

26-18 The US should consider allowing Chinese production of electric vehicles in America under certain conditions

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Just before leaving office in January 2025, the Biden administration issued a [rule](#) barring the sale or import of connected vehicle hardware and software made in China, effectively banning Chinese production of electric vehicles (EVs) in the United States. The Trump administration has continued the ban. Before that rule, in 2024, the Biden administration quadrupled Section 301 tariffs on Chinese EVs from 25 to 100 percent, which the Trump administration has also continued. In March 2025, President Donald Trump added a 25 percent national security tariff on imported passenger vehicles, light trucks, and automotive parts. These restrictions stand in sharp contrast to the Trump administration's policy of pressing other governments to pledge massive investments in the United States and accepting some Chinese investment activity even when national security issues arose.

In recent cases, the Trump administration has allowed foreign investment in sensitive areas. Last year, it approved Nippon Steel's acquisition of the United States Steel Corporation (U.S. Steel)—despite national security concerns—in return for the US government getting a noneconomic “golden share” with authority

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over plant closings. The administration has also agreed to maintain minority Chinese investment in [TikTok](#), despite concerns about Chinese access to private communications in the United States. The auto sector has remained a sensitive matter, especially because US autoworkers oppose Chinese auto production in the United States.

Administration hawks have repeatedly stated that Chinese EV investment would never be accepted. [Secretary of State Marco Rubio](#) and [Treasury Secretary Scott Bessent](#) have opposed any Chinese EV investment in the United States as a potential national security threat and a threat to US auto sector jobs. [Commerce Secretary Howard Lutnick](#) said, “We’re not going to have them here.” However, in September 2026, President Trump said he would not oppose Chinese automakers building cars in the United States. “If China wanted to come in and open a plant to build their cars here, I’d be OK with that,” [Trump said on a Fox News](#) program. “Japan does it, but they hire our people. The big thing is they hire our people,” he added.

Despite this being the age of artificial intelligence (AI), it turns out that automobile content is still important to an economy. The total automotive ecosystem brings [\\$1.2 trillion](#) annually into the US economy, contributing approximately 5 percent of the total US GDP. The global use of semiconductors for automobiles is an estimated [\\$77 billion](#) and is expected to double by 2030. Automobiles account for substantial quantities of [industrial fastener production](#) as well as substantial markets for other industries, such as glass, carpeting, and [paints](#), not to mention 40 percent of [flat-rolled steel](#). The automotive industry accounts for roughly one-third of the total global market value of industrial fasteners and is a significant outlet for plastics and carpeting.

President Trump can ease or remove the barriers to Chinese EV investment in the United States, but should he do so? The answer depends largely on whether the challenges to US workers and national security concerns can be managed. China’s production capabilities for EVs are formidable. Whether Chinese investment in the United States should be allowed or even sought should not be determined lightly in its favor by presidential instinct or against it

due to general hawkish sentiment.¹ The question deserves serious debate that carefully considers the benefits perceived and clearly focuses on the guardrails designed to protect US jobs and national security. This is a question faced not only by the United States but also by Canada and the European Union.

This Policy Brief concludes that this examination should proceed. It points to some of the lessons from past international industrial competitions in which the US economy has engaged, the role that government measures have played, and when investment has played a role in ameliorating trade conflicts.

POLICY QUESTIONS RAISED BY CHINESE EV INVESTMENT

First, what impact would Chinese EV investment in the United States have on US auto industry production and employment? Chinese EVs will be formidable competition due to the Chinese industry's experience with the technology and manufacture, its advances in quality, and its ability to achieve economies of scale. However, with the current embargo in place, if there is to be an opening, measures could be employed (such as local content and import quotas) to potentially control the range of outcomes. The degree to which Chinese investors would have freedom to exploit the US market is presumably within US government control.

The effect on organized labor would be more politically sensitive. The vast majority of automotive “transplant” (foreign brand) production in the United States is nonunion. Out of dozens of major foreign-brand assembly facilities operating across the country, only one major plant is unionized: the [Volkswagen Chattanooga Assembly Plant](#) in Tennessee. If China—a country known for labor issues—were the source of this investment, it would add another potential negative as compared with an investment from any other country.

1 Alan Wm. Wolff, “The Direction of China’s Trade and Industrial Policies,” written testimony before the House Committee on Ways and Means, June 16, 2010. In the testimony, Wolff warned about the competitive consequences of China’s state-directed trade and industrial policies, including the development of Chinese automobile production.

Second, a central factor in any decision on allowing EV investment would normally be the positive effect on climate change. This is not the case for this administration, which has canceled funding and repealed regulations to reduce support for wind and solar energy and EVs. The administration has also weakened fuel efficiency requirements for autos. If EVs were heavily favored through a large increase in investment, this would lead to a lower price barrier for [clean transportation](#) and a reduction in global carbon emissions.² However, the total net carbon reduction would heavily depend on how quickly the [electrical grids](#) charging these vehicles could be decarbonized. The substantial benefits of expanding the share of battery electric vehicles (BEVs) in the auto market should be a major factor in any decision to allow Chinese EV investment; in the near term, however, this administration may be unwilling to do so.

