacities might never see the light of day, could be scaled back, or could be delayed. 16% of these projects are deemed high risk, and 52% medium risk. The problem is that Europe is losing its attractiveness for investors, overtaken by China, which dominates electric vehicle supply chains, but also by the United States with the introduction of their Inflation Reduction Act (IRA) in August 2022. In just one year, its share in global battery investments collapsed, dropping from 41% to only 2% between 2021 and 2022. This lack of interest is notably explained by the arrival of the American IRA, which changes the rules of the game by offering a 150-billion subsidy plan to attract battery production. Since resources and skilled labour are not unlimited, this global race is rather a zero-sum game, at least outside of

China. Every company that chooses the United States for the IRA is a lost project for Europe (Transport & Environment, 2023).

Beyond the lack of funding, the European Union is no exception to the rule and must also face a heavy handicap in efficiency and costs compared to China, whose companies are far more mature. European actors suffer from a higher rate of defective products due to a lack of experience and lower economies of scale (IEA, 2026). This fragility is worsened by China's desire to massively export its surpluses (Rhodium Group, 2024b), with production nearly doubling its national needs (Direction Générale des Entreprises, 2024). This maintains constant pressure on prices (Rhodium Group, 2024b) and explains why Europe exhibits an average battery price 56% higher than that of China (BloombergNEF, 2025).

Another obstacle to European autonomy is represented by a somewhat misleading "Made in Europe" label. Indeed, only 15% of the battery production capacities on its territory are actually managed by European companies (ACEA, 2025b). If foreign companies decided to leave, production would stop. We cannot, therefore, truly speak of autonomy for now, but rather of a relocation of dependence.

These factories, although mainly Korean (Direction Générale des Entreprises, 2024), also remain extremely dependent on China for their components. The fact that China can use its resources as a political lever also represents a significant blockage to autonomy. Since 2023, Beijing has implemented export controls on key battery components, highlighting the vulnerabilities of Western countries by targeting the most fragile links in the supply chain. This more or less allows it to decide who can produce batteries or not (IEA, 2026). This weakens Europe, which imports a huge portion of several vital materials such as graphite, on which it depends for 99% of its imports (ACEA, 2025b). Regarding these natural resources, Europe faces a structural problem because, despite its ambitions to extract locally, it will only be able to cover 10% of its nickel and cobalt needs through its own mines by 2030. The forecasts are better for lithium, as 50% of European needs could be covered (Transport & Environment, 2023). Recycling is currently not an effective solution either, as the share of production coming from recycling remains low. For certain materials such as rare earth materials or lithium, this share is currently close to 0% in Europe (ACEA, 2025b). For the European Union, this is a major obstacle since owning factories is not enough if there is no access to the necessary raw materials.

Finally, even if Europe tries to react, it struggles to create a real alternative. The EU notably launched the Net Zero Industry Act (NZIA) with the goal of producing 90% of the batteries needed for its consumption on its soil by 2030 (Direction Générale des Entreprises, 2024). The Critical Raw Materials Act (CRMA) aims to secure supplies, with an objective for the EU to extract at least 10% and recycle 25% of its annual consumption of strategic raw materials. However, these plans seem insufficient. The European Commission itself explains that demand is exploding and that lithium needs are expected to increase 12-fold by 2030, making local extraction targets even more difficult to achieve (European Commission, 2024b). Moreover, the NZIA production targets are non-binding, which does not force actors to implement concrete actions (Direction Générale des Entreprises, 2024). The European response is also too complex compared to the American IRA, which is much simpler and, above all, better funded. Unlike the IRA, which makes the strategic choice to focus on the battery, the European plan scatters across too many technologies. Finally, these plans arrive late. China has already built its advantage over several decades. Europe can remain in the race, but it must react quickly with a more targeted and effective plan (Transport & Environment, 2023).

The EU's vulnerability in the strategic battery sector does not stem from its inability to build factories, but rather from its lack of control over the supply chain. Although the EU covers 55% of its needs, it remains more of an assembly workshop dependent on others for its proper functioning, where 75% of local production relies on Korean groups, with a huge portion of the components coming from China, which has a chokehold on the value chain and critical materials. With prices vastly superior to those of China due to better experience, more mature companies, and mastery of LFP technology on the Chinese side, Europe faces competition it has been unable to resist so far. Out of the 45% of imported batteries, 90% come from China, signifying an almost exclusive dependence on China given that no truly viable alternative yet exists. With China's head start and the arrival of the American IRA, Europe saw its capital plunge from 41% to 2% of global investments in one year, putting its battery production projects in jeopardy. A rapid reaction is now necessary to respond to this existential challenge for the sovereignty of the European automotive industry.

5. The forces of retaliation

5.1. The strategy and mechanisms of Chinese retaliation

The Chinese response strategy is not based on a mirror or symmetrical response but rather aims to apply pressure through trade measures to achieve political objectives (Adachi et al., 2022). This mechanism is a mechanism of politically targeted trade retaliation (PTTR). Instead of simply seeking economic damage, China tries through this method to influence its target's political choices (Brutger et al., 2022). For example, Beijing can use these measures to try to deter European governments from crossing certain red lines, particularly regarding the treatment of Chinese companies abroad. The choice of the retaliation instrument varies depending on the target. While trade restrictions are often favoured to respond to government actions, the use of popular boycotts is often preferred when it comes to punishing companies (Adachi et al., 2022).

The main concept of the Chinese retaliation mechanism is the asymmetry of responses. The objective is to strike the opponent's sensitive points while minimizing negative effects on its own development. To do this, China selects its targets mainly based on 2 criteria according to MERICS: product substitutability and the strategic relevance of companies (Adachi et al., 2022).

