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EV TARIFFS: NEW IMPACT ON TRADE

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The electric vehicle sector faces new tariffs in critical markets that will affect international trade trends. The EU recently voted to adopt definitive tariffs on China-made battery electric vehicles (BEVs) and brand-specific tariffs for non-cooperating brands ranging from 9% (Tesla) to as high as 36.3% (SAIC). Canada will impose a 100% tariff on imports of China-made electric vehicles (EVs) starting October 1 and a 25% tariff on Chinese steel and aluminum imports starting October 15. The United States also approved significant increases in tariffs on Chinese imports related to electric vehicles:

- ❖ An increase of 25% to 100% on electric vehicles
- ❖ An increase from 7.5% to 25% on battery parts (non-lithium-ion batteries) & lithium-ion electric vehicle batteries
- ❖ An increase from 0% to 25% on various critical minerals, including indium, tantalum, chromium, cobalt, and tungsten

Protectionist Trends

It has been debated that protectionist policies on pivotal imports are historically more politically than economically motivated. These targeted tariffs by the EU, Canada, and the EU are the result of multiple factors:

- ❖ There is a need to lower the economic dependency on Chinese goods throughout the global supply chain.
- ❖ Efforts to counter China's global EV-market dominance amidst the US-China "trade war"
- ❖ Provide a competitive advantage to local producers and manufacturers against China's lower costs.
 - The average electric vehicle made in the US sells for about \$55,000, while Chinese-made EVs can sell less than half that price, thanks to China's high annual supply.
- ❖ The influence of the upcoming US elections on US international trade policy.
- ❖ National security concerns, especially from the US's position.

The Chinese Chamber of Commerce and various multinationals consider these tariffs to be both politically motivated and unjustified protectionist measures that will hinder international trade, impede the global growth of the EV sector, and spark unnecessary "trade wars" or conflicts.

" THE AVERAGE ELECTRIC VEHICLE MADE IN THE US SELLS FOR ABOUT \$55,000, WHILE CHINESE-MADE EVS CAN SELL LESS THAN HALF THAT PRICE, THANKS TO CHINA'S HIGH ANNUAL SUPPLY. "

China "coming in through the backdoor"

According to many trade experts, these tariffs are simply political tools or tactics to counter Chinese growth in international trade and its growing dominance of the EV sector, but will ultimately have little effect on the entry or use of Chinese goods within the United States, Canada, and the EU, especially in the long run. With the globalization of the supply chain and international trade, it would be impossible for these three entities to cut China entirely off of their markets. For example, the UK does not share the EU's policies of tariffs on Chinese goods, and the EU. Chinese goods could potentially enter the EU markets through the UK and face lower tariffs.

That is the primary concern of United States and Canadian policy-makers concerning Mexico. Chinese EVs could potentially evade these new tariffs. Hypothetically, if a Chinese company partners with Mexico or establishes manufacturing plants in Mexico, under the USMCA, they could sell EVs or electric batteries to the US or Canada duty-free. The only prerequisites would be that 75% of the vehicle's parts come from North America and that at least 40% of the vehicles are made by workers earning \$16 an hour. As long as these prerequisites are met and the assembly is done in Mexico, the duty-free will apply regardless of where the company is based.

The US Response

The United States government is considering various strategies to face China's potential evasion of these tariffs through Mexico. For one, according to Katherine Tai, the US Trade Representative, they are considering imposing additional penalties for Chinese EV manufacturers producing in Mexico. Other policymakers are pushing for a total ban on EVs of Chinese origin, but this would require a revision of the USMCA to include said ban, which is a complicated endeavor. The next revision is due in 2026. Other policymakers are opting for a more lax approach and allowing the free market to decide, letting American consumers decide whether to buy Chinese EVs.

The Case of BYD

BYD is a Chinese multinational manufacturing company that manufactures passenger battery electric vehicles and plug-in hybrid electric vehicles. It is China's current electric vehicle market leader, surpassing other market leaders such as Tesla. It already has a solid export market in Mexico and is currently in the process of opening its first factory there.

Potentially speaking, this factory in Mexico could serve as an export hub to the Canadian and US markets, leading to concerns from their respective policymakers. Democrats from the US Congress recently sent a letter to the new Mexican president, Claudia Sheinbaum, asking her to address these concerns. According to Reuters, the letter specifically noted BYD's plans to build a factory in Mexico and their potential circumvention of US tariffs.

The firm's vice president, Stella Li, has reaffirmed that it has no plans to export its products to the United States from Mexican territory in the near future. However, details about the factory itself and the Mexican State that will accommodate it are still uncertain and will likely be announced after the results of the US elections in November.

A plant in Mexico could serve as an export hub to key overseas markets. However, details will likely have to wait until after the US election in November.

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