Third, how would Chinese EV investment affect US national security? Foreign investment has, in modern times, been subject to special scrutiny. The Committee on Foreign Investment in the United States (CFIUS) was originally created in 1975 by President Gerald Ford via Executive Order 11858. CFIUS was initially designed as an advisory body to monitor rapid investments in US assets by foreign countries. (When I was general counsel for the Office of the Special Trade Representative, I participated in the discussions that led to the creation of CFIUS.) The use of the CFIUS process has dramatically increased under the Trump and Biden administrations, with particular attention paid to proposed Chinese investments and those from other countries of concern.

The US government could address national security issues by regulating the kinds of data vehicles may collect. China was able to accomplish this with respect to American-made [Teslas](#) circulating in China. One question is the extent of the risks of foreign investment, but dangers exist with or without investment. With an increasingly internet-connected fleet, these dangers are posed by nonhuman (AI) or malign human control. These risks are presumably no greater for EVs than they are for biological weapons or due to other critical infrastructure vulnerabilities. They are problems to be managed.

2 See also the [Sixth Assessment Report \(AR6\)](#) of the United Nations Intergovernmental Panel on Climate Change.

Fourth, could Chinese EV investment contribute to greater geopolitical stability? The current \$30 billion tariff reduction list created by the US-China Board of Trade, which outlines nonsensitive goods and agrees not to limit Chinese exports of critical minerals, may help to detoxify bilateral relations. EV investment could also play a role. Adam S. Posen, president of the Peterson Institute for International Economics, has suggested this approach in a seminal [Foreign Affairs article](#) discussed further below.

Therefore, this question concerns whether Chinese EV investment can contribute to the strength of the US industrial base. The United States has seen much of its manufacturing lead eroded without knowing what the costs of this trend mean. In [machine tool production](#), China emerged as the world's leading producer (capturing over 30 percent of the global share), alongside heavy output from Germany, Japan, and Italy. In shipbuilding, the United States is seeking help from South Korea. [China, South Korea, and Japan dominate](#) global commercial [shipbuilding](#), accounting for roughly 90–95 percent of total worldwide production measured by tonnage. The United States accounts for only 0.1 percent of [global shipbuilding](#), whether measured by tonnage or number of ships. The absence of US government intervention, particularly when there is extensive government intervention abroad, all too often results in the failure of the US industry to survive as a viable competitor.

In the textile industry, [spinning and knitting](#), equipment is dominated by Asian and European nations. China is the world's leading exporter, followed by Germany and Japan. The domestic US machine tool sector focuses on specialized, high-tech, and automation-driven machinery, largely supporting technical and [industrial textiles](#) (such as medical, aerospace, and defense applications). That result may be enough from a national economic interest point of view. There may be biometric uses as well as battlefield ones, where assurance of supply or production capabilities prove to be crucial. We may discover that maintaining a minority share in an industry subject to vigorous competition is sufficient to maintain superpower status, but the question is worth examining by product sector. America's strategic competitor simply uses subsidies for manufacturing in blanket fashion.

In some areas, US policymakers have taken notice. Taiwan and South Korea rank as the top economies able to manufacture the newest and most advanced semiconductor chips. Recognizing this, the US government is fostering investment in the United States from [Taiwan Semiconductor Manufacturing Company](#), the leading producer in Taiwan.

In their 2026 [book *How to Win a Trade War*](#), Soumaya Keynes of the *Financial Times* and Chad P. Bown of the Peterson Institute for International Economics do not reject Chinese commercial ties but instead advocate for establishing a heavily regulated framework. Within this framework, national security and defensive supply chain mapping dictate which investments are safe rather than allowing open-market capital to flow freely into critical US industries.

Consumer benefits

This Policy Brief does not address the potential benefit to US consumers by having Chinese EV production in the United States. When trade policy decision making is debated in an orderly and complete fashion during an interagency review, consumer benefits are generally a minority view expressed by some participants, such as the Council of Economic Advisers. However, affordability has become a widespread political issue. Recent national data show that average US drivers spend close to 20 percent of their monthly income on [car ownership and maintenance](#).

Chinese interest in the US market

The assumption made here is that—if cleared of the current ban—major Chinese producers would jump at the chance to participate in what could be the world's most lucrative market. US policymakers favoring a cautious approach should closely review the major issues raised by the prospect of Chinese investment.

THE ROLE OF TRANSPLANTS

Chinese investment, especially in EVs, has not been actively sought by either the Trump or Biden administrations, as far as is publicly known. There is ample precedent, however, for accepting and even pressing for foreign investment in the auto sector. During the 1980s, when smaller, more fuel-efficient Japanese vehicles

began to gain market share in the United States, accelerated by the [second oil crisis](#), successive US administrations pressed Japanese car companies to produce in the United States. The Carter administration pressed Japanese producers to invest in the United States to head off mounting pressures to restrict Japanese imported cars. (I was present at one such meeting.) United Auto Workers President Douglas Fraser traveled to Tokyo in early 1980 to deliver an explicit ultimatum to executives at Honda, Toyota, and Nissan to invest in manufacturing plants inside the United States or face legislative walls blocking access to their largest overseas market. Investment was to be the answer to the harms caused by the import surge.

This effort gave rise during the 1980s to the “transplants”: Japanese production of vehicles in the United States from Japanese producers Honda, Nissan, and Toyota. Japanese investment in the United States was followed by German, Italian, French, and Swedish investment. As Volvo was purchased by a Chinese car company, Geely, today there is Chinese-owned but Swedish-branded production in South Carolina.