On the one hand, by prioritizing sanctions on goods that it can easily obtain elsewhere or produce itself, China avoids self-harm (Adachi et al., 2022). The goal is to punish the opponent without causing price increases or shortages on its own market (Wu & Lo, 2024). This is why China applies sanctions on agricultural products, which are ideal targets. Indeed, if China reduces or blocks European imports in this segment, it can simply turn to other global exporters. Conversely, it avoids taxing products on which it is more dependent (Adachi et al., 2022).

On the other hand, Beijing generally spares foreign companies deemed indispensable to its technological and industrial development objectives. In this way, companies that provide important technology, invest, create jobs, or contribute to taxes in China are not, or are barely, affected by sanctions. Yet, low-value-added brands easily replaceable by local competitors are more vulnerable since Chinese economic progress would continue even without them (Adachi et al., 2022).

The targeting also aims to break the commercial unity of blocs like the EU. By targeting products that represent national symbols, Beijing hopes to trigger a public opinion reaction

(European Parliamentary Research Service [EPRS], 2022) in order to create electoral pressure (Brutger et al., 2022), as well as a reaction from companies to form lobby groups that could ask Brussels to back down to save their industry (Adachi et al., 2022). The potential loss of votes for future national elections is also a means of pressure that weakens European unity (Wu & Lo, 2024). This European disunity is one of the main strategic threats because it can allow Beijing to bypass the Union's institutions to address member states directly. For example, China can leverage this lack of unity among member countries to prompt some to oppose the taxes on electric vehicles (Gehrke & Schmelzer, 2026).

Moreover, the fear of losing access to the Chinese market weakens the EU's position of strength by pushing large companies to act almost as lobbyists for Beijing's interests to avoid retaliatory measures (Adachi et al., 2022). Finally, Chinese retaliation threats follow an escalation ladder (Gehrke & Schmelzer, 2026), starting with empty threats or bluffs that can be enough to deter a government from acting. This method is used in about one out of five cases (Adachi et al., 2022). As explained by the European Council on Foreign Relations, if this is not enough, this escalation will increase in intensity and China can go so far as to use dependencies, particularly on critical minerals it holds, as a geoeconomic weapon to obtain concessions elsewhere, as could be the case with the taxes on electric vehicles (Gehrke & Schmelzer, 2026).

5.2. The previous example of solar panels

The case of solar panels represents the largest trade dispute between the European Union and China. This example well illustrates the retaliation mechanism aimed at breaking European unity (Chen, 2015).

In 2012, an anti-subsidy investigation was launched by the Commission on solar panel imports originating from China (Chen, 2015). The case involved a trade volume of 21 billion euros (European Council on Foreign Relations [ECFR], 2014). According to the investigation, Chinese exporters owned more than 80% of the Union market (European Commission, 2013a). This is why it introduced taxes of 47.6% on this segment in August 2013 (Chen, 2015).

China retaliated with anti-subsidy investigations into politically sensitive sectors, starting with European wine imports (China Briefing, 2013), but also by threatening to launch an inquiry into luxury cars (Chen, 2015). An investigation was also launched into polysilicon, a component of solar panels (ECFR, 2014). France was particularly vulnerable to sanctions on wine, given

that it alone exported half of European wine to China in 2012, and that China was the second largest importer of wine in 2012 (Chen, 2015). The examination into polysilicon aimed instead to put pressure on Germany, which possessed Wacker, one of the world leaders in production for the segment (Jäger-Waldau, 2013). For the threats of sanctions on luxury cars, it was once again Germany that was most affected since its companies produce the largest part of them, making this sector a priority for the German economy (Chen, 2015).

This strategy of exerting pressure on national interests succeeded in dividing member states. While countries like France, Spain, and Italy supported the Commission, at least 15 member states, including Germany, opposed the punitive tariffs imposed on China. German Chancellor Angela Merkel officially criticized the measures taken by the Commission (ECFR, 2014) and expressed her determination to prevent the imposition of permanent duties. The German Minister of Economics qualified these taxes as a "grave mistake." All of this weakened the EU's unity and bargaining power toward China (Chen, 2015). Under the pressure of this disunity, the EU accepted a solution in the form of a price undertaking. China therefore committed to respecting a floor price below which it could not export solar panels (European Commission, 2013b), and a maximum export volume that it could not exceed (Chen, 2015). China then closed its investigation into wine in March 2014 (MOFCOM, 2014).

For Prosun, the solar manufacturers' association, this arrangement is a "capitulation" by the European Union, which bent under pressure (Chen, 2015). This precedent thus clearly demonstrates that China can exploit the divergences of national economic pillars to use one or more member state(s) as lobbyist(s) against European institutions, weakening economic unity.

5.3. Current retaliatory measures

The imposition of anti-subsidy measures by the EU on Chinese electric vehicles has provoked retaliation from Beijing (Barkin, 2025). This retaliation targets strategic sectors in order to influence the ongoing negotiations.

China targeted European agricultural exports shortly after the Commission's announcements. In June 2024, the Chinese Ministry of Commerce opened an investigation into European pork, considered by Member States as a response to the Union's threat of taxes on Chinese electric vehicles. Provisional tariffs reaching up to 62.4% for companies deemed non-cooperating were applied. For European countries exporting pork to China, such as Belgium, this made exports

