

TO: Wang Yi, PRC Minister of Foreign Affairs

FROM: Bo Yu, a diplomat in the Ministry of Foreign Affairs (MOFA)

DATE: 2024/11/10

RE: Facilitating Market Entry for Chinese Electric Vehicles Amid UK Trade Barriers

Summary

China's new energy vehicle (NEV) exports are expanding rapidly, yet non-tariff barriers (NTBs) in the UK market impede further development. This policy memo evaluates strategic measures to enhance market access, including trade agreements, targeted subsidies, and supply chain collaboration. The goal of this policy memo focuses on achieving sustainable, long-term benefits while mitigating financial and diplomatic risks.

Background

China, a global leader in electric vehicle manufacturing, has seen a surge in electric vehicle exports from \$295 million in 2018 to \$36.7 billion in 2023 (Inagaki, White and White, 2024). At the same time, the UK's ban on new petrol and diesel vehicles by 2030 represents a major shift toward electric vehicles, potentially raising EV market penetration to over 60% (GOV.UK, 2020).

This transition aligns with China's strategy to expand its NEV exports.

However, China's EV manufacturers face significant non-tariff barriers in the UK:

- **Certification Requirements:** the cost of additional certification for each model imported from China can be as much as £50,000, and the certification process can take between 6 and 12 months (Celestin and S Sujatha, 2024).
- **Tariff Discrepancies:** tariffs on imported parts and components for Chinese-made electric cars exported to the UK average around 12% in contrast to the 3% tariff on similar products exported from the UK to China (Setser, 2024).

Reducing non-tariff barriers (NTBs) in the UK, one of Europe's largest markets, could provide significant opportunities for Chinese EV exports (Seong, 2024). I am going to introduce three policies to address these barriers.

Policy options

1. Bilateral Trade Agreement

A focused trade agreement could align UK-China NEV regulations, streamline customs, and reduce compliance costs. Specifically, this would:

- **Speed up market entry:** Harmonizing standards could cut certification times by up to a year.
- **Lower compliance costs:** Simplifying procedures could reduce costs by 15-20%, improving profit margins for Chinese manufacturers.

On the contrary, relations between China and the UK are deteriorating, and as British Prime Minister Rishi Sunak said, "Let me be clear, the so-called 'Golden era' of UK-China relations is over" (TIMES, 2022). So, the timeline for reaching an agreement may exceed 3-5 years, delaying the expected benefits.

2. Targeted Export Subsidies

China could introduce targeted export subsidies and tax incentives to increase NEV exports to the UK. This would:

- **Boost export quantity:** China's NEV exports surged by 50% to 1.2 million units in 2023 (China Association of Automobile Manufacturers, 2023). With further incentives, exports could reach 2 million units by 2025, solidifying China's presence in the UK market.
- **Support for Domestic Employment and Industry Growth:** According to Jiang(2021) found that government subsidies reduced corporate employment volatility and promoted stable employment growth by alleviating corporate financial pressure and promoting R&D innovation.

However, prolonged subsidies are fiscally unsustainable and may attract anti-dumping investigations, as evidenced by the EU's response to China's solar panel subsidies in 2013. Such measures could also strain China's fiscal resources, reducing flexibility for future investments.

3. Supply Chain Collaboration and Localization

We can strengthen collaboration with the UK on the EV supply chain, including establishing a China-UK logistics and supply chain optimisation platform and encouraging Chinese companies to set up R&D centres in the UK. These could:

- **Strengthened Resilience and Reduced Disruption Risks:** According to research by PricewaterhouseCoopers (Shelar, 2024), localising the supply chain can reduce the risk of supply disruptions by approximately 40% and provide stable raw material support for the development of electric vehicles in the UK.
- **Facilitation of Innovation and R&D:** Localized R&D enables companies to design and develop products that cater to the unique preferences and regulatory requirements of the target market. This approach ensures that products are more appealing and compliant with local standards, thereby increasing market acceptance.

