

## Policy Brief

# Welcoming Chinese FDI with open arms - and a clenched fist

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15 November 2024

#China

#FDI

#Competitiveness

Despite imposing substantial anti-subsidy tariffs on Chinese EVs, the EU has wisely kept the door open for Chinese foreign direct investment (FDI) across the EV value chain. Chinese FDI can enhance EU competitiveness by introducing high-value jobs, technological transfers, and innovation. However, these economic benefits are not given. If gone unchecked, FDI could be used to circumvent tariffs without bringing added economic value, could undermine fair competition within the Single Market and bring security risk. A robust framework is needed to mitigate these risks. Three priorities stand out: ensuring that value is created within the Union and key components are produced locally, applying the Foreign Subsidies Regulation (FSR) to safeguard fair competition, and harmonising security standards to manage risks more effectively.

By launching its [high-profile anti-subsidy investigation](#), the EU decided to implement tariffs on Chinese-made electric vehicles (EVs) destined for the Union. The main rationale is to offer European car manufacturers breathing space and protect the industry, with its 13.8 million associated jobs, from being eroded by artificially low-priced imports. In contrast to, for example, the US, **the EU has remained open for Chinese foreign direct investment (FDI) throughout the EV value chain. This is smart.** As the auto sector is undergoing a fundamental transition away from combustion engines towards EVs, Chinese FDI can offer high-quality jobs, boost European competitiveness via productivity gains achieved through skills and technological transfer and push local competitors towards greater innovation.

**However, these benefits are not guaranteed.** FDI could simply be used to set up plants within the EU to circumvent tariffs by assembling parts pre-produced abroad. Similarly, Chinese companies could decide to keep

producing batteries domestically given they are the most valuable parts of the EV supply chain. In both cases, economic gains and technological transfer would be limited. This could entrench economic dependencies and allow Chinese firms to undercut European competitors with subsidies received at home.

**The big question therefore is how the EU can reap the benefits of sustained openness to FDI while mitigating its risks.** To address this question, this policy brief pursues two goals: It provides an overview of the EU’s tools to ensure productive investment via its trade defence instruments. It then spells out what the EU should do to complement its current trade strategy, using the example of the EV value chain. The main takeaways are threefold. First, it needs to ensure that value is created within the Union. Important here is that key components are produced locally. Second, it must stringently but transparently use the novel Foreign Subsidies Regulation (FSR) to target firms that receive foreign subsidies that undermine fair competition in the EU. This would create a powerful and credible deterrent without increasing investment uncertainty. Third, the EU must make progress in harmonising national approaches to potential security risks.

**Chinese FDI in the EV chain matters and is growing; this comes with both real benefits and risks**

While the [total volume of Chinese investment in the EU has dropped](#), the **FDI that is arriving, is increasingly concentrated in the EV value chain, including batteries**, where total investment has grown significantly over the last years (Figure 1). With the implementation of permanent EV tariffs in October, this trend is expected to continue. Despite [increased scrutiny and directives from Beijing](#) advising Chinese automakers to curb major investments in EU countries that supported the tariffs, **the European market remains the most viable international option for Chinese car manufacturers**, due to its relative openness, market size and consumers’ purchasing power. In the US for instance, the investment climate, already challenging for Chinese firms, is likely to become even more unpredictable following the election of Donald Trump as their next president.