economically unviable. These high taxes represent a real threat since no longer being able to export to China will also cause price pressures on the local market, thereby affecting producers' income as well as employment in this sector. This situation prompted Belgium to ask the Commission to quickly resolve the conflict and avoid an escalation. The Council of the European Union also indicates in its report that the differentiated tariffs represent a threat to European solidarity. Once again, China's retaliatory measures have the consequence of prompting a Member State to act as a lobbyist for it, and could weaken the unity of the bloc (Council of the European Union, 2025). Spain also illustrates the success of the pressure strategy implemented by Beijing, as after having supported the investigation, it finally decided to abstain and notably gave in to threats of retaliation on pork (Atlantic Council, 2024), of which it is the leading exporter to China (Goreichy et al., 2025). At the end of the investigation, the taxes were modified to more moderate rates for European companies, ranging from 4.9% to 19.8% for a duration of five years (MOFCOM, 2025c). The spirits sector was also hit by retaliatory measures following the imposition of European taxes on Chinese electric cars. Indeed, temporary measures require European exporters to provide financial guarantees in the form of a cash deposit or a letter of guarantee. It is primarily France, the leader in European exports, that is affected by this measure. European cognac producers view this situation as a sacrifice of their industry for the benefit of the automotive sector, which could also lead to rising tensions and a division of opinions on the continent (De La Feld, 2024). Finally, the dairy sector also faced countervailing duties with rates between 21.9% and 42.7% after China discovered the existence of subsidies (MOFCOM, 2025c). Beyond agriculture, China also targeted a pillar of German industry by imposing taxes of up to 25% on European vehicles with large petrol engines. The sanction primarily targets luxury brands such as BMW or Porsche (Da Silva, 2024).

The objective is to push European governments to pressure the Commission to lower the taxes on Chinese electric vehicles (García-Herrero & Gros, 2026). By targeting national interests, China divides Member States in an attempt to break the unity of the European bloc (Council of the European Union, 2025). This strategy has proven successful. The Commission's willingness to find a negotiated solution in the form of minimum price undertakings instead of customs tariffs demonstrates its desire to appease the Member States most affected by Chinese retaliation. However, this solution has several limitations. On the one hand, it could reduce the EU's budget revenues by around 2 billion euros per year. On the other hand, guaranteeing higher margins to Chinese exporters reduces their interest in investing in factories on European soil

(García-Herrero & Gros, 2026). The Chinese response has therefore succeeded in exposing the Union's internal divisions. Some Member States, such as Spain, even seem willing to do whatever it takes to attract Chinese investment, regardless of the conditions. This goes against the Commission's position and clearly illustrates the fragility of European unity in the face of Beijing's pressure (Barkin, 2025).

5.4. The raw materials weapon

In addition to more conventional retaliatory measures, China possesses another important lever through its dominance over critical raw materials. Beijing could use the European Union's dependence mentioned in previous sections to punish it (Gehrke & Schmelzer, 2026). This threat is not merely theoretical, as China has already imposed export controls on several rare earths (MOFCOM, 2025a). These controls notably aim to prevent the emergence of international competitors that could harm Chinese industrial ambitions (Legarda et al., 2025). Furthermore, if Europe excessively taxes Chinese electric vehicles to protect its industry, China could respond by blocking the export of components necessary to produce electric vehicles (Gehrke & Schmelzer, 2026). This risk is very real. For example, the company Bosch was forced to reduce production in three of its factories at the end of 2025 due to uncertainty related to the supply of semiconductors. Europe is caught in a vice by the Chinese strategy since, by protecting its automotive industry with taxes, it could expose itself to a total shutdown of its supply chains (Legarda et al., 2025), given that the European industry's lack of autonomy makes relying on Chinese suppliers mandatory (IEA, 2026). Thus, the Union must constantly negotiate under the pressure of a threat of a supply freeze (Gehrke & Schmelzer, 2026).

6. The position of EU Member States on anti-subsidy measures and their interests

Only 10 countries voted in favour during the vote on October 4, 2024, regarding the tariffs imposed on Chinese electric vehicles. 5 voted against and 12 abstained (Demarais, 2024). The vote of each of the Member States is shown in Figure 6.

Figure 6: Member States' vote on anti-subsidy measures on Chinese electric vehicles

Voted for	Voted against	Abstained
Bulgaria, Denmark, Estonia, France, Ireland, Italy, Latvia, Lithuania, Netherlands, and Poland	Germany, Hungary, Malta, Slovakia, and Slovenia	Austria, Belgium, Croatia, Cyprus, Czech Republic, Finland, Greece, Luxembourg, Portugal, Romania, Spain, Sweden

Note: Adapted from EU votes in favor of raising tariffs on EVs from China, by CnEVPPost, 2024. Data from Bloomberg.

The divergence of votes illustrates the difficulty of Member States to agree on a common line against China. Even though the measure was adopted, only a minority of members voted in favor of it. It was the abstentions that allowed the measure to be approved. The governments that abstained allowed the measure to move forward without directly antagonizing Beijing (Atlantic Council, 2024). This fragmentation during the votes is not accidental but is the result of divergent interests regarding the welcoming of electric cars and Chinese factories on European soil.

6.1. The defence bloc

Countries that voted in favour of countervailing duties can use the tax to protect their declining, or at least less competitive, industry compared to China's. The head start taken by China, which began specializing in the electric vehicle supply chain as early as 2012, allows it to be more competitive. Supporting the taxes is a survival measure because without a reaction to the Chinese offensive, the EU could see its local production of electric vehicles reduced by 70% and lose global market shares. The stakes are also social since the automotive sector represents 14 million jobs on European soil. Voting for countervailing duties and protecting the European

industry therefore also allows Member States to protect local jobs (Draghi, 2024). It is notably in the mass market segment that China has gained the upper hand (Tagliapietra et al., 2025), which likely influenced countries like France and Italy to support the imposition of taxes to protect brands such as Renault, Peugeot, or Fiat (Staunton, 2026) to compensate for their lack of cost competitiveness (Tagliapietra et al., 2025). Proof of this lack of competitiveness in the mass segment is demonstrated by the Leapmotor B05 model, designed by the Chinese but assembled in Spain by Stellantis, which displays a price of 26,900 euros, or about 10,000 euros less than its European competitors (Renault, Peugeot, Fiat, but also VW) that cannot compete with these prices without destroying their margins (Staunton, 2026).