Conversely, initial investments are significant. For example, Ningde Times committed €1.8 billion to a German battery plant (Sebastian, 2021). Replicating such investments in the UK requires careful analysis of return on investment and potential regulatory challenges.

Policy Recommendation

The recommended approach is to **prioritise supply chain collaboration and localisation**. While trade agreements take time and subsidies may be fiscally unsustainable, supply chain investments offer sustainable benefits:

- **Reduced risks:** Local production reduces tariff impacts and supply chain vulnerabilities, ensuring stable access to the UK market.
- **Faster implementation:** Supply chain integration is quicker to execute than bilateral agreements, with immediate positive effects on market entry.
- **Long-term strategic gains:** Enhancing supply chain collaboration can reduce disruption risks by up to 40% (Celestin and S Sujatha, 2024).

Conclusion

Focusing on supply chain collaboration will enable China to expand its NEV market share in the UK sustainably, aligning with long-term strategic goals. This approach balances economic gains with minimised risks, ensuring a resilient and competitive foothold in the UK automotive sector.

Source:

Celestin, M. and S Sujatha (2024). IMPACT OF GLOBAL SUPPLY CHAIN DISRUPTIONS ON BUSINESS RESILIENCE: STRATEGIES FOR ADAPTING TO PANDEMICS AND GEOPOLITICAL CONFLICTS. *Researchgate*, [online] 9(2), pp.44–53. DOI:[10.5281/zenodo.13887198](https://doi.org/10.5281/zenodo.13887198).

GOV.UK (2020). *Government Takes Historic Step Towards net-zero with End of Sale of New Petrol and Diesel Cars by 2030*. [online] GOV.UK. Available at: <https://www.gov.uk/government/news/government-takes-historic-step-towards-net-zero-with-end-of-sale-of-new-petrol-and-diesel-cars-by-2030>. [Accessed 10 Nov. 2024].

Inagaki, K., White, S. and White, E. (2024). *Why Europe's Car Crisis Is Mostly Made in China*. [online] @FinancialTimes. Available at: <https://www.ft.com/content/b95f9a64-c582-4367-9645-6a7106357849>. [Accessed 10 Nov. 2024].

Jiang Yinjuan (2021). The Impact of Government Subsidies on Firm-level Employment Volatility. *Cai-jing yanjiu*, 47(04), pp.108–123. DOI:[10.16538/j.cnki.jfe.20210119.302](https://doi.org/10.16538/j.cnki.jfe.20210119.302).

Sebastian, G. (2021). *IN THE DRIVER'S SEAT: CHINA'S ELECTRIC VEHICLE MAKERS TARGET EUROPE Key Developments and Challenges to European Governments and Companies*. [online] Available at: https://merics.org/sites/default/files/2021-09/MericsChinaMonitorAutomotiveindustry%2071_final2_1.pdf [Accessed 10 Nov. 2024].

Seong, J. (2024). *The Global Economy Is resetting, China Is Repositioning Itself to Export Innovative technologies, and Its Trading Partners Are More diverse*. | McKinsey. [online] www.mckinsey.com. Available at: <https://www.mckinsey.com/mgi/overview/in-the-news/the-global-economy-is-resetting-china-is-repositioning-itself-to-export-innovative-technologies-and-its-trading-partners-are-more-diverse> [Accessed 10 Nov. 2024].

Setser, B. (2024). *The Surprising Resilience of Globalization: an Examination of Claims of Economic Fragmentation*. [online] Available at: <https://www.economicstrategygroup.org/wp-content/uploads/2024/10/Setser-AESG->

[2024.pdf](#) [Accessed 10 Nov. 2024].

Shelar, R. (2024). *Accelerating the Shift to Electric: Challenges, Opportunities and Strategies*. [online] Researchgate. DOI:[10.13140/RG.2.2.20854.20807](https://doi.org/10.13140/RG.2.2.20854.20807).

TIMES, T. (2022). *Rishi Sunak: Golden Era of UK-China Relations Is over*. [online] www.youtube.com. Available at: https://www.youtube.com/watch?v=vtxJsgS_t1o [Accessed 10 Nov. 2024].