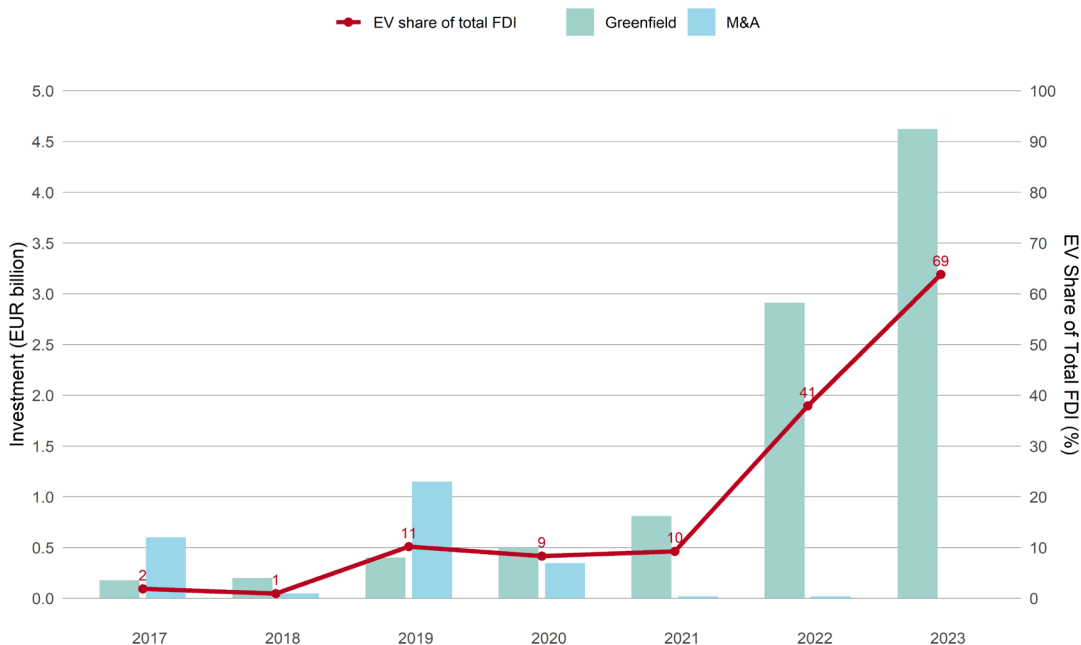


Figure 1: Chinese EV-related investments in Europe (Data: [Rhodium Group, 2024](#))

According to a [report from China's Chamber of Commerce to the EU](#), the anti-subsidy probe led to a temporary dip in the short-term business confidence of Chinese EV investors, with 82% of respondents saying they felt less confident about future investments in Europe. However, it also revealed that 64% of Chinese firms still plan to invest in local factories within the EU over the next five years, underscoring the strategic importance of the European market for the longer term.

**Combining anti-subsidy tariffs with a sustained openness to Chinese investments makes sense from an industrial policy perspective.** Chinese investment can revitalise local manufacturing bases, create jobs and foster skills development in advanced manufacturing. Chinese firms possess cutting-edge technology in EV and battery production, [having overtaken European competitors](#) in key areas such as software integration, electrification, and cost competitiveness. Leveraging this technological progress can help European companies remain competitive in a rapidly evolving sector. Productive competition driven by Chinese investment [can also lower prices](#) and accelerate innovation in the sector, benefitting the EU's green transition. In addition, by localising key aspects of the supply chain, European nations can strengthen supply chain resilience and reduce dependency on external markets.

However, these economic benefits are not given and risks associated with Chinese FDI remain. **There is the concern of 'screwdriver' factories** - facilities that rely heavily on Chinese components without contributing to local job creation or meaningful technology transfer. [Beijing's Ministry of Commerce advised](#) Chinese carmakers to retain key EV technology within China, while exporting knock-down kits to their foreign plants for final assembly. Further, **subsidised Chinese firms may distort competition** by undercutting local competitors, leading to an unlevel playing field and possibly driving European competitors from the market. In this context, the potential for price wars, where losses in one part of the supply chain can be offset by profits (achieved through subsidies) elsewhere, gives Chinese firms a significant advantage, allowing them to outlast local competitors. **Security risks are another major concern.** 'Smart' EVs equipped with advanced communication technologies and sensors collect vast amounts of data, including geolocation, driving patterns, and personal information and may expose sensitive information that could pose strategic risks.

**Remaining open to Chinese FDI makes sense from an EU perspective. However, it requires a policy strategy that does so without harming European economic and security interests.** The EU will need to address three major risks: the possibility that investment simply undermines the effectiveness of trade defence mechanisms and not facilitating economic value, that it distorts fair competition, and the security concerns described above.

### **Risk 1: Investments undermining the effectiveness of trade defence measures geared to support the EU's economy**

From an economic perspective, the key question is if foreign FDI brings jobs, technology and value-added to Europe. This depends on two issues. First, what can EU do to ensure that value is created in Europe? Second, how can it make sure that key components and especially batteries are produced in the EU?

