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US-China auto partnerships persist despite tariffs, political tensions

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Washington — Even as the Biden administration and lawmakers step up efforts to disentangle the U.S. auto industry from an increasingly competitive China, legacy automakers are maintaining their business relationships with companies across the Pacific.

Partnerships and joint ventures have enabled the Detroit Three and others to operate and profit in China for decades, but policymakers across the political spectrum in the United States are holding firm that they don't want a similar setup stateside.

"It'd be a complete failure," said Nazak Nikakhtar, who was an international trade official for the Commerce Department during the Trump administration. She warned that Chinese companies operating in the United States would undercut competition through low prices, adding: "The only way for (U.S. automakers) to stay in business is for the government to step in and say 'No, we're eliminating the distortions from our markets.'"

The commitment by officials past and present to keep China out of the domestic market has made for a popular rallying cry, especially in an election year. But that commitment could get harder to keep if U.S. automakers continue to lag behind emerging Chinese brands on key electric vehicle, battery, software and remote sensing technologies.

Only the companies that are "exposed to the harsh competition of the Chinese carmakers are going to be the winners — if they are able to survive the Chinese competition," Stellantis NV CEO Carlos Tavares said late last month.

The transition to electric vehicles, widely acknowledged as the future of the global auto industry, has been bumpy and mostly unsuccessful for domestic automakers. The Detroit Three have so far failed to profit off EVs, even though the Biden administration has put forth a series of environmental regulations that will all but require a robust market for them.

China, meanwhile, is far and away the world leader in EV sales, according to data from the International Energy Agency. EVs are projected to make up 45% of the Chinese domestic market this year, and Chinese EVs will make up 60% of global EV sales, per the IEA.

China is also a leader in EV battery manufacturing and other high-tech vehicle components, like lidar sensors crucial to the advancement of autonomous vehicle technology.

Accused by the Biden administration of overproducing and trying to dump cheap goods elsewhere, Chinese companies have begun branching into other markets. Chinese automakers sold almost no EVs in Europe two years ago, but last year, vehicles from China made up almost 20% of that market, according to the European Federation for Transport and Environment.

Competition grows, partnerships remain

Still, even as the long-term danger of Chinese competition grows, the Detroit Three have maintained Chinese partnerships meant to benefit their internal combustion engine and EV businesses.

“The question is: Do you want to delegate that capability to someone else, or do you want to develop in your company?” Ford Motor Co. CEO Jim Farley said at the Bernstein Annual Strategic Decisions Conference, referring to the many partnerships between Chinese companies and Western ones: Stellantis and Leapmotors, Toyota Motor Corp. and BYD Auto Co. Ltd., and Volkswagen AG and Guangzhou Xiaopeng Motors Technology Co. Ltd.

“That's the strategic choice,” he added.

In weighing partnerships for Ford, Farley said it’s important that there is a passing of knowledge through these sorts of collaborations that leaves the company better positioned than before. He suggested that Ford's past partnerships with Mazda Motor Corp. and Kia Corp. didn’t achieve that.

Ford has launched a small engineering team in California that it has dubbed “skunk works” to create a low-cost EV platform under a completely different development model than the automaker has used in the past, based on learnings from Asia.

“I think what you'll see is companies either moving off their internally developed, gen-one EV platforms, because there's a new standard, and it's more fit, or they will have, like Ford has done, a skunk works team that tries to take advantage of that opportunity and build a fitness in the company," Farley said. "We need that transfer function" between both sides of a partnership.

Ford says it's seeing the fruits of the strategy it implemented a few years ago in China, where it's been profitable for the past three years. It includes leaning on its joint ventures with Chang'an Automobile Co. Ltd. and Jiangling Motors Co. Ltd.

