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Diggelmann, Elias

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Master's thesis by Elias Diggelmann

Thesis supervision by Dr. S.A. Nelson

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Student number: 4438035

E-mail: e.a.diggelmann@umail.leidenuniv.nl

Universiteit Leiden
The Netherlands

Abstract

This thesis examines why German automakers have opposed the European Union's tariffs on Chinese-made electric vehicles, even though they face rising competition from subsidized imports. Trade theory predicts that import-competing industries will support protectionist measures. Countries like the United States and Canada have followed this pattern, imposing steep tariffs with backing from parts of their domestic industry. In contrast, the German automotive sector has uniformly resisted similar measures. The thesis argues that this divergence stems from entrenched foreign direct investment in China shaped by Germany's institutional architecture, particularly co-determination and an export-led industrial model. These institutions have produced a stable coalition between capital and labor, enabling firms to embed themselves in Chinese production networks over the long term. Through process tracing, using industry data, annual reports, and public statements as sources, the study shows how structural dependencies have generated political and strategic lock-in for German automakers in China. The findings contribute to broader debates on how institutions shape trade preferences, how multinational firms navigate geopolitical realignment, and what constraints strategic autonomy faces within the European Union.

Contents

Abbreviation	Full Term
BMW	Bayerische Motoren Werke
BMV	Bundesministerium für Verkehr (German Federal Ministry of Transport)
BRI	Belt and Road Initiative
BYD	Build Your Dreams (Chinese electric vehicle manufacturer)
CARIAD	Car.Software Organisation (Volkswagen's software division)
EC	European Commission
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
GVC	Global Value Chain
IG Metall	Industriegewerkschaft Metall (Industrial Union of Metalworkers, Germany)
IEA	International Energy Agency
ICE	Internal Combustion Engine
MAIR	Master of Arts in International Relations
MIC2025	Made in China 2025
MNC	Multinational Corporation
OEM	Original Equipment Manufacturer
PFA	Plateforme Automobile (French Automotive Industry Association)
R&D	Research and Development
UAW	United Auto Workers (US labor union)
VER	Voluntary Export Restraint
VDA	Verband der Automobilindustrie (German Association of the Automotive Industry)
VW	Volkswagen
WTO	World Trade Organization

1. Introduction

Several major economies have recently imposed tariffs on Chinese electric vehicles (EVs), including the United States and Canada, both applying a 100 percent duty, along with Turkey and Brazil, which have their own restrictions. These measures reflect a broader backlash against China's state-subsidized industrial expansion. However, the European Union's (EU) recent decision to impose tariffs on EVs imported from China has encountered strong resistance from the affected industries, revealing a puzzle in trade politics. Multinational corporations (MNCs) are simultaneously harmed and protected by the very same policy. German original equipment manufacturers (OEMs) are shielded from a potential surge of low-cost subsidized Chinese EV imports, but simultaneously harmed by the policy, as the tariffs also apply to vehicles they produce in China and re-export to the European market. This tension reflects the complications that emerge when international economic integration interacts with national political structures.

The research question guiding this study is: Why do German automakers oppose the EU's imposition of protective tariffs on Chinese-made EVs? This question challenges trade theory, which predicts that industries under competitive threat will support protectionist measures to shield their market share (Oatley, 2019, p. 86; Eckhardt, 2018). Instead, we observe an deviation from this expectation in the German automotive sector. Why are firms opposing tariffs that would protect them? The tariff dispute emerges at a critical juncture for Europe's car market. Chinese manufacturers, such as Build Your Dreams (BYD), are expanding rapidly. BYD became the tenth-largest EV brand in Europe by April 2025, having sold over 7,000 subsidized EVs, despite entering most markets only in late 2022. Furthermore, EVs from Chinese manufacturers were priced approximately 20-30 percent lower than comparable European models (Jato, n.d.). At the same time, German automakers rely on Chinese production for their car manufacturing, which is exported back to Europe and is also subject to tariffs.

Simultaneously, the automotive sector is a key driver of EU-China economic relations and shapes developments far beyond the German car industry. As the EU embarks on a geoeconomic shift that emphasizes strategic autonomy, supply chain resilience, and the instrumental use of economic policy for geopolitical objectives (Matthijs and Meunier, 2023),

it remains an open question how major industrial sectors across Europe will respond to this new orientation.

This thesis argues that German automakers form a domestic free trade coalition with Unions, rooted in Germany's institutional setup. This arrangement, especially co-determination and coordinated industrial relations, makes outward foreign direct investment (FDI) politically stable by aligning labor and capital around export-led growth. While many countries and firms invest abroad, the German case is distinct: its institutional foundations enable a form of entrenched FDI that embeds firms into foreign value chains. Once these investments are made, they generate structural lock-in. German firms become dependent on host markets, such as China, which limits their political space for protectionism and explains their resistance to EU tariffs.

These findings highlight the changing nature of MNCs in Europe. Unlike in the past, when MNCs sought to protect their home markets, today's globally integrated firms are more likely to prioritize their cross-border investments over purely national or regional interests. This explains why German automakers, once pillars of domestic industry, now lobby against tariffs that protect their home markets but threaten their global production networks. A clear understanding of this dynamic is essential for examining EU-China relations, given that MNCs are central to geopolitical competition. This is especially evident as the shift of automotive manufacturing to East Asia reshapes global power structures.

The thesis is organized as follows. The literature review first sets the debate on trade theory and institutional foundations of German trade preferences, then outlines the role of MNCs and global value chains (GVC) as a basis for the empirical analysis. The Theory and Methodology chapter develops the theoretical concept and explains how to study it. The Empirical Analysis then examines the German OEMs in China to evaluate the institutional dynamics and FDI influences, drawing on industry data, public statements, and case studies to assess which factors most significantly shape the trade stances of German automakers and unions. Finally, the Conclusion assesses the broader implications for trade theory and EU-China relations, demonstrating how this case reflects shifts in the political economy of MNCs. It examines how power is rebalancing in sectors like automotive production and highlights the growing constraints on multilateral trade policymaking within the EU. As

industrial interests diverge and internal consensus weakens, the EU's ability to act coherently in trade policy is increasingly challenged. The conclusion outlines how these dynamics shape the EU's strategic position in a more fragmented and contested global trade environment.

2. Literature review:

This literature review draws on three interconnected bodies of scholarship: theories of trade preferences, the political economy of MNCs, and the transformation of the automotive industry. It begins by contrasting classical and newer trade theories, including the factor and sector models, New Trade Theory (NTT), and their relevance to current industrial shifts such as electrification. It then engages with work on MNCs and GVC, particularly as they relate to the strategic behavior of automotive firms in international trade and China. Ultimately, it situates these debates within the institutional and historical context of the German automotive industry, highlighting how evolving production regimes and geoeconomic tensions have reshaped trade policy preferences.

2.1 Classical and New Trade Theories

Two classic approaches to understanding trade preferences are the factor model and the sector model. The factor model, rooted in the Heckscher-Ohlin framework, posits that trade preferences align along broad class lines based on the relative abundance of factors, such as labor and capital. In this view, capital-abundant economies like Germany would expect capital-intensive industries to support free trade, as this allows them to leverage their comparative advantage and capture the gains from openness. However, this broad class approach oversimplifies the more complex, industry-specific dynamics that shape actual trade preferences (Reinert, 2020). The sector model provides a more nuanced perspective on the automotive sector by highlighting the role of industry-specific interests in shaping trade policy preferences. It argues that factors are not perfectly mobile and that both labor and capital within a particular industry often form coalitions to either support or oppose trade policies, depending on their shared economic interests. This model is particularly relevant to the German automotive industry, which relies heavily on exports. In such cases,

both capital and labor benefit from access to foreign markets and thus tend to support trade liberalization as a common interest.

However, to fully understand trade preferences, it is necessary to consider NTT, which extends beyond the sector model by emphasizing the role of economies of scale, product differentiation, and market structure in shaping global trade patterns (Krugman, 1980). Unlike the sector model, which primarily focuses on industry-specific coalitions of labor and capital, NTT accounts for the advantages that arise from producing at scale, building strong brand identities, and regional specialization patterns. This is particularly relevant for capital-intensive industries, such as the German automotive sector. This approach helps explain why German automakers, such as BMW, Mercedes-Benz, and Volkswagen (VW), maintain a dominant position in global markets despite high production costs, as their scale and brand reputation create barriers to entry for potential competitors.

The electrification of the automotive industry, driven by decarbonization and digitalization, challenges these trade theories and has the potential to disrupt the established sectoral coalitions within the German car industry, creating new intra-industry cleavages. Unlike the relatively stable alignments described by the sector model and NTT, the shift to EVs causes significant technological and organizational challenges that may fracture these coalitions. For instance, the shift away from internal combustion engines (ICE) to