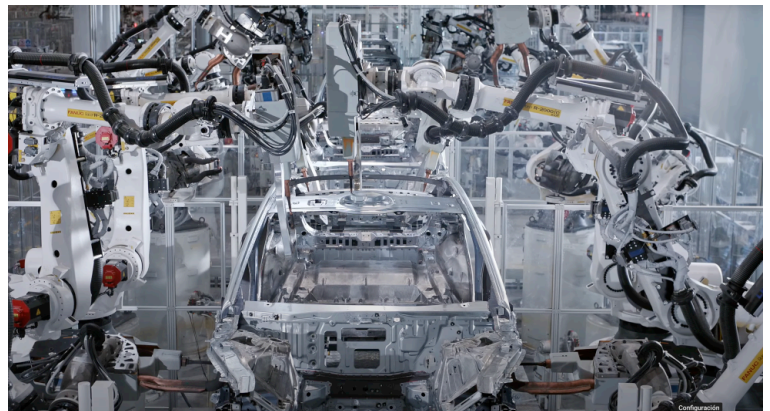


China is overtaking the West in electric vehicles

The Western powers accuse the Asian giant of 'overcapacity' to blame it for its own industrial decline

Pawel Wargan

In May 2024, the White House announced a series of new tariffs on Chinese products, including a 100 per cent tax on imports of Chinese electric vehicles (EVs), which will come into effect at the end of this year. The European Union followed closely behind. In July, the Commission announced 17,4 to 37,6 per cent tariffs for Chinese electric vehicle manufacturers. In August, Canada announced tariffs of 100 per cent on Chinese EVs and 25 per cent on Chinese steel and aluminium.



Snapshot image taken on a promotional video of Xiaomi's highly automated electric car factory. / Xiaomi (YouTube)

The White House insisted that the measures would 'protect US manufacturers from unfair Chinese trade practices' and ensure that 'the future of the car industry will be made in the United States by US workers'. The European Commission cited China's 'unfair subsidisation', and Canada warned of the threat of China's 'intentional state-directed overcapacity policy'. In this narrative, now choreographed and ritualised throughout the West, China's 'overcapacity' is to blame for the West's growing trade deficits and its persistent inability to reindustrialise.

China has responded firmly to these accusations. In May, at a meeting with French President Emmanuel Macron and European Commissioner Ursula von der Leyen, Chinese President Xi Jinping stated that there was no such thing as the 'problem of China's overcapacity' and emphasised China's contribution to the ecological transition. The Chinese Foreign Ministry said the 'overcapacity' argument was a 'pretext' for creating new restrictions on Chinese energy products.

China's 'overcapacity' and the industrial decline of the West

Overcapacity can be measured in three ways. First, we can look at the 'capacity utilisation rate' or the degree of utilisation of available industrial capacity. Second, we can look at inventory levels; many unsold goods gathering dust in warehouses could suggest that production exceeds demand. Thirdly, we can look at profit margins, which would have to decrease to help empty the overflowing warehouses and make way for new products.

As the French economic commentator Arnaud Bertrand discovered, China shows no signs of 'overcapacity' in any of these measures. On the contrary, its industrial utilisation rates and inventory levels are similar to those of the United States, and Chinese profit margins are skyrocketing.

The West's industrial decline far predates China's rise.

But even if the 'overcapacity' thesis were true, the West's industrial decline far predates China's rise. The trade balance has registered a sustained deficit in the United States since the end of the 1970s. As the productive structure of its economy changed, industrial capital gave way to financial capital. The number of jobs in the manufacturing sector fell from a peak of 20 million in 1979 to less than 13 million today, a period in which the United States saw its population increase by 100 million. This year, factory employment in the United States fell to an all-time low.

For its part, Europe is facing historic economic pressures due to the rise in fuel prices caused by price speculation and Europe's attempts to decouple itself from Russia. Germany is deindustrialising. Volkswagen and its subsidiaries are going to cut tens of thousands of jobs in factories all over Europe, and their workers are mobilising from Wolfsburg to Brussels. 'The real problem here is not, in fact, overcapacity, but competitiveness,' says Bertrand.

The Chinese EV miracle

In 2023, Ford boss Jim Farley visited China with his CFO John Lawler for the first time since Covid-19. They test-

Five Chinese ministries are developing plans for the 'road-cloud-vehicle' integration.

drove an EV made by Changan Automobile, one of Ford's former partners in China. According to a report in the Wall Street Journal, the pair were stunned. 'Jim, this is nothing like what we've had before,' Lawler told Farley. "These guys are way ahead of us." Ford has apparently sent several

Chinese EVs to the United States for further study as it tries to build up its own low-cost offering, but it is difficult to see how it could compete with brands like BYD, whose cheapest cars sell for only \$11,000.

A technological revolution is brewing across China. In 2024, the Chinese Ministry of Industry and Information Technology joined forces with four other ministries to develop plans for 'road-cloud-vehicle' integration. The aim is to make all aspects of road traffic intelligent – from traffic lights and charging stations to roads and logistics channels, from the movement of vehicles and pedestrians to information services – so that the capabilities of the burgeoning Chinese electric vehicle market can be exploited.