Transplants now account for a substantial share of American auto production. In 2025, international automakers operating manufacturing facilities in the United States accounted for 49 percent of all US vehicle production. Transplants produced 4.9 million vehicles domestically across 13 states, supported by networks of suppliers in 500 facilities (including research and development and parts distribution). Total cumulative capital investment from international brands reached \$125 billion, which was reported to directly or indirectly support 2.9 million American jobs.³

The experience with the Japanese transplants has been largely positive. After almost 50 years of transplants, according to data from the [Japan Automobile Manufacturers Association](#), Japanese-owned automakers account for nearly one-third of all domestic vehicle production in the United States. Data from the National Highway Traffic Safety Administration and automotive indexes show that popular models like the Toyota Camry and Honda

3 Data are from [Autos Drive America](#).

Accord contain 50–75 percent US/Canadian parts. These are mainly gasoline-powered cars. The percentages vary depending on whether the specific vehicle model was assembled in Japan or was built locally at an American “transplant” factory. However, because Japanese automakers have spent decades deeply localizing their supply chains to comply with North American trade laws and policies, a vast portion of their parts are sourced domestically within the United States and Canada. These examples give some indication of sourcing for internal combustion engine cars and foretell the hurdles for hybrids and EVs when it comes to local content.

This picture is more complicated than these examples suggest. What makes a car “domestic” versus “foreign” is not clear. Major transplant operations such as Toyota, Honda, Nissan, and Volkswagen have substantial US domestic parts content.⁴ In contrast, traditional Detroit legacy brands (General Motors, Ford, Stellantis) increasingly depend on Mexican supply chains for components on specific platforms. The [Ford Mustang Mach-E](#) is built in Mexico. The Kia EV6, made in Georgia, has a [higher proportion](#) of North American localized manufacturing and assembly than several Detroit legacy brands. Foreign investment, excluding any from China, has been sought actively by successive US administrations. State governors in [Michigan and Illinois](#) did seek Chinese investment in batteries. The Michigan project, however, was canceled after local opposition. The Illinois [Gotion](#) battery manufacturing plant, owned by a Chinese battery company, proceeded and became operational.

What also succeeded was a deal between Ford and Chinese battery producer Contemporary Amperex Technology Co. Ltd. (CATL) the world’s largest battery manufacturer. Ford owns the land, the facility, and the manufacturing equipment, and it directly employs the American workforce. Rather than taking an equity stake, CATL licensed its proprietary lithium iron phosphate battery chemistry and technical expertise to Ford in exchange for royalties. Because it owns the entire factory, [Ford](#) remained eligible for

4 Data are from [Autos Drive America](#). See also the [2026 Kogod Made in America Auto Index](#).

federal subsidies under the Inflation Reduction Act, despite rules limiting direct Chinese battery components. This was a creative way to meet security and foreign investment concerns.

THE EV MARKET

New entrants into the mature automobile market were not to be expected. The 125-year history of auto production is one marked by consolidation rather than expansion of the number of producers. That was the 20th-century pattern for automobiles, all of which depended on the internal combustion engine. That consolidation ended with the reintroduction⁵ of EVs during the second decade of the 21st century. A sharp drop in battery prices made EVs, and new entrants using electric power, viable once again.

Just over half of the [American EV market](#) (for BEVs, as opposed to hybrid electric vehicles [HEVs]) has been captured by Tesla produced in California and Texas. Other BEV manufacturers include General Motors (13.7 percent) and Ford (7 percent), which uses parts largely from Mexico. Other manufacturers of BEVs include Hyundai (5.5 percent), BMW (4.4 percent), Rivian (3.8 percent), Honda (3.3 percent), Kia (2.2 percent), Volkswagen and Audi (2.4 percent each), Mercedes (2.0 percent), Nissan (1.7 percent), Toyota (1.4 percent), and Volvo (1.2 percent). These figures represent full-year 2025 data because monthly data will show relative changes that may not be borne out by full-year 2026 data.

Imports account for about 40 percent of purchases of EVs. The EV imports are mostly from Mexico, the European Union, Japan, and South Korea. Chinese EVs continue to be excluded by tariffs (now at 127.5 percent—consisting of the pre-Biden and Trump most-favored nation MFN rate set by Congress of 2.5 percent, the 100 percent EV tariff under Section 301 of the Trade Act of 1974, and the 25 percent invoked under Section 232 of the Trade Expansion Act of 1962 invoking national security concerns)⁶ as well

5 Remarkably, early EVs had as much as a 38 percent share of the market during the early 1900s, powered by much earlier, heavier, and less-efficient batteries.

6 The [Section 301 forced labor tariffs](#) do not stack on top of the other tariffs.

as by the Bureau of Industry and Security's [Connected Vehicles Final Rule](#), which was first invoked by the Biden administration, which directed the Department of Commerce to investigate the security risks of internet-connected cars.

Were the US market to become fully open to Chinese EVs, China would likely dominate the US EV market. China accounts for 70–75 percent of global EV production; it manufactures more than 80 percent of EV batteries and is the source of 40 percent of all global EV exports. The [Chinese market for EVs](#) is at least 60 percent of the world market.