The fear of espionage with connected cars that could collect sensitive information accessible to the Chinese government could also play a role in the position of Member States (Tagliapietra et al., 2025). Moreover, for countries like Poland or the Baltic states, China is perceived as an ally of Russia because it refuses to limit its deliveries of material that could serve the war. Voting in favor of taxes can be a way to manifest their dissatisfaction (Demarais, 2024). Finally, a country like Lithuania has had virtually no economic ties with Beijing since 2021. They can therefore afford to vote for the taxes without fearing economic retaliation (Goreichy et al., 2025).

6.2. The producers

This group prefers to avoid a confrontation with China (Barkin, 2025) so as not to harm its domestic producers, whose access to the Chinese market remains a priority. It is led by Germany, which generates a significant surplus in the automotive sector vis-à-vis China with 15.1 billion euros of exports in 2023 (Verband der Automobilindustrie [VDA], 2024). A tax that would likely trigger Chinese retaliation in the sector would cause significant losses for German manufacturers (Goreichy et al., 2025). Furthermore, Germany is less fearful of the arrival of Chinese models given that it produces luxury cars that are not in direct competition with them (Staunton, 2026). Other producing countries like Slovakia and Austria share the same interests as the Germans and fear mirror taxes on large engines since they produce 48,000 vehicles per year for German brands (VDA, 2024). Sweden abstained because Volvo, one of its largest national employers, is Chinese-owned. The bankruptcy of the largest battery producer in Sweden, Northvolt, also exposes its dependence on Chinese materials. This makes a commercial confrontation too risky for it (Goreichy et al., 2025).

6.3. The host grounds for Chinese factories

This last group hopes to attract Chinese foreign direct investment (FDI) and create jobs. Hungary is part of it and alone captured 31% of Chinese FDI toward the EU in 2024. State aid funds about 8% of these projects (Tagliapietra et al., 2025). BYD notably wants to make Hungary its European hub (Goreichy et al., 2025). For its part, Spain seeks to attract Chinese investment at all costs. To do this, Spain goes as far as offering public aid, such as the 300 million that covered nearly 25% of the project cost for Envision (Tagliapietra et al., 2025), a provider of renewable energy solutions (Envision Group, n.d.). Although Italy voted in favor of the taxes, it follows the same logic by encouraging Chinese companies in the electric vehicle sector to invest in its territory or to work with its own producers (Goreichy et al., 2025). The problem with this phenomenon for the European Union is that, in addition to weakening its bargaining power, these countries could be used as low-value-added assembly plants. China would simply use them to avoid tariffs without transferring know-how (Barkin, 2025).

European countries therefore remain focused on their national economic interests, and Beijing can exploit this to divide their unity. Furthermore, the tariff barrier will not be effective if Member States do not agree and some are willing to do whatever it takes to welcome Chinese production, like Spain, allowing them to escape countervailing duties. This division offers Chinese manufacturers the opportunity to engage in "Tariff Jumping" by establishing their factories directly in Europe to bypass the taxes.

7. Tariff Jumping and FDI

7.1. Definition and mechanism of Tariff Jumping

The concept of Tariff Jumping consists in manufacturing goods directly within the territory of a foreign market instead of exporting products from their country of origin. This practice makes it possible to "jump" over tariff barriers to avoid paying customs duties at borders (Le dico du commerce international, n. d.). Given that the taxes imposed by the EU only affect vehicles originating from China (European Commission, 2024a), if a Chinese producer assembles its cars in Europe, they will be considered European and will avoid border taxes (Staunton, 2026). The value added on European soil must nevertheless exceed 25% of the product to avoid countervailing duties (Tagliapietra et al., 2025). By building assembly plants in Europe, Chinese brands maintain their low production costs while escaping taxes (Staunton, 2026).

7.2. The historical case of Japan

A parallel can be drawn with the case of Japan in the 1980s to try to understand the stakes surrounding the arrival of Chinese manufacturers today. This historical precedent shows that direct investment in Europe is a preferred response to trade barriers (Yoon, 1990).

In the 1980s, the Japanese automotive industry experienced significant success, generating tensions with Europe, which eventually imposed a quota system on imports of Japanese cars. The Japanese chose to produce their cars directly there to circumvent this obstacle. It was the United Kingdom that played the role of host country by attracting brands like Nissan, Honda, or Toyota (Hyun, 2008). The fact that they did not have a dominant national brand to protect prompted them to make this choice, for instance to stimulate employment (Fujimoto et al., 1992). France and Italy reacted and accused the British factories of being mere assembly plants that just put together parts of Japanese origin to allow them to penetrate the European market. Paris and Rome demanded that 80% of the parts for assembly be local parts for the cars to be recognized as European products (Hyun, 2008). This worked, as Japanese manufacturers reached the 80% threshold and opened research centers on the continent, leading to a catch-up by the European industry, which learned from Japanese methods through partnerships or by observing the practices used to improve its productivity and the quality of its cars (Fujimoto et al., 1992). Today, although the protection of the industry relies on countervailing duties rather than quotas, the objective remains to push the competitor to invest locally. The Industrial Accelerator Act (IAA) of 2026 proposes several criteria for an electric car to carry the "Made in Europe" label. For example, at least 70% of the value of its components, excluding the battery, must come from Europe. For batteries, the requirement mandates that several of its main components be of European origin (Bird & Bird, 2026). Whether in the case of Japan in the 1980s or China today, investments and transfers of know-how are thus forced by trade restrictions.