#### **I. Anti-circumvention rules to avoid screwdriver factories**

**Among its trade defence measures, the EU has integrated anti-circumvention rules** that prevent foreign firms from avoiding tariffs by establishing nominal operations within the EU. These rules allow the Commission to extend the anti-subsidy tariffs on EVs, even if these are officially produced in the EU but have undergone very little value-adding processing.

Concretely, if more than 60% of the car's components are imported from China, or if the value added during the car's assembly is less than 25% of the overall manufacture, the Commission can determine circumvention and apply tariffs retrospectively. As such, this mechanism ensures that companies do not simply shift low-value processes to Europe so as to bypass tariffs and that foreign investment adds value to the EU's economy, both in terms of manufacturing processes and high-value jobs.

**The EU should use the possibility of anti-circumvention investigations and sanction any transgressions stringently.** This will help to bring economic value to the Union. This, however, can only be a first step in the EU's strategy to localise the production of high-value components and foster high-quality jobs in manufacturing. It does not prevent high-value added components like software and batteries remaining in China.

## II. Anti-subsidy investigations into key inputs

**The question of how much benefit jobs and value-added Chinese FDI in the EV sector will bring to Europe will fundamentally depend on whether the EU is successful in creating a domestic battery industry.** This is because a substantial proportion, [around 33 %](#), of an EV's value is derived from its battery. Acutely aware of this, the EU has undertaken significant efforts to attract investments in its battery sector, investing [more than €20 billion](#) to draw in billions more in private investment both from Chinese firms and European and international companies.

However, **the incentives to pursue such investments are starting to diminish**, and with it the EU's efforts to build a competitive domestic battery industry. Rising material costs and intensifying competition amidst depressed demand, as the [European EV rollout falters](#), have brought delays and cuts to expansion plans. Most recently, SVOLT, a leading Chinese producer of EV batteries, [has scrapped its plans to build two factories in Germany's Saarland region](#). This follows the cancellation earlier this year of a planned factory in Brandenburg. Quoting the lack of European demand, SVOLT is discontinuing all business activity on European ground and dismissing all employees. As it stands, [up to 90% of planned gigafactories may not materialise](#), and with them up to associated 100,000 jobs and billions in investment.

As domestic projects struggle to materialise, **the appeal of importing Chinese-made batteries**, which can be up to [40% cheaper](#), **is set to grow**, despite significant transport and integration costs. Part of this price advantage is significant state subsidies in batteries that were revealed in the EV anti-subsidy investigation (Figure 2). Chinese battery firms' manufacturing capacity in 2023 already [represented 86% of the global total demand](#), far exceeding what can be absorbed domestically. The fact that these firms are averaging a utilisation rate of less than 50% highlights the surplus capacity that has the potential to swamp global markets.