China's industry is vertically integrated, giving it a competitive edge of \$2,000–\$4,700 per car compared with Teslas produced in China, according to the [Rhodium Group](#). As Chinese producers control much of the world's battery production, which accounts for about 30–40 percent of a car's production cost, this [adds to the Chinese competitive edge](#). China's car companies also have advanced engineering and design skills as well as integrated production techniques. Overcapacity (an imprecise and much-debated term) has resulted in a price war among Chinese producers. Chinese producer profit margins are said to be shrinking. The Chinese industry uses the term "[involution](#)" (*neijuan*) to describe the self-destructive, hypercompetitive race to the bottom in which firms burn through capital to survive. When a price war occurs in a capital-intensive industry, the only limits are marginal cost of the item being produced or management of the market.

SPECIAL CONCERNS RAISED BY CHINESE EV INVESTMENT

A paper circulated by the [Information Technology and Innovation Foundation](#), a US think tank, cites a variety of China-specific considerations for EV investment. It concludes that Chinese investment in EVs in the United States poses special concerns due to heavy state-directed subsidies, national security and data privacy risks, and the threat of severe disruption to the domestic auto industry.

Obtaining local content

The degree to which US manufacturing benefits the US economy and employment largely depends on whether final assembly is

simply a way to circumvent import restrictions or adds serious value in the United States and transfers technology. The negatives are clear, but the positives are less certain. It is an understatement to say that Chinese industry will be a formidable source of competition. As for the positives, at present local EV content produced by Chinese original equipment manufacturers (OEMs) built outside of China is far lower than is true for Japanese and other foreign producers. [Chinese content](#) in these Chinese brand vehicles is very high. If US policy is to change and liberalize access to the US market through investment, Chinese manufacturers will have to change their way of doing business. They will need to begin manufacturing in major markets abroad, starting with the European Union and the United States, and include substantial amounts of local and other non-Chinese content. Change is needed by both the host economy and Chinese producers. Europe may have already reached this conclusion.

Subsidies

In the context of Chinese competition, subsidies have been a serious concern for successive US administrations and have featured prominently in the United States terminating the binding nature of World Trade Organization (WTO) dispute settlement in 2021, criticizing the WTO Appellate Body's inability to find subsidies where financial support was provided by Chinese state-owned enterprises.

In late 2024 the European Union used its [countervailing duty law](#) against subsidies borne by Chinese EV imports. The EU countervailing duties ranged from 7.8 percent for Tesla Shanghai to 35.3 percent for the SAIC Group. When combined with regular (MFN) tariffs of up to 45.3 percent on Chinese-imported BEVs, Chinese brands such as BYD, Chery, Leapmotor, and Geely [face substantial EU barriers](#). The European Union has carried its concern to inward direct investment and has adopted its Foreign Subsidies Regulation (FSR) for countering subsidies given to foreign direct investment. If the United States allows Chinese investment, it could consider adopting something like the FSR for itself but is likely to employ quantitative limitations initially, reducing the incentive to China to grant subsidies and the need for the United States

to offset them. The issue of the United States adopting an FSR or the equivalent can be revisited. However, a degree of Chinese transparency would be required to make an FSR work, and that cannot be relied upon at present.

The Organization for Economic Cooperation and Development (OECD) [released a report in June](#) that concluded that “Chinese carmakers received twice as much support in absolute terms and four times more support in relative terms compared with OECD-based firms.” It is unknown at this point what additional offsetting actions, if any, might be contemplated either by Washington or Brussels, but it can be assumed that there will be some conditions assigned to Chinese EV investment in both the European Union and the United States, perhaps beyond requiring a high level of local content.

As noted, while the United States chose to block entry of Chinese EVs entirely, the European Union imposed anti-subsidy countervailing duties. The second phase of this EU trade policy attempt to reduce the large and growing bilateral China-EU trade surplus could include new investment conditions, pressure to enter into joint ventures with European producers, imposition of specific mandates for transfer of technology, requirements for local content, and greater scrutiny under the FSR. This next phase could include some more intensive form of the “Made in Europe” sourcing mandate, going beyond a condition for access to domestic subsidies under the European Union’s proposed [Industrial Accelerator Act](#).

EU Trade Commissioner Maroš Šefčovič went to Beijing on October 8 and 9 for crucial ministerial-level talks with Chinese Commerce Minister Wang Wentao on Chinese investment in EVs in the European Union, including possible voluntary export restraints, investment safeguards, and foreign direct investment ownership caps. The European Union [announced](#) that the recent massive surge in Chinese exports of hybrid autos to the European Union would be halved by China. Clearly European efforts to manage trade in EVs have reached a new stage, now joined by China. The European Union negotiated quantitative limits over a rolling four-year period, allowing imports of 350,000 conventional and plug-in hybrid (HEV and PHEV) units per year with a 6 percent growth rate after the first year.

Europe faces similar problems to those facing the United States with respect to future Chinese EV investment, but Chinese investors already have a substantial installed base across a number of industries, most prominently electric batteries and recently EVs. ([More than 21 Chinese OEMs](#) are now present in the European Union, but only 9 have sold more than 1,000 EVs/HEVs in 2025, up from 5 in 2024.) The European Union will likely choose among traditional trade policy tools. Pascal Lamy, the former EU top trade envoy and former WTO director general, has suggested a more comprehensive approach to Chinese industrial policy that is far broader in scope than a traditional WTO-approved series of individual trade remedies. But this [proposal](#) has not yet been debated by the European Union's member states or the European Commission.