7.3. The case of the Stellantis - Leapmotor partnership

This case is a current illustration of the "Tariff Jumping" phenomenon. Stellantis is a multinational group born from the merger between PSA and FCA, and brings together 14 companies, including several French ones like Peugeot and Citroën, Italian ones like Fiat and Alfa Romeo, as well as a German brand with Opel (Stellantis, 2020). In 2023, Stellantis concluded a partnership with Leapmotor, an important Chinese producer in the field of electric

vehicles (Spani, 2024). One of the main stakes for the Chinese manufacturer was the implementation of a "Tariff Jumping" strategy to counter taxes imposed by the EU on electric vehicles originating from China. The taxes were thus the starting point of this strategy (Krause Llorente, 2024). To circumvent them, Stellantis assembles Leapmotor models in its European factories, as is the case, for example, for the B05 assembled in Spain, so that the cars are considered of European origin and escape countervailing duties. This strategy makes it possible to sell the cars at a price far below the prices of its competitors since Stellantis, by choosing not to protect itself from the arrival of Chinese vehicles, takes advantage of their technologies and low production costs to follow an aggressive strategy, becoming almost unbeatable in terms of prices on the European market. The partnership is also motivated by Stellantis's large distribution network, counting more than 800 points of sale in Europe to foster Leapmotor's market penetration. Over the year 2025, Leapmotor registered more than 35,000 vehicles in Europe for its first full year, already surpassing established brands such as Alfa Romeo or DS. With this type of cooperation, Stellantis facilitates the arrival of electric cars designed in China but assembled locally, rendering ineffective the measures taken to protect the European industry, which imposes enormous pressure on margins for direct competitors like Renault or VW, but also on Stellantis's own brands like Peugeot or Fiat (Staunton, 2026).

The phenomenon of "Tariff Jumping" is a threat to the European automotive industry because competitors in the mass market segment could be forced to choose between a sharp decline in their market shares or adopting the method of dependence on China. By becoming mere assembly plants serving Chinese manufacturers to circumvent tariff protections, local factories would no longer create as much value added as when they controlled the entire value chain.

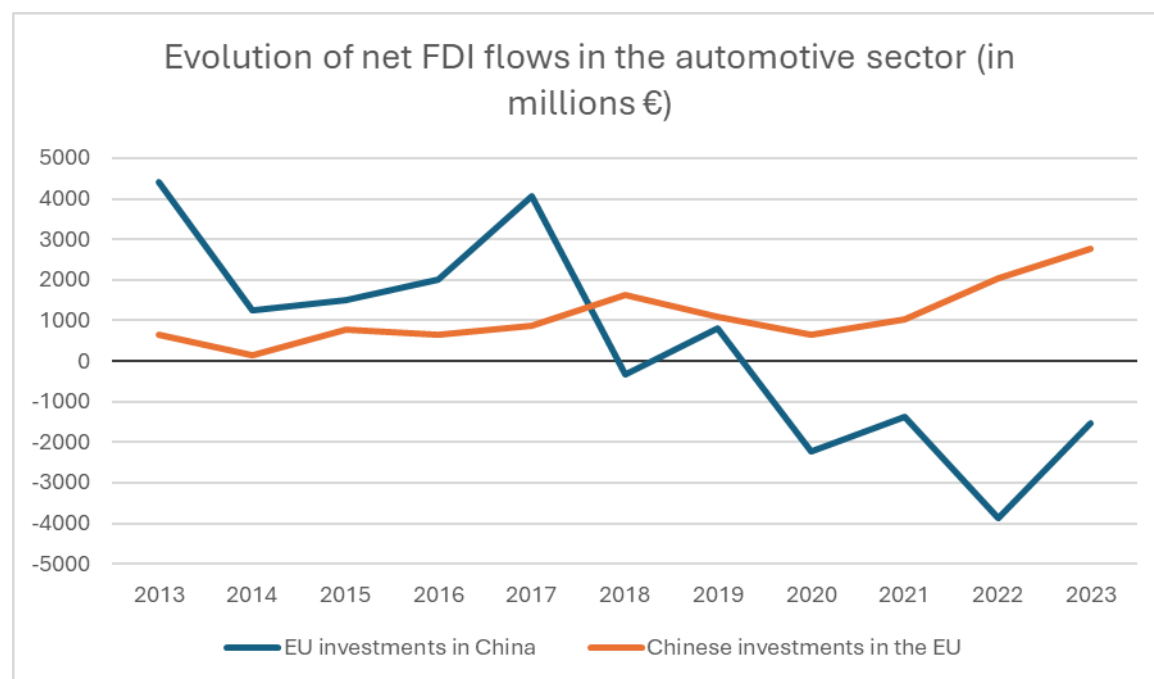
7.4. The reverse technology transfer

During recent decades, China welcomed European automakers onto its soil, notably through mandatory joint ventures. The objective of this maneuver was to obtain a transfer of foreign technologies in exchange for access to the vast local market so that China could catch up in the automotive sector, particularly regarding internal combustion engines, which dominated the market at that time. For example, Volkswagen established its first joint venture as early as 1984, allowing it to establish itself and become a leader in the Chinese market (Qiu, 2012). China played at that time the role of an assembly workshop with low value added and depended heavily on the technologies and know-how of foreign firms (Cao, 2004).

Today, the trend has reversed since it is now European manufacturers that depend on Chinese batteries, raw materials, but also technologies to exist in the electric vehicle market. The Volkswagen Group developed a partnership with XPENG to co-develop intelligent vehicles and a new electronic architecture that will equip its future electric models (Volkswagen Group, 2026), while Audi partnered with SAIC to design four new premium electric models through a technological center located in Shanghai (Audi, 2026). These new vehicles use the next-generation Chinese platform and advanced local technologies such as autonomous driving functions or the use of AI. For its part, Stellantis takes advantage of Leapmotor's Chinese electric vehicle ecosystem to produce its cars and source its components (Stellantis, 2026).

The following graph shows the evolution of FDI flows between the EU and China in the automotive sector. Although the flows concern the entire sector, the shift observed (see Figure 7) is mainly linked to the electric vehicle segment. Indeed, 69% of total Chinese FDI in Europe concerned EVs in 2023, proving that they do represent the major element of this new dynamic (Kratz et al., 2024).