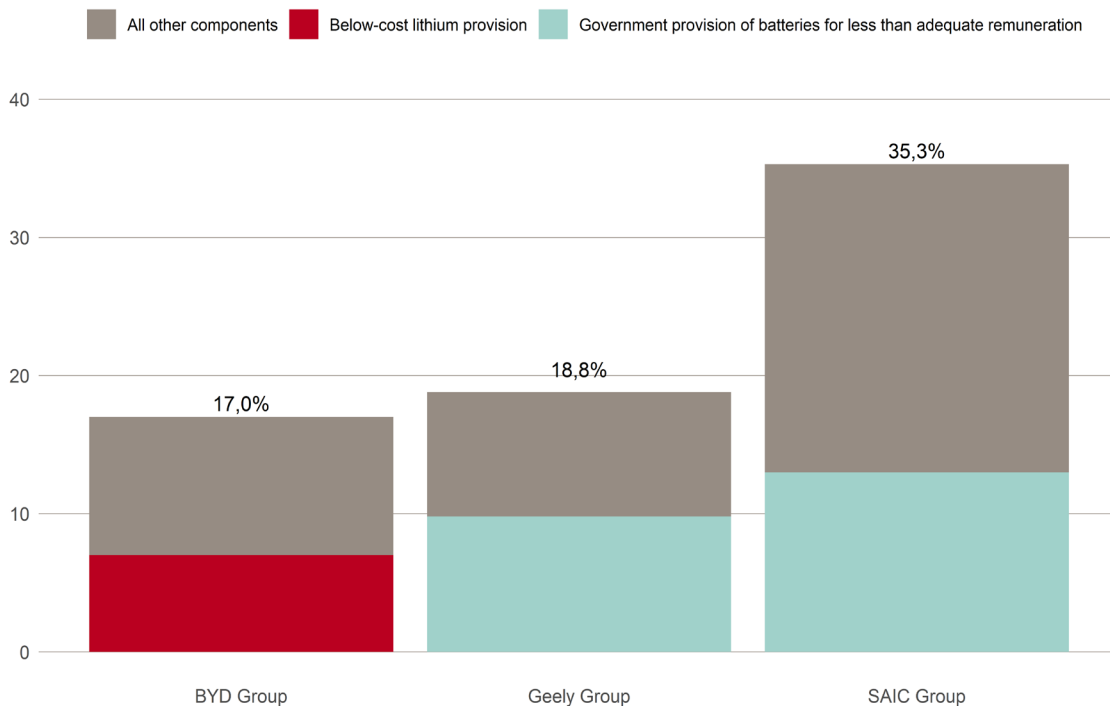


Figure 2: The battery part of the EV tariffs (Data: [Financial Times, 2024](#))

**At just 1.3%, the tariff now levied on imported batteries is negligible. As such, initiating an anti-subsidy investigation into batteries seems like an obvious choice** to strengthen the case for European batteries. The Commission could use the findings of its EV investigation as preliminary evidence to launch a batteries investigation. It would then have to adhere to the [strict process of trade defence investigations](#), starting with a data-gathering phase lasting up to nine months, where officials collect and review information before releasing provisional findings and proposed countervailing measures. This would be followed by a four-month review period at the end of which member states get the opportunity to vote on the countervailing measures.

**In the short-term, the chances of an anti-subsidy investigation into Chinese batteries look slim.** There is little political appetite for one in Brussels. Negotiations over the EV tariffs are ongoing and the political in-fighting between the member states is causing waves. Many member states fear that a new investigation could provoke further economic retaliation from China, which remains one of the EU's largest trading partners and a critical supplier of goods and raw materials. [Even within the incoming Commission, concerns](#) over the effectiveness of sweeping tariffs for EU industry have been voiced.

**However, they remain an option** if the EU wants to reduce the risk that heavily subsidised Chinese batteries undermine European efforts to build a homegrown industry. Raising the very low tariffs via an anti-subsidy investigation would significantly strengthen the business case for investment, both domestic and foreign. If introduced, it is important to note that tariffs alone do not ensure a competitive industry. Continued industrial support will be needed to ensure that FDI serves to kickstart further domestic value creation, for example via the [EU Battery Fund](#).

### III. Sustainability requirements to favour European batteries

In the absence of an anti-subsidy investigation into batteries, **the EU can leverage sustainability requirements to favour locally produced batteries**. Especially relevant here is the [EU's Battery Regulation](#). Introduced as part of the EU Green Deal framework, this regulation was adopted in summer 2023 and represents a comprehensive approach to govern the entire lifecycle of batteries, from production to disposal. It established both due diligence and sustainability requirements for batteries to be placed on the European market, including carbon footprint declarations and recycling targets. While World Trade Organisation (WTO) rules limit the use of outright local content requirements, this remains a legal option that prioritises European products.

**A key feature of the Regulation is the introduction of the “Battery Passport”**, a digital record that will track each battery’s lifecycle, documenting aspects such as carbon footprint, resource efficiency, and end-of-life management. The passport is set to come into effect from February 2027. However, the EU has not yet decided what methodology will be used to assess a battery’s carbon footprint and whether it will set a maximum carbon threshold for market entry. One point of contention is whether to allow non-EU producers to offset their carbon footprint through power purchase agreements (PPAs) with clean energy providers or whether a battery’s carbon footprint will be based on the overall carbon emissions of the producing country’s energy grid. The latter method would favour EU manufacturers compared to producers from China, as shown in Figure 3.