AI-related concerns

The next tier of concerns with Chinese investment in EVs involves the potential for China to harvest data and for the host country to lose control over motor vehicles, both as a matter of public safety and national security. As EVs are often seen as computers on wheels, they can—for good purposes as well as ill—capture data from drivers, ranging from biometric data to synced smartphone information. This could, reportedly, allow Chinese companies to monitor location, speed, seat occupancy, steering wheel movements, and other driver information and send all this data to servers far from where the vehicles are being operated. The connected vehicle regulation indicates that the US government is already aware of this problem.

The potential problems with allowing Chinese EV investment in the United States are also raised very often with the use of AI. Wherever AI is deployed, with whatever guardrails, the systems may develop independent objectives not aligned with their human authors' intentions. An example is the mapping of critical infrastructure, which has valid domestic public policy objectives. Similar to biological research and its development, the information can be weaponized. Solutions for these potential threats need to be developed, whether the controls are in the hands of a foreign adversary or a domestic actor. There are myriad examples. The

Flock camera is one. The cameras photograph vehicles moving up to 100 miles per hour at distances of around 75 feet. They log the time stamp, GPS coordinates, and vehicle characteristics. Captured data feed into a centralized cloud software platform ([FlockOS](#)). If a scanned license plate matches a list of stolen vehicles or missing persons (such as an Amber Alert), law enforcement receives instant alerts. Police can use natural-language AI searches to look through the database for specific clues, such as searching for a “black SUV with a broken right taillight.”

Do Chinese EVs present a particular challenge? Teslas have 8 to 9 cameras, one of which is pointed at the vehicle’s interior. In Sentry mode, it is, according to Tesla, “an intelligent vehicle security [system](#) that alerts you when it detects possible threats nearby.” Chinese EVs do not universally have more cameras than other modern global EV makes, though many Chinese brands (such as BYD, Nio, Xiaomi, and Leapmotor) heavily load their models with 5 to 11+ external and internal cameras to power advanced driver-assistance systems (ADAS), autonomous parking, and smart-cabin monitoring.

The United States maintains severe restrictions on Chinese cameras that may be used for surveillance. Under Section 889 of the National Defense Authorization Act (NDAA), federal agencies and any contractors doing business with the government are legally barred from buying or using equipment from Dahua Technology, a Chinese company that manufactures video surveillance cameras, video recorders, and other security equipment. Furthermore, the Federal Communications Commission (FCC) has placed Dahua on its Covered Equipment List, blocking the authorization and import of any new equipment from the manufacturer. Nearly 45 US states have also adopted matching statewide [bans](#).

China [engages](#) in very heavy surveillance of its own populace. Chinese use of cameras and camera technology is more widespread than in the United States. China “uses AI-powered facial recognition, big data analysis, and centralized policing infrastructure that deeply integrates public cameras with digital tracking, online [monitoring](#), and social systems” and exports the technology to authoritarian states.

Cameras are of course not confined to autos. A *Wall Street Journal* investigation published in October 2026 [revealed](#) that Middle Eastern combatants and other nations are hacking into ordinary civilian security cameras to use them as wartime surveillance and military intelligence tools. This extends to livestock monitors used by farmers and baby monitors, presumably because they may be pointed in the direction that picks up militarily sensitive sites in their field of vision.

In this context, consider that US-produced Teslas were not allowed to park near Chinese military and other government facilities during 2021–24. Tesla overcame the concerns of Chinese authorities, which have [lifted the bans](#). According to the published statements, Tesla’s Model 3 and Model Y qualified in four data security tests: the anonymization of facial information and other information outside of the vehicle, no collection of cockpit data by default, in-vehicle processing of cockpit data, and explicit notification of the processing of personal information. This sort of progress indicates that these risks and concerns may be overcome by hard work and human ingenuity. As for data privacy, the arrangements in the case of TikTok, which raised even more serious privacy concerns than autos, were ultimately dealt with by the United States, with conditions and limits established on ownership and control.

We are in a brave new world, and the Chinese EV investment question is simply another permutation or subset of more general concerns. In his 1964 book *The Heart of Our Cities: The Urban Crisis, Diagnosis and Cure*, renowned architect and planner Victor Gruen, who is considered the creator of the modern shopping center, envisaged a future on the planet Motorius where all activity could come to a halt in a single global traffic jam. AI can provide, with no added human malice, the ingredients available to achieve that dystopian result through the inclusion of a “kill switch.” There was a concern in the United States that the federal government had mandated a remote control to stop drunk driving by shutting off the vehicles being driven where the driver appeared to be impaired. It [did not](#) issue a regulation to that effect.

Advances in AI and the software controlling EVs pose a problem that is not confined to China as America’s current

“strategic competitor.” It is an open question whether China poses the greatest concern. Each of the threats identified needs to be evaluated against the benefits that might accrue. With any investment, there can be net job creation, onshoring of a significant part of the EV supply chain, provision of affordable options for consumers, environmental benefits, transfers of technology, and stimulation of indigenous innovation.

A deficit in trust

In every foreign investment from China, there is a need for a degree of trust, but particularly in current circumstances where there is a US ban and a prohibitive tariff imposed on Chinese EVs that may be lifted. One can assume that circumstances will not change in the near term to increase trust on either side. There is reason to believe, however, that a mutuality of benefit can be found and that the remaining deficit in trust can be compensated for by management tools, many of which have been tested in the past—such as limits on quantities to be produced, local content requirements, and pricing requirements (used in many dumping cases).