Figure 7: Evolution of net FDI flows in the automotive sector between the European Union and China (in millions €)



Note: Adapted from "EU direct investment flows, by country and economic activity (BPM6)", by Eurostat, 2026.

The year 2018 marked a turning point since, for the first time, Chinese investment flows into Europe exceeded European flows toward China (Eurostat, 2026). In 2023, 78% of these projects were "greenfield" projects where construction started from scratch, and were notably linked to the construction of battery factories by giants including CATL (Kratz et al., 2024). Europe is therefore no longer solely an exporter of know-how but also integrates Chinese technology into factories on its own soil.

8. The stakes for European consumers

8.1. The impact on consumers and purchasing power

Between 2018 and 2023, the price of new vehicles in Europe experienced an increase of 30% to 40%, outstripping the general average inflation which stood at 20%. The electric segment is particularly affected by this trend since the average price of a new electric car was 66,864 euros in 2023 compared to only 31,165 euros in China, making Europe the most expensive market in the world. This phenomenon is partly explained by the upmarket move of mass-market brands such as Fiat, Renault, or Opel, driven by regulations that favoured heavier models. Except for Volkswagen, which most successfully achieved its upmarket shift, other mainstream brands lost nearly half of their market shares, moving away from their traditional customers (Alochet et al., 2024).

This resulted in an aging of new vehicle buyers and an increase in used car purchases given that customers are budget-constrained and only high-income households could afford this luxury. The number of new cars sold per capita within the EU has therefore plummeted by 23% over the last 20 years. This observation is even more pronounced in countries where purchasing power is lower, such as in Italy where the number of new cars sold decreased by 48% (Alochet et al., 2024).

In this context, the arrival of Chinese brands bringing low-priced electric vehicles is a boon for European consumers, offering accessibility to electric vehicles that local manufacturers' prices do not allow.

The tariff barriers introduced by the EU on Chinese electric vehicles therefore directly penalize the purchasing power of European consumers. Worse, the taxes could lead to a price increase

from local manufacturers if Beijing retaliates by raising the prices of raw materials or batteries on which the Union heavily depends. Consumers would therefore suffer from a price increase in both Chinese cars and cars of European origin. European consumers could consequently be the big losers following the imposition of countervailing duties (Heraly, 2024).

8.2. The reaction of European manufacturers: The example of Volkswagen

In reaction to the low prices charged by Chinese brands, Volkswagen adjusted its offering and now offers more affordable electric models (Stumpf, 2026). However, the data run counter to the idea that high prices were due to unjustified excess profits or a monopolistic position of European manufacturers in the absence of the Chinese. Indeed, a brand like BYD enjoys a sustainable cost advantage of around 25% compared to its European counterparts, illustrating that this price difference stems from a cost discrepancy rather than abusive margins by European firms (UBS, 2023). According to Volkswagen's chief financial officer, margins on its electric models remain quite low, representing only 70% to 80% of the margins of their internal combustion engine equivalents. The price reduction includes the use of cheaper components, but also forces the German group to cut 750,000 units from its annual production capacity as well as 50,000 jobs by 2030. The company is even seeking to allow its Chinese partner Xpeng to acquire one of its sites to utilize excess capacity (Stumpf, 2026).

The price cuts sought by European manufacturers therefore probably do not stem from a reduction in excessive margins but are rather the result of sacrifices within a defensive strategy to protect their market shares.

9. Discussion of the results

This section allows for taking a step back on the collected data. First, the analysis will explain why China's competitive advantage is structural and goes beyond the simple question of public subsidies, before determining whether the European Union's customs duties are truly effective in a globalized world facing an urgent ecological transition.

9.1. Subsidies are not the only reason for the Chinese competitive advantage

While the European Union tends to reduce Chinese dominance in the electric vehicle sector through the granting of public subsidies, it is interesting to take a step back and mention that economic reality shows that it is rather a structural and sustainable advantage that cannot be reduced only to subsidies, but to several factors exposed in the sections below.

9.1.1. Marshallian districts

The Marshallian district phenomenon is defined by the concentration of productive companies from the same sector within the same geographical area to develop positive externalities and accelerate innovation. China was notably able to develop its competitive advantage thanks to its Marshallian districts, which have played a very important role in its development for thirty years (Lu & Ganne, 2016) such as those of Huizhou or Zhejiang (Zhao & Luethje, 2025). These Marshallian districts notably bring together the entirety of the battery value chain and create collective efficiency and spillover effects that generate a strong acceleration of industrial innovation (Groenewegen-Lau & Gunter, 2025). Furthermore, geographical grouping offers direct access to skilled labour, precompetitive R&D, rapid knowledge dissemination, and suppliers. This therefore also favours the reduction of collective production costs and the improvement of competitiveness (Zhao & Luethje, 2025). According to a MERICS report, battery suppliers are structurally weak and there is also a lack of expertise in the sector on the European side, preventing Europe from competing with the efficiency of Chinese clusters. Chinese logistics circuits are also much shorter with much more direct links between the different actors, which prevents Europe from designing and optimizing production at the same pace (Groenewegen-Lau & Gunter, 2025). Indeed, historical European clusters, which are not

designed for world-class battery suppliers, are not efficient enough to generate as many economies of scale to establish themselves on the global market (Zhao & Luethje, 2025).

The Huizhou electric vehicle battery Marshallian district perfectly illustrates why Chinese technological clusters allow local manufacturers to be global leaders. This cluster has the distinct feature of integrating the entire value chain, ranging from material extraction to the final assembly of batteries. This cluster houses several global leaders, including the one for battery components (Kedali), the leader in battery equipment (Yinghe), or leaders in battery installation in the automotive market, and notably BYD, which specialized for a long time in battery production before entering the electric vehicle market (Zhao & Luethje, 2025).