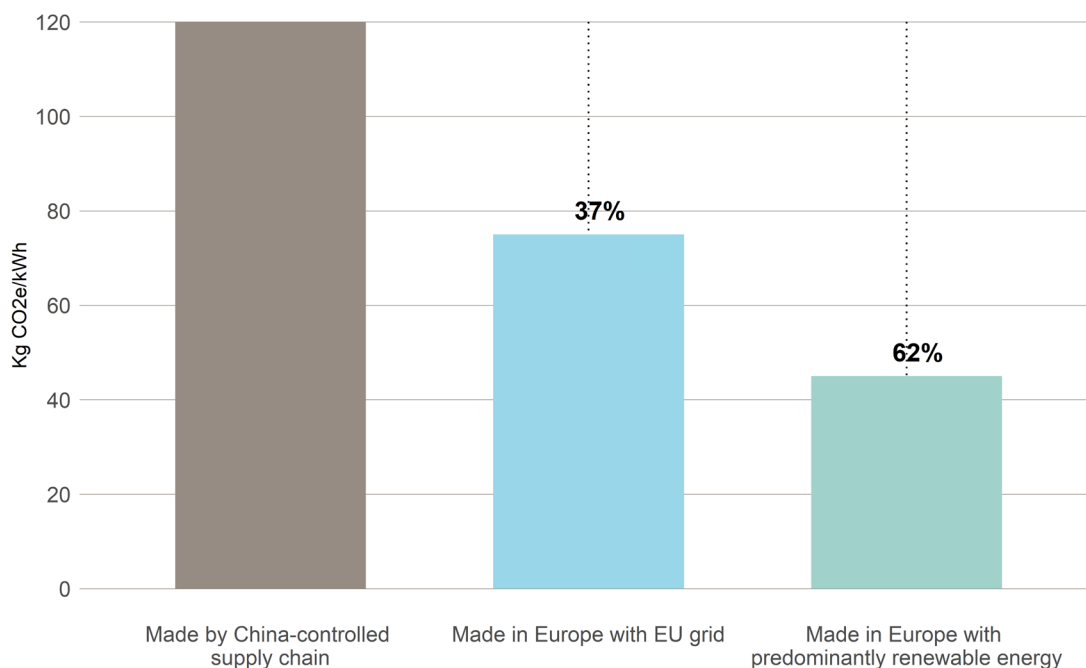


Figure 3: Potentially large CO2 emission differentials depending on production location (Source: [Transport & Environment](#), 2024)

**The EU should thus utilise the carbon emission transparency requirements of the Battery Passport to support European made batteries.** Excluding PPAs can also mitigate the risk of „shuffling,“ whereby exporters attribute existing renewable energy capacity to exported batteries on paper without increasing the share of renewable energy used in their production processes. Adding transport emissions to the footprint would strengthen the case for domestically produced batteries.

## **Risk 2: Distorting competition in the single market**

**A second risk is that heavily subsidised Chinese producers could hurt fair competition in the EU.** Here, the EU has created a powerful new tool, with which it can ensure that foreign firms investing in the Union do not use subsidies to undermine fair competition. With its new [Foreign Subsidies Regulation \(FSR\)](#), adopted in 2023, the Commission can investigate whether firms have received financial contributions by third states that conferred specific economic benefits in a manner which may distort the EU's level playing field. Its extensive scope covers foreign subsidies related to mergers, acquisitions, and public procurement, as well as broader market activities.

**The first use of the FSR earlier this year highlights both strength of the instrument and that it addresses existing risks.** The Commission launched an investigation into a subsidiary of Chinese train manufacturer CRRC, following its bid on a €610 million electric train public procurement contract in Bulgaria. CRRC's offer was around half the costs estimated by Bulgarian railways or the next competitor's bid. Following the launch of the investigation, which alleged that Beijing awarded €1.75 billion in subsidies, the bid was revoked.

The investigations triggered by the mandatory notifications linked to mergers and acquisitions and public procurement processes are relatively clear-cut and procedural. For mergers the notification threshold is at least €500 million in turnover for any involved entity and the average financial contribution by a third state must be more than €50 million. For public procurements, firms must notify the Commission if the contract is worth at least €250 million, and they have received a minimum of €4 million in state-led financial contributions.

However, **the Commission also has the possibility to initiate ex officio investigations** both for individual firms and entire sectors – and their findings can be used for future, specific investigations. This means the FSR is not only relevant for mergers or public procurement but can be used to investigate any investment that the Commission suspects benefits from foreign subsidies. Preliminary evidence from the anti-subsidy investigation and the [recent report on state-induced distortions within the Chinese economy](#), for example, could be utilised to make sure that Chinese FDI in the EV supply chain does not distort EU competition.

