

# Intelligence MEMOS



From: Lawrence Herman  
To: Canadian Trade Watchers  
Date: February 15, 2024  
Re: **THE COMING WAR OVER CHINESE ELECTRIC VEHICLES**

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Standing back and looking at today's global trading picture, one can see that it's not pretty – destabilized by the wars in Ukraine and Gaza, by the unsettled multilateral situation at the World Trade Organization and by innumerable regional trade disputes.

Most important, though, is the looming clash between the West and China over electric vehicles (EVs), which is set to dominate this year's trade agenda.

This fight is shaping up to be epic, covering a wide swath of minerals critical to EV production and with implications reaching deep into national decarbonization policies and supply chains, not only for the Canadian automotive industry but for a large array of businesses in the decarbonization sector.

A [report](#) by the European Council on Foreign Relations last December issued an ominous warning: “Beijing is now expanding its dominance [in clean technology]. Its economic policy will produce overcapacities that could strangle the healthy global competition for the best EV technologies, business plans, and local value distribution and destroy markets elsewhere, burying any semblance of de-risking with it.”

The EV fight was bubbling last fall with news of the impending EU trade action against cheap, subsidized Chinese cars flooding Europe. In October, the European Commission said: “Based on the investigation's findings, the commission will establish whether it is in the EU's interest to remedy the effects of the unfair trade practices found by imposing anti-subsidy duties on imports of battery electric vehicles from China.”

The EU investigation is indicative of Chinese imports worrying Western countries and the West's willingness to consider a variety of trade remedies to level the playing field and address national-security interests. Counterproductive as protectionism may be, the EU case could well signal the start of actions by other Western countries, not only in the automotive sector but in other businesses in the net-zero emissions space where Chinese subsidies are similarly massive.

Here in North America, the shape of the battle will be determined by what the United States does. So far, Washington hasn't started an actual trade remedy action against subsidized Chinese vehicle imports, relying mostly on restricting exports of advanced microchips to China and on Inflation Reduction Act tax incentives for North American production. With pressure building from U.S. business, however, The New York Times reported last week that “administration officials appear likely to raise tariffs on electric vehicles and other strategic goods from China.”

If the U.S. goes the tariff route, Canada will certainly have to follow. Whether that takes the form of a long, complex countervailing duty investigation or other trade remedies based on national-security interests remains to be seen. The Chinese EV issue is complicated by concerns voiced by Canada's auto-parts industry association “about a string of investments by Chinese firms in Mexico's auto industry, moves it argues are designed to skirt rules in the United States-Mexico-Canada Agreement,” The Globe and Mail reported in November.

All of this makes for a fraught international trading picture centred on Chinese EVs and related subsidized decarbonization technologies exported to Canada. The picture becomes more politically complicated given that 2024 is an election year in both the US and Mexico. Even at this stage, what seems fair to predict is that, regardless of November's election result, Chinese EV exports and the slew of related supply chain factors will be brightly lit on the radar screen in the White House, no matter who resides there.

For Canadian businesses in the automotive and decarbonization sectors alike, developing strategic responses to the multidimensional Chinese EV challenge will be critical. This means working more closely than ever with the federal government on this dominating trade file in the coming year.

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