At present the two powers cooperate in a few areas, such as suppressing fentanyl precursor trade. They have established communications links to avoid misreading between their militaries. They have also found the means to deescalate tariffs and export controls (e.g., for rare earths and semiconductors). And, of potential importance, they share an interest in curbing unbridled AI advances. They are seeking, to a degree, to manage their interdependence, whether in trade or finance. There is reason to believe that increased direct investment can play a positive role by providing another avenue to achieve mutual benefit.

The threat from Chinese competition

Chinese producers have a competitive edge and may well have a superior product. A number of articles in *Forbes* magazine concluded that, in terms of the relationship of price to performance, battery efficiency, charging speeds, and software integration, Chinese EVs are widely considered superior to most Western and Japanese competitors. Established global brands, though, retain

advantages in localized dealership networks and the quality of traditional ride performance.

A personal current sampling of the Chinese lead in EVs required some travel abroad. The best performance by cars serving as taxis in Reykjavík, Iceland, for both driver and passengers, is delivered, in my view, by autos produced by [XPeng](#), based in Guangzhou. Having been introduced in Iceland only last year, the brand has already claimed an 11.2 percent share of this small market in the most recent monthly data. The XPeng G6 EV is the overall bestseller. One can assume that Chinese EVs would be very competitive on price and quality once introduced in the United States and, unrestrained, would gain market share as compared with EVs and perhaps internal combustion engine autos. The impact can be anticipated and dealt with by policies adopted by the United States, possibly agreed with Chinese producers and government to any Chinese EV investment.

Are there broader purposes to be served by allowing Chinese EVs into the US market other than consumer choice and the specific benefits listed above? One major consideration beyond reducing the risks of climate change, even if achieved only inadvertently by the Trump administration, relates to geopolitics. Posen, in his seminal article in *Foreign Affairs*, proposes letting China into the US EV market through its direct investment. His purpose, as I interpret it, is to find a way forward for the two superpowers to coexist with a little less outright hostility. This would be a step toward at least partial economic détente. Does engaging in commercial relations promote peace as assuredly as peace promotes trade? This question echoes one that has been the subject of much study and debate over several centuries. Philosophers Montesquieu and Kant addressed it most profoundly. In more recent US history, the idea became US government trade policy when espoused by Secretary of State Cordell Hull (1933–44) and was taken up by every president from Franklin Roosevelt through Barack Obama. It is embodied in the WTO.

Does engaging in commercial relations promote peace as assuredly as peace promotes trade? The WTO has promoted the concept through its Trade for Peace Initiative for conflict-affected

least developed countries, which was founded in December 2017.⁷ This initiative, which I helped found and have also promoted,⁸ is based on the proposition that peaceful relations can be promoted through trade. Trade does not guarantee peace, but it can contribute to building peaceful cooperation and maintaining peace once it is achieved.

The primary argument against the efficacy of trade to forestall war is the course of relations between imperial Germany and imperial Britain in 1913 and the events that followed. A few years earlier, British journalist and Nobel Peace Prize laureate Sir Norman Angell wrote in his 1910 book, *The Great Illusion*, that military conquest between modern industrial nations was economically futile and irrational because global financial and trade interdependence ensures that the victor would suffer as much damage as the defeated. This was a message not received or perhaps not understood by Kaiser Wilhelm II, General Alfred von Schlieffen, and Admiral Alfred von Tirpitz, and it was not absorbed by the other major leaders of that time. The result was, conservatively, tens of millions of deaths during World War I. Theories about the pacifying possibilities of engaging in trade could not overcome human folly. This history would seem more remote if not for AI company leaders' urgent warnings of the risk of human extinction if AI continues to be developed at maximum speed without adequate safeguards.

At present, the two countries spending the most on weaponry and on AI are China and the United States. The risks are enormous, not only of miscalculation but also with respect to the technologies each may develop. In this setting, the decision to allow Chinese EV investment appears to be no more than a pawn in a larger contest. But the game is a deadly one. To be sure, allowing substantial

7 The program grew out of the launch of the G7+ WTO Accessions Group during the 11th WTO Ministerial Conference in Buenos Aires, Argentina. It was originally established by several fragile and conflict-affected least developed countries, including Afghanistan, Liberia, and Yemen, to use WTO accession and multilateral trading rules as a tool to transition from institutional fragility to long-term economic stability and peace.

8 [Chapter 5: "Can Trade Aid in Bringing Peace?"](#), published in the WTO volume *Trade for Peace: Pathways to Sustainable Trade and Peace*.

Chinese EV investment in the United States seems daunting and is. There is, however, extensive experience in moderating the adverse effects of commercial competition across international borders.

PAST ATTEMPTS AT MANAGING INTERNATIONAL COMPETITION

Chinese EV investment raises an extremely serious question: Are the individuals running US and foreign trade policy capable of managing the risks involved in major industrial competitions? Foreign investment can benefit the US economy by bringing advanced manufacturing onshore and creating jobs, regardless of where the investment comes from. However, the historical record is mixed. Foreign competition can also hurt American industries, requiring the government to intervene and protect domestic businesses.