If a market distortion is confirmed, **the Commission can impose a wide range of remedies.** The non-exhaustive list explicitly mentions reducing the market presence of a firm via business activity restrictions, access to infrastructure, divestments, repayment of subsidies, and it even states that firms can be made to publish their research and development findings. The regulation also equips the Commission with powerful enforcement tools that allow it to levy significant fines for non-compliance (up to 10% of annual turnover) with its investigation.

**The FSR offers the Commission a high degree of independence.** It is free to choose what investigations to pursue, bypassing the Council. Its discretion is further strengthened through its built-in 'balancing test'. With it, it can assess whether the benefits, which are defined broadly and span economic, social and environmental considerations, of a foreign subsidy outweigh its potentially distortive effects on the EU internal market.

**The FSR must be used strategically.** With it, the EU has created a powerful and flexible tool. The incoming Commission should stringently pursue investigations to protect its level playing field. Part of this will be increased information sharing between DG Trade and the two directorates responsible for the FSR, DG COMP and DG GROW. However, its use also harbours risks if excessive use keeps away foreign investors. As such, it is fundamental that



the instrument is deployed as part of a comprehensive EU strategy and this is communicated transparently, including the evidence used to justify eventual countervailing measures.

### **Risk 3: Deal with the security implications**

Beyond economic considerations, **there is an intensifying debate on addressing security concerns related to EVs**, particularly in light of the [US proposal](#) to ban vehicles from China (and Russia) or those fitted with key Chinese hardware and software due to security risks. Connected EVs collect vast amounts of data, including geolocation, driving patterns, and personal information, which EU intelligence services have flagged as potential security vulnerabilities, [prompting a formal risk assessment](#). Addressing these security risks poses a significant institutional challenge for the EU, given that member states retain extensive national competences in security policy. The EU lacks the instruments to address broader security risks emerging from widely used consumer goods such as EVs.

The security risks associated with Chinese EVs echo past concerns raised by Huawei's involvement in European telecommunications infrastructure, following scrutiny by the US during President Trump's first administration. In response, the EU introduced the [5G toolbox](#) in January 2020, a set of guidelines to help member states identify and mitigate risks. However, the toolbox remained optional, leaving implementation decisions up to individual member states. This led to a fragmented approach across the EU, with some countries imposing significant restrictions on Huawei's 5G equipment while others delayed action to avoid economic and diplomatic repercussions. Due to the large scale of interconnectivity between member states' (digital) infrastructure, data protection problems in one can lead to issues in another. The risk of sabotage of distribution networks would painfully hit exposed partners within the Union.

**The EU must avoid repeating this mistake in the case of EVs.** The next Commission should use the upcoming risk assessment to establish clear criteria to mitigate data and infrastructure risks and develop a new harmonised toolbox at the EU level in a timely manner. Given that cars, by their nature, can move freely across borders, it is vital that member states reach a swift decision on cybersecurity protocols, data restrictions, and a common strategy for addressing risks. A fast and coordinated approach not only enhances security but also strengthens investment climate stability by providing clear rules and reducing regulatory uncertainty for foreign investors.

### **Conclusion**

In the context of shifting global dynamics and evolving trade relationships, **the EU's attractiveness as a stable market for FDI places it in a strong position to capitalise on this.** The unpredictability of the US investment climate following Trump's election, including a highly likely shift towards more protectionist policies, underscores Europe's strategic advantage. By combining economic openness with regulatory oversight and industrial support the EU can bolster its competitiveness, solidify its industrial base, and reinforce its goal of strategic autonomy.

To do so, the incoming Commission must strategically pursue trade defence measures where politically possible, economically sensible and stringently enforce countervailing measures. The EU must work towards strengthening the case for domestic production of high-value components. Especially relevant here are batteries. The FSR should be used to ensure FDI poses no threat to any level playing field. Lastly, the EU must address the fact that fragmented security policies will fail to safeguard it against potential sabotage, and it will have to overcome institutional difficulties if it is to create a truly harmonised framework.



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