Appraiser Blog

Can Chinese Electric Car Makers Overcome US Trade Barriers

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In 2011, when Elon Musk was asked about the threat posed by the Chinese electric car manufacturer BYD to Tesla, he chuckled, dismissing them as inconsequential. Fast forward to today, and it's BYD that's having the last laugh.

This year, the Shenzhen-based electric vehicle (EV) maker, backed by investor Warren Buffet, not only surpassed Tesla but also became the world's largest EV brand. The Chinese electric car industry is booming, and European consumers are snapping up their affordable and advanced EVs in droves.

However, the burning question remains: Can these Chinese EV manufacturers make it to the US market? In this blog post, we explore the rise of Chinese electric car makers, their success in Europe, and the hurdles they face in entering the US market.

Chinese EVs Conquer Europe

Thanks to generous subsidies from the Chinese government, China has become an EV production powerhouse, churning out more electric vehicles than ever before. These EVs, not only affordable but also technologically advanced, have found a welcoming audience in Europe.

European consumers have purchased nearly 350,000 Chinese EVs in the first half of 2023, surpassing the total for the entire year of 2022. One standout example is BYD's , priced at $38,000 in Europe but only $20,000 in China. These cars have become increasingly popular, transforming the automotive landscape in Europe.

Learn more here: [China’s Electric Vehicle Market Set to Dominate by 2030]

US Tariffs and Trade Barriers

Despite their success in Europe, Chinese EV manufacturers face significant barriers when it comes to the US market. During Donald Trump's presidency, a 27.5 percent tariff was imposed on all cars imported from China, effectively discouraging Chinese manufacturers from considering the US as a viable market. Europe, in contrast, has been more inviting, with tariffs set at just 10 percent.

Stella Li, a senior vice president at BYD, pointed to trade barriers imposed by the Biden administration as a deal breaker for Chinese EV makers. The Inflation Reduction Act, set to take effect in 2024, excludes vehicles containing battery parts from "a foreign entity of concern" from the $7,500 tax credit designed to promote EV adoption in the US. This categorically includes Chinese manufacturers, making it difficult for them to compete on a level playing field in the American market.

Political Challenges and Uncertainty

The political landscape also presents challenges for Chinese EV makers. President Biden has emphasized the importance of leading the race in electric vehicles and battery production, acknowledging that China is currently leading this competition.

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However, the path forward is uncertain. The US auto industry is at a crossroads, and decisions made in the coming years will shape its future.

Chinese EV manufacturers now boast an excess auto production capacity of around 10 million vehicles annually, which is nearly two-thirds of all North American output in 2022.

BYD, as the largest player, offers high-end models like the Yangwang U8 luxury SUV and the powerful plug-in hybrid with 1,184 horsepower, priced at around $140,000 in Europe. While the technology and quality are certainly competitive, market access remains a hurdle.

Automakers' Divergent Strategies

Major American automakers like Ford and General Motors have diverse strategies regarding their relationships with Chinese battery manufacturers. Ford intends to collaborate with Contemporary Amperex Technology, the world's largest battery manufacturer, to build a battery plant in Michigan. They have lobbied for a more flexible interpretation of the "foreign entity" rule to allow consumers to enjoy the $7,500 credit.

On the other hand, General Motors executives advocate for a strict interpretation of the rule to prevent partnerships with Chinese firms. They argue that adherence to the Inflation Reduction Act is crucial.

EU's Protective Measures

The challenges faced by Chinese EV makers extend beyond the US market. In Europe, the European Commission has launched an investigation into the possibility of imposing punitive tariffs to protect EU producers from cheaper Chinese EV imports.

This move underscores the global impact of China's electric car surge.

Electric Vehicle (EV) Sales and Forecast in Western Europe			
Year	**EV Sales**	**Market Share**	**Total Market Volume**
2019	353,888	2.5%	14,304,147
2020	727,905	6.7%	10,803,005
2021	1,190,835	11.2%	10,598,963
2022	1,531,881	15.1%	10,161,450
2023	1,690,013	15.4%	10,974,111
2024	1,920,000	16%	12,000,000
2025	2,700,000	20%	13,500,000
2026	3,360,000	24%	14,000,000
2027	4,260,000	30%	14,200,000
2028	5,320,000	38%	14,000,000
2029	7,100,000	50%	14,200,000
2030	9,230,000	65%	14,200,000

The Road Ahead for Chinese EV Makers

Chinese electric car makers have come a long way from being dismissed by Elon Musk to dominating the global EV market. Their success in Europe is a testament to the quality and affordability of their vehicles.

However, entering the US market remains a significant challenge, with trade barriers and regulatory hurdles in their path. The future of Chinese EVs in the US is uncertain, but as the electric vehicle revolution continues to gather momentum, these manufacturers are sure to keep pushing for a place on American roads.

The world watches with keen interest as Chinese electric car makers navigate these obstacles and seek to replicate their European success in the US market.

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