'In 2023, the penetration of new EVs was 31.6 per cent across China. In major cities such as Shanghai, Beijing and Guangzhou, the figure is close to 50 per cent, and it has only taken them 10 years to get there,' Haidong Chen, Marketing Director of the National Innovation Centre for Smart and Connected Vehicles, told me in Beijing. 'In the first quarter of 2024, the percentage of new EVs sold was 31.3 per cent, but it jumped to 50.39 per cent in April.'

Almost all EVs launched in China are capable of at least 'L2' automation, Haidong told me, which means they can drive and accelerate autonomously under the supervision of the driver. But with 'road-to-cloud-to-vehicle' integration, all cars launched in recent years could acquire full autonomous driving capability without the need for additional hardware upgrades.

This degree of integration can produce significant improvements in road safety. 'Imagine an elderly driver who runs a red light at an intersection,' explains Haidong. 'The system can prevent an accident by stopping or redirecting the other cars on the road, even if the car in question is not connected to the network.' This is something a Tesla could not do. On their own, the LIDAR (Light Detection and Ranging) systems that electric vehicles use to map their surroundings can only see up to a distance of 250 metres and cannot see around corners. 'Full integration is needed,' says Haidong.

Road-to-cloud-to-vehicle integration can also reduce energy consumption. An integrated logistics system can plan the most efficient and least congested route for delivering goods from a given port to one or more cities. A road can instruct a car to slow down on a slope or curve, letting gravity or momentum do the work while conserving battery power.

More than 40 cities have applied to be part of the pilot programme. Beijing, Shanghai, Chongqing, Guangzhou and other major cities have already started testing the technology on public roads. The immediate goal is to roll out the programme to all major cities within a few years. But the long-term ambition is more significant. 'This infrastructure,' said Haidong, 'will enable China to replace private cars with fleets of publicly owned self-driving vehicles in the future.'

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Integration of the value chain

This degree of integration is only possible through control of the entire EV value chain. This begins with mineral raw materials, the most significant of which is lithium, a key component in battery manufacturing. Although China has limited domestic lithium reserves, it has developed cutting-edge technologies that enable it to recycle almost 100 per cent of the lithium in used batteries. In 2021, China had more existing or planned lithium-ion battery recycling capacity than the whole of Europe and the United States combined. The CEO of CATL, one of the world's largest battery companies, now predicts that China will not need new minerals for battery production until 2042.

After the battery comes the software, whereas car manufacturing used to be mainly a mechanical engineering question, Chinese planners soon began to see them as 'mobile phones on wheels', Haidong told me. The impetus to develop sovereign information technology to power them increased as the West's economic war on China accelerated. In 2008, Haidong said that Microsoft accused China of digital piracy and 'blocked' all government computers. 'It was a great humiliation. The government realised it would have to develop its own software and hardware.'

In 2013 and 2014, when attacks on Chinese technology companies such as Huawei accelerated, China began to move rapidly towards technological sovereignty in everything from chips and artificial intelligence to cars and batteries. 'Today,' Haidong said, 'Chinese industry is guided by a single principle: self-reliance.' This has enabled

The Chinese electric vehicle industry is not only competing with the western car industry, but also with Silicon Valley.

the kind of integration – of batteries and software, or roads and cars and cloud technology – that is currently beyond the realm of imagination in the West. That is why, according to Haidong, the Chinese electric vehicle industry is seen as a threat. It is not only competing with the automotive industry, historically the domain of the West. It is now also competing with the technology giants of Silicon Valley.

‘Overcapacity’ is a political accusation

The accusation of "overcapacity" has a dual purpose. First, it gives the Western ruling class licence to resort to the very policies it accuses China of - subsidies and protectionism - to protect its monopolists in a contest they could not otherwise win. Secondly, it allows Western leaders to blame China for the long-term structural decline of the global capitalist economy, which can no longer support the previous standard of living and can, therefore, only maintain its legitimacy by referring to external threats.

But if the accusations of 'overcapacity' are exaggerated, they are part of a dangerous and growing hybrid war with ramifications far beyond China's borders. China has taken advantage of its socialist market economy to develop new technologies that are urgently needed to address the climate crisis. Over the past decade, this strategy has seen the costs of solar and wind power fall by 90 per cent and those of batteries by more than 90 per cent. With China now building two-thirds of the world's wind and solar projects, these energy sources will account for 39 per cent of China's total energy mix by the end of 2024. China is now on track to meet its climate targets six years ahead of schedule.

If the tariffs imposed by the United States, the EU and Canada are an admission of their monopolists' inability to compete with China – and a guarantee that state power is available to protect capitalist interests against an emerging socialist superpower – they are also a warning. The West is willing to sabotage the Chinese economy and the global ecological transition rather than cooperate.

I wondered how the Chinese electric vehicle industry viewed the tariffs. 'We are not particularly worried about the tariffs,' Haidong said. 'If I am the only producer in the world, the tariffs mean that consumers in the United States will pay more.'



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❖ **About the author: Paweł Wargan** is an organiser and researcher based in Berlin and coordinator of the Progressive International secretariat.



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Portal on the net: <https://www.jussemper.org/>
e-mail: informa@jussemper.org