More generally, China's dominance of Marshallian districts is validated by the World Intellectual Property Organization. Indeed, 24 of the top 100 technological clusters in the 2025 ranking are Chinese, making China the country housing the largest global clusters for the second consecutive year. The European Union is not far behind with 20 members among the top 100 but only counts Paris in the top 20 with a mere 12th place. China counts six members among the top 20, including the 1st, 4th, and 6th largest global clusters (World Intellectual Property Organization, 2025). Since the Huizhou district is close to the largest Marshallian district in the world, Shenzhen, this allowed it to attract companies that relocated there to avoid the very high labor costs in Shenzhen. In this way, it was able to capture investment flows and benefit from the spillover effects of the largest existing innovation cluster (Zhao & Luethje, 2025). The advantages of Chinese battery-related clusters are therefore inevitably much more significant than their European counterparts.

9.1.2. Cost advantage through vertical integration

While Western manufacturers outsource a large part of their upstream value chain (Transport & Environment, 2026), Chinese companies have adopted vertical integration, allowing them to reduce their costs but also to obtain a certain strategic independence that Europeans do not possess. For example, BYD has an almost completely integrated value chain ranging from the control of raw materials to battery assembly and the sale of electric vehicles. By eliminating subcontractors, the company eliminates all intermediate margins from external suppliers. This allows it to sharply reduce its production costs and lower its prices while maintaining healthy profit margins (Wu, 2025). Even if European factories integrate their labour and cell assembly, they will remain penalized by the need to import raw materials and battery cells from elsewhere,

and notably from China. Thus, Europe must face a persistent manufacturing cost gap, especially since the battery is the most expensive component of an electric car (Transport & Environment, 2026).

9.1.3. First-mover advantage and market maturity

The Chinese electric automotive industry is no longer an infant industry but has become mature. This early maturity compared to Europe can be explained by the first-mover advantage. By entering a market first with activities showing increasing returns to scale, Chinese companies benefit from a structural advantage and a learning effect. Furthermore, by anticipating the transition toward electric mobility as early as the mid-2010s, China was able to secure access to critical raw materials. For instance, it invested in global cobalt and lithium deposits (Guillou, 2018). When Europe began its shift toward electric vehicles, Chinese manufacturers therefore already had a head start and a structural advantage that taxes cannot eliminate.

Moreover, Chinese companies no longer depend on subsidies to grow. The competitive advantage they have developed is no longer based on state aid, but on superior efficiency linked to innovation and lower production costs (Hao & Hao, 2026). The Chinese state has moreover officially excluded electric vehicles from the list of emerging strategic industries, announcing the end of direct and massive state aid. Its objective is now to let the market self-regulate, to push the weakest to merge, and to encourage the conquest of foreign markets (Nio, 2025).

9.1.4. Strategic mistakes of the European Union

In addition to China's excellent development in the sector, Europe's competitiveness deficit also results from several strategic mistakes. First of all, it is primarily its lack of investment in innovation in the electric vehicle segment for more than a decade compared to competitors that has widened a gap with China. By favouring internal combustion engines that provide them with significant profit margins, European manufacturers avoid investing too much in the electric segment (Zirpoli, 2025). Worse, some manufacturers are even putting pressure to relax regulations within the framework of the Green Deal (Levasseur, 2025), which can have the effect of creating uncertainty, destroying the confidence of manufacturers who want to invest in electric vehicles (Zirpoli, 2025), and accentuating the sector's industrial procrastination (Levasseur, 2025).

By prioritizing their production of premium vehicles with high margins during the component shortages of the early 2020s, European companies left a void in the more affordable price segment (Levasseur, 2025). It was mainly Chinese brands that were easily able to fill this void by invading the market (Zirpoli, 2025). European companies have also made mistakes in their choice of technology. Regarding battery technologies, Europe favours NMC (Nickel-Manganese-Cobalt) chemistry, which is more suitable for high-end vehicles but much more expensive than the LFP technology developed by China, which allows it to democratize electric cars (Levasseur, 2025). The fact that Europe fails to offer electricity and gas at a price comparable to its competitors also represents a handicap for its companies (Draghi, 2024).

Furthermore, the Union allowed its manufacturers to transfer their R&D to China. However, Beijing's strategy was to capture Western innovation when it needed it, while locking down its own technologies, such as those for electric vehicles and material refining. Europe took too much time to realize the lack of reciprocity (Groenewegen-Lau & Gunter, 2025). Today, the fact that some member states seek to attract Chinese factories without demanding technology transfers in return will not help bridge this gap (Levasseur, 2025).

Finally, European fragmentation causes a lack of coordination between member states and prevents them from optimizing their response. Draghi explains that only 10% of public spending on R&D takes place at the EU level, the majority being granted directly by member states which often prioritize their national interests (Draghi, 2024). This does not allow the EU to adopt a common response as effective as the American Inflation Reduction Act, for example (Tagliapietra & Veugelers, 2023). Legislative slowness, explained by divergent interests and vetoes, also penalizes the Union's responsiveness to the Chinese offensive (Draghi, 2024).

To conclude, the analysis of these factors shows that it is important to take a step back from the Commission's position. The European Union justifies the competitiveness gap and its countervailing duties by Chinese subsidies. Yet, although the massive subsidies paid by Beijing served as a launchpad for Chinese manufacturers, and notably to secure access to raw materials and acquire experience quickly, the advantage built by China goes beyond this simple public financial support. Indeed, China has built a sustainable advantage in the electric vehicle segment. This advantage rests on the effective organization of its Marshallian districts, a vertical integration that eliminates intermediaries, and a mature market that profited from the first-mover advantage. For its part, Europe made strategic mistakes, notably by favouring its

combustion models. Therefore, we cannot simply justify Chinese superiority through state aid, since it is today a structural dominance that customs barriers alone will not be able to eliminate.