The company has said it's leveraging their platforms and technology for vehicles that avoid high costs and to get vehicles to market quickly. Ford signed an agreement last year with Jiangling to increase exports of its products, including low-cost commercial vehicles. Ford exported more than 100,000 vehicles from China last year, up 33% with the help of the new Lincoln Nautilus SUV. It expects to do more this year, taking advantage of China's excess capacity and low labor costs to deliver to both emerging and established markets.

Ford is also licensing technology from Chinese battery supplier Contemporary Amperex Technology Co. Ltd. The technology is for making lithium-iron-phosphate, or LFP, batteries. The chemistry for those batteries is less energy-dense than other technologies and also less expensive.

LFP batteries were launched in standard-range Mustang Mach-E SUVs last year, and Ford will build LFP batteries at a plant in south-central Michigan's Marshall whose construction is expected to be complete in 2026.

Ford executives said globally, the automaker is open to partnerships where they make sense today and in the future to access technology, improve cost and quality, and benefit customers.

General Motors Co., meanwhile, posted an equity loss in China of $100 million in the first quarter of 2024, down $200 million year-over-year as it lowered production to balance dealer inventory levels. But the results were better than expected, Chief Financial Officer Paul Jacobson said on an earnings call, and with production stabilizing, the Detroit automaker expects profitability in the country through the rest of the year. CEO Mary Barra has said the automaker will emphasize luxury and premium options in the competitive marketplace.

The automaker last month also said Steve Hill, its vice president of global commercial operations, is taking over as executive vice president and president in China from Julian Blissett, who retired at the start of the month. Hill, who brings experience in sales and marketing, will be focused on accelerating the electrification of GM's portfolio in China and deploying new technologies. Additionally, Hill said in a statement he would leverage experience in building relationships with partners.

GM has a joint venture with SAIC Motor Corp. Ltd. building and selling Chevrolet, Buick and Cadillac vehicles. Another partnership with SAIC that includes Wuling Motor Holdings Ltd. builds local brand vehicles like Wuling and Baojun.

Stellantis has a joint venture with Dongfeng Motor Corp. Ltd. producing vehicles for French brands Peugeot and Citroën. The automaker in 2022 opted to dissolve a joint venture with Guangzhou Automobile Group Co. Ltd., planning to import Jeeps into China instead of manufacturing them there. Last year, it bought a 21% stake in Chinese EV startup Zhejiang Leapmotor Technology Co. Ltd., and in early May, the companies formally introduced the Leapmotor International joint venture that will sell Leapmotor vehicles in Europe, Asia, Australia and South America.

Avoiding partnerships on U.S. soil

Those partnerships may be beneficial for the Detroit Three abroad, but the prospect of similar ones stateside is politically toxic — or at best dubious, analysts say.

"In a less politicized environment, in a place with less geopolitical tension, I would expect far more attempts by the U.S. industry to — if not team up directly — at least learn from what the Chinese are doing," said Scott Lincicome, vice president of general economics at the libertarian Cato Institute.

Ford's planned partnership with CATL in Michigan, for example, repeatedly has drawn scrutiny and criticism from Republican lawmakers.

Former U.S. Rep. Mike Gallagher, R-Wisconsin, who led the House Select Committee on China until resigning in April, and Rep. Jason Smith, R-Missouri, who chairs the Ways and Means Committee, penned a letter last summer arguing that Ford's licensing agreement would confer too many benefits — including U.S. tax dollars — on the Chinese company.

"We are concerned that the deal could simply facilitate the partial onshoring of PRC-controlled battery technology, raw materials, and employees while collecting tax credits and flowing funds back to CATL through the licensing agreement," they wrote.

Ford said those assertions are "categorically false" and that CATL will receive no U.S. tax dollars. Yet pushback has continued.

A planned EV battery manufacturing facility by Chinese company Gotion Inc. near Big Rapids also has faced staunch opposition — particularly from U.S. Rep. John Moolenaar, R-Caledonia. He previously supported Nexteer Automotive, another Chinese company operating in Michigan, but said the landscape has shifted dramatically in recent years.