The case of color televisions

During the early 1970s, US imports of Japanese color televisions sold at low prices in the United States rose rapidly. In 1971 the Treasury Department found that Japanese TV receivers were being dumped in the US market. By 1976 Japanese production had reached 10.5 million color sets—almost twice US production—and the US International Trade Commission found that large inventories of lower-priced imports exerted serious downward pressure on US prices and inflicted further losses on domestic producers.

The US government insisted on the negotiation of an orderly marketing agreement. In February 1977, Treasury Assistant Secretary C. Fred Bergsten offered the Japanese government an export limit of Japanese color TVs of 2.1 million sets per year.⁹

9 In *Coping with U.S.-Japanese Economic Conflicts* (1982, pages 54–55), I.M. Destler and Hideo Sato write, “Bergsten made it clear that the absolute maximum global envelope the United States executive branch could politically or legally defend was 2.1 million sets, inclusive of complete receivers and unfinished kits. He warned MITI [the Ministry of International Trade and Industry] that if voluntary export restraints failed to compress Japanese shipments toward this historical rolling average, the Treasury would be legally compelled to unleash massive, retroactive anti-dumping duty liquidations resulting from the ongoing Zenith litigation.”

This was judged by later trade negotiators to be too large a number, and there ensued a remarkable negotiation resulting in the United States offering a smaller number at each stage. The two sides [settled](#) on a cap of 1.75 million sets per year (consisting of 1.56 million fully assembled and 190,000 unassembled units). The deal was one that my staff at the Office of the Special Trade Representative negotiated at the working level, and US Trade Representative Robert S. Strauss sealed at the Downing Street Economic Summit in May 1977. The deal was struck while Strauss and Minoru Masuda, the Ministry of International Trade and Industry (MITI) Vice Minister for International Affairs, were seated next to me in the audience as the Group of Seven countries announced their conclusions at Banqueting House, Whitehall, London. The summit's public declaration, whose drafting I participated in at the Cabinet table at 10 Downing Street, explicitly stated that protectionist trade barriers would worsen global unemployment and undermine economic welfare. Political reality required that something needed to be done in specific cases, however.

This arrangement slowed but did not staunch the American producers' bleeding. No [American producer of color TVs](#) survived into the 21st century, and most were gone much earlier. Trade restrictions did not stop the decline of the US industry because the cost advantage had shifted to the Japanese producers.

The 1977 Orderly Marketing Agreement was designed to force Japanese firms to stop shipping finished imports and instead build more US transplant facilities. Japanese electronics companies had already established or were rapidly acquiring a major manufacturing footprint on American soil. The transplant owners were Sony, Matsushita (Panasonic), Sanyo, Toshiba, and Mitsubishi, the latter two finalizing plans for color TV assembly plants following the [May 1977 summit](#). By the time the Downing Street Summit concluded, Japanese transplants inside the United States were already assembling over 1.3 million color TV sets annually using American labor—volumes that sat entirely outside the new 1.75 million [import quota caps](#). Trade policy forced foreign onshore investment.

The chip wars of the 1980s

A second example of serious international competition requiring management involved Japanese competition in dynamic random-access memory (DRAM) chips. However, the solution found did not involve investment in the United States by the principal foreign competitor. (In fact, the Department of Commerce stepped in to warn off an attempt by Fujitsu to buy Fairchild Semiconductor Corporation from the French firm Schlumberger.) It led to passage of the Exon-Florio Amendment (1988), which gave the US president the power to block foreign mergers or acquisitions on national security grounds.

During the 1980s, small independent firms located in Silicon Valley faced stiff competition from vertically integrated Japanese electronics producers. The problem the US producers faced was competition from companies that were financially strong and did not need to make a profit on DRAM chips. These vertically integrated companies were able to satisfy any additional need for DRAM chips by buying from each other. They relied on profits from downstream products (e.g., consumer electronics) and maintained their oligopsony while competing for export market share against other Japanese producers. Their practices confined the mostly small US producers (e.g., Intel, AMD, and National) to being residual suppliers.

At a US-Japan interindustry meeting during that time, I asked a Japanese semiconductor chief executive officer whether his company would make a profit on 64K DRAMs. He paused and responded thoughtfully: “Not this generation, maybe next generation.” The next generation would be 256K DRAM, which, it turned out, the Commerce Department met with countervailing duties through a self-initiated antidumping case. The underlying problem was that Japanese producers could afford to sell their excess products at prices that approached marginal cost. The US industry, structured very differently, could not do so.

These episodes occurred near the dawn of the semiconductor industry. Today’s DRAM stores 16–24 gigabits¹⁰ of memory,

10 Since one byte equals eight bits, it takes eight 1-gigabit DRAM chips combined on a circuit board to create a 1-gigabyte (GB) memory module. Each [gigabit handles 1 billion bits of memory](#).

compared with the 16K DRAM used for memory storage in the first widely used personal computers. A modern 64GB memory module is 33,554,432 times larger in terms of memory capacity than a standard 16kb DRAM chip from the original 1981 IBM personal computer era.