9.2. Is a protectionist measure still effective in a globalised world facing urgent ecological transition?

The analysis of the results highlights several obstacles that undermine the tax's effectiveness. The EU's imposition of countervailing duties exposes the limits of protectionist measures in a globalized market.

First, the customs tax fails to curb the arrival of Chinese cars because their profit margins in Europe are too high. The case of BYD's Seal U model shows that the profits made on European soil are sufficient to maintain attractive margins despite the countervailing duties. In addition, European manufacturers producing vehicles in China, such as BMW and Volkswagen, will also be penalized because they use China as an export platform to Europe, but will be more affected by the measure given that they have lower margins than the Chinese when exporting from China to Europe.

Second, Tariff Jumping allows for circumventing protectionist measures. The Union's internal division directly benefits Beijing, with countries like Spain and Hungary seeking to attract Chinese investment. The partnership between Stellantis and Leapmotor proves that assembling cars in Europe allows for escaping tariff barriers, which therefore do not protect the European market but could instead push Chinese competitors to build factories on the continent.

Third, this tax comes into direct contradiction with the climate objective set for 2035 and consumer purchasing power. By increasing the price of cars of Chinese origin, Europe does not solve the problem of excessively high prices and slows down the transition to electric mobility.

Finally, in an interconnected world like ours, imposing this kind of measure exposes to retaliation. China is already targeting sensitive sectors like pork or cognac to break European unity, but it also, and above all, possesses the lever of critical materials refining and accounts for 90% of European battery imports. If Beijing decided to block access to graphite and lithium, it would paralyze the European electric automotive industry.

10. Conclusion

10.1. Synthesis of the results

This study aimed to answer the research question "What are the stakes of the EU's imposition of anti-subsidy measures on Chinese electric vehicles?". This analysis has highlighted that these stakes go beyond a simple trade dispute.

First, the study recalls that the automotive industry is one of the major pillars of the European economy, representing 7% of GDP and more than 13 million jobs. However, given the objective to switch to electric mobility by 2035, the EU is handicapped by a critical strategic vulnerability since it depends almost exclusively on China for both its battery imports and raw materials such as lithium and graphite. European autonomy therefore seems almost impossible to achieve in the short term.

Then, the imposition of countervailing duties exposes Europe to both economic and political consequences. By using targeted retaliation strategies, such as on pork, cognac, and large engines, China exploits the internal division of Member States. The vote on October 4, 2024, proved the lack of unity of the European bloc, split between defending countries, producing countries led by Germany, and host countries like Spain and Hungary. This fragmentation allows Chinese manufacturers to engage in Tariff Jumping by setting up their factories directly on European soil to circumvent the taxes, following the example of the partnership between Stellantis and Leapmotor.

Finally, these tariff barriers increase the price of electric vehicles in Europe and reduce consumer purchasing power. In addition to the social aspect, this could also have the consequence of slowing down the climate transition.

10.2. Positioning and recommendations

The section dedicated to the discussion of the results explains that China's superiority in the electric vehicle segment does not stem solely from state aid. It rests on a sustainable structural advantage notably based on the efficiency of its Marshallian districts, the vertical integration of its actors, the first-mover advantage, and the mastery of raw materials. Conversely, Europe is penalized by its strategic mistakes and its heavy dependence on batteries.

Faced with this observation, anti-subsidy measures cannot be a final solution in themselves, as taxes alone risk being insufficient to address the structural problem of the European electric automotive industry. They are also relatively easily circumvented through Tariff Jumping, in addition to harming consumers and the transition toward electric vehicles.

These measures can be relevant and effective only if they serve as a temporary shield to protect European manufacturers and give them time to correct their structural weaknesses, develop, and acquire sufficient experience to catch up with Chinese brands. This respite must above all do not encourage industrial procrastination nor serve as a starting point to postpone the 2035 deadline. If European firms take advantage of this protection to delay their investments instead of gaining experience, then the taxes will be ineffective.

The EU should also implement a common industrial policy, managed at a supranational level to optimize investments. Currently, European fragmentation means that most of the public spending on R&D is decided by each Member State for its own interests. Centralizing these budgets at the European level would make it possible to avoid this internal division and fund major common projects, which is essential for the optimal development of the sector.

Finally, the Union must show itself to be more demanding toward its Member States to limit the phenomenon of Tariff Jumping, or at least to ensure that it truly benefits the European economy. It could force technology transfers as China has done in the past and impose minimum quotas of locally sourced components for a vehicle to carry the "Made in Europe" label, thereby giving the European industry the necessary time to develop. Without this, Europe risks becoming an assembly workshop dependent on Chinese technologies, which will prevent it from guaranteeing its industrial sovereignty over one of the most important sectors for its economy.

10.3. Limitations encountered and perspectives for future research

To remain transparent about the scope of this research, it is interesting to mention the limitations of this thesis. This also allows for opening avenues for future studies on the subject.

First, this study is mainly theoretical. It lacks a concrete field analysis to enrich the research. For the future, it would be relevant to conduct interviews or carry out surveys directly with European manufacturers and subcontractors to understand how companies experience these taxes and observe how they intend to adapt their strategies.

Then, this thesis focuses primarily on data from Europe. The case of China is less detailed because its economic and industrial data are often more protected and difficult to access. Analysing the Chinese side more deeply with precise figures would allow for a more comprehensive vision of the two rivals.

Moreover, European taxes are very recent. It is therefore complicated to measure their real long-term effects now. To go further, repeating this analysis in a few years could be interesting. This would make it possible to verify whether the measures have truly been effective and to determine if Europe needs to modify its position.

Finally, the global market also depends heavily on the United States, an actor that is not really addressed in this thesis. Future research could analyse the stakes for the United States in the face of this conflict between Europe and China. It would involve determining whether or not the United States can potentially take advantage of the situation to strengthen its own industry.

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