More: Q&A: Gotion critic Moolenaar talks about congressional panel's Chinese deterrence strategy

"(T)he direction China is going — very different today than it was even five years ago, especially 30 years ago," he told The Detroit News. "I think that the goal is to reset the relationship based on the reality that we face with an increasingly aggressive China."

On Thursday, Moolenaar stepped up his opposition to the Gotion project, as well as CATL's contribution to Ford's Marshall battery project, calling for bans on imports from those and other Chinese battery makers.

Meanwhile, U.S. Sen. Gary Peters, D-Bloomfield Township, also has expressed concern about the prospect of EV imports from China.

"The bottom line is there’s no place in the U.S. for vehicles made by Chinese Communist Party-backed companies," Peters said in March after the Biden administration launched an investigation into Chinese internet-connected vehicles. He and a bipartisan chorus of lawmakers have since applauded further efforts by the administration, namely the steep new tariffs it imposed on Chinese goods last month.

"We aren’t competing on a level playing field, and we have seen the impact of unfair trade practices in the past. The Chinese Community Party's use of aggressive subsidies doesn't protect living wages, fair labor practices, occupational safety standards for workers, or environmental standards," U.S. Rep. Debbie Dingell, D-Ann Arbor, said in response to the tariffs.

The tariffs, according to Jared Bernstein, head of the White House Council of Economic Advisers, complement other efforts by the Biden administration to encourage domestic production of EVs and eventually eliminate U.S. reliance on China for many key vehicle components.

"We have our own domestic producers that are standing up as we speak," he told The News in an interview, suggesting that the tariffs will help buy the United States time to catch up with China.

He added: "We have hundreds of billions of public and private capital working to build out American EV battery capacity as we speak. I mean literally hundreds of billions of private capital has come in from the sidelines, complemented by measures in the Inflation Reduction Act."

Competition could come fast

Despite those efforts to keep Chinese companies at bay while the United States catches up, many industry veterans have said they expect Chinese vehicles to eventually arrive stateside. They view it as a question of when, not if. And when those competitors do arrive, many are worried U.S. automakers won't be ready.

"Subsidies do a lot of things, but making companies lean and globally competitive is not one of them," Lincicome of the Cato Institute said. He laughed at the notion that tariffs, combined with the Biden administration efforts like domestic manufacturing incentives in the Inflation Reduction Act, would enable U.S. automakers to stand alone in competition with Chinese companies.

That is perhaps why partnerships — despite their political baggage — have persisted in the industry, signaling an "if you can't beat them, join them" outlook by many legacy automakers.

The political environment in the United States has forced those partnerships abroad. But loopholes in trade policy could expose the domestic market to Chinese competition sooner than officials want.

Many have raised concerns that Chinese EV powerhouse BYD Co. could — thanks to stipulations of the U.S.-Mexico-Canada free trade agreement — export less expensive EVs to the United States from a planned manufacturing facility in Mexico without being subject to tariffs.

The company has said it is focused on selling in Mexico, but the possibility of exports to the United States is "certainly on the radar screen of the Biden administration," said Greta Peisch, the former general counsel for the Office of the U.S. Trade Representative under President Joe Biden.

And thanks to an obscure but increasingly popular U.S. trade program, Volvo Cars Ltd. and its electric Polestar unit are already avoiding tariffs on their EX30 and Polestar 2 models built in China through a partnership with Geely Holding, a Chinese auto company.

Automotive News Europe reported that the U.S. Duty Drawback program, which allows companies to get nearly full refunds on tariffs by later exporting certain goods, will allow the companies to effectively dodge penalties.

But Nikakhtar, the former Trump administration trade official, said she is hopeful and rejected the notion that a more widespread arrival of Chinese autos is inevitable.

"We have ample legal tools to leverage to prevent that from happening," she said. "If the United States government is getting very, very serious about addressing the threat, then it can certainly take action."

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