The Japanese industry, with economies of scale, could and did achieve superior output, with fewer flawed chips per wafer. (In 1983 wafers were mainly 6 inches in diameter [150 millimeters]; today, they are double that and are far more densely packed.) The US government cofunded industry efforts to improve manufacturing technology through Semiconductor Manufacturing Technology (SEMATECH), an industry-driven public-private collaboration to match the efforts of Nippon Telephone and Telegraph (NTT) and MITI's Electrotechnical Lab, which supported the Japanese manufacturers. The trade was "managed" by the US and Japanese governments by implementing two successive US-Japan semiconductor agreements and a bilateral joint statement. The agreements pressed for foreign market access to the Japanese market and attempted to curb dumping (sales below individual companies' average production costs) in third-country markets globally. Section 301 retaliation brought about Japanese compliance with the first US-Japan agreement.

The US semiconductor industry survived, even thrived, but largely through the success of the proprietary design side of the industry, not production, which moved extensively to Taiwan and South Korea. The lesson for US policymakers was that although there would be an evolution of the structure of the industry—from companies integrating design and fabrication, to design houses using foundries to produce chips for these fabless producers—the competition could be won if the value of proprietary products was heavily in the design, wherever fabrication took place. To preserve the US industry in the face of Japanese practices, the US government needed to intervene and prevent Japanese producers from maintaining a sanctuary home market impervious to inroads from imports. US government measures needed to be tailored to the nature of the international competition in any particular product, and there had to be a viable industry that could be competitive if the playing field were made more level. Managed trade proved to be very constructive up to a point.

The color TV and DRAM examples of international industrial competition had different outcomes. One common element was that the US government's restrictions incentivized changes in behavior by the Japanese government and its companies. The difference in outcomes ultimately relied on the commercial competitiveness of the US industry.

One could take other examples of international competition and look for the presence or absence of US government trade measures and judge the outcomes in terms of US global market. For example, in the case of photovoltaic (PV) cells, the Chinese swiftly dominated the industry. Another example of the competitive challenge is [wind turbines](#), where Chinese producers have captured 78 percent of new capacity additions (including China's immense domestic market), leaving Danish manufacturer Vestas Wind Systems and Siemens Gamesa with about 15–20 percent of the global market share, having largely limited the American (General Electric) and Indian (Suzlon) shares.

What lessons can be learnt from these two examples? The Chinese government bet on a carbon-reducing future. This bet assured a huge home market for Chinese producers. For [solar PV](#), the Chinese producers achieved economies of scale that swamped Western competitors. China accounts for almost [80 percent](#) of module capacity and about 95 percent of PV wafer capacity. The degree of Chinese dominance on display in the most recent International Energy Agency's [Global EV Outlook 2026](#) report is stunning. China hyperscaled by providing patient state financial support, capturing the entire supply chain, and having extremely low energy and operating costs. It also benefited from a huge domestic market and European demand (with, for a time, high German feed-in tariffs). The technology largely came from the West;¹¹ the production processes were perfected in China.

For wind turbines, Chinese producers benefited from domestic demand but also from state-owned enterprises, the primary customer base, which in effect adopted a policy of "[buying national](#)." Vigorous Western government action was

11 From [Bell Labs](#) and breakthroughs in France and Australia. Scaling up was accomplished in China.

not forthcoming to preserve a larger wind turbine industry outside of China.

Industry by industry, international competitive outcomes required tailored policy responses, which were often not forthcoming. The outcomes were not preordained. Despite the competitive prowess of the Chinese EV producers, it is not necessary to assume that they threaten the worst outcome for the United States. Chinese capture of the dominant share of the US EV market need not be presumed given the strong position of Tesla and other EV producers with established presence in the US market. Government policies—the ban and high tariffs—did allow the US government to ameliorate the competitive threat from China affecting other US industries. It is unlikely that market forces will be allowed to operate entirely freely going forward. If US policy toward Chinese EVs is reversed and the ban is dropped, the United States is unlikely to eliminate tariffs entirely on Chinese EVs or to eliminate its other regulatory strictures. And the United States will likely insist on substantial US content (not necessarily North American content).

To make direct investment in Chinese autos more politically palatable in the United States, some level of local content must be mandated. The Belt and Road Initiative, China's global infrastructure program, is often criticized for not having enough local contribution. The United States could face a similar problem if the Chinese are allowed and encouraged to invest in US auto production without sufficient guardrails.

Government policy can set the conditions for liberalizing US restrictions on Chinese EV investment, if the choice is made to allow it or even solicit it. Given the nature of the US market, consumer choice will likely dictate more distant competitive outcomes. That future, however, is not written.

CONCLUSION

As long as there are nation-states, and especially superpowers engaged in serious rivalry, a decision such as welcoming EV investment will be viewed by some in either country with concern. Chinese EV investment raises many more questions than did the Nippon Steel investment in U.S. Steel, iconic as the latter had been.

Some of the key questions are: How will a serious cost-benefit analysis net out? What are the separate impacts on domestic employment, the global environment, privacy, and security? Will the trade-offs and risks be manageable? And can it achieve major gains for the world environment and world stability?

Laissez-faire is long gone. There is minimal trust between China and the United States. It is a strategic competition that can slip into an adversarial relationship at any time. Yet, a Chinese EV investment is worth exploring, and the two should proceed to do so carefully. It is vitally important to understand the risks and evaluate—as illustrated by the US successes and failures in past international industrial contests—whether a substantial Chinese EV investment would be manageable. The United States should understand the upsides as well, as they can also be substantial for the domestic economy in terms of manufacturing, employment, and the manufacturing technology that can be gained. Ultimately, this approach could help find greater stability in the world's most dangerous bilateral relationship, paving the way for it to also become a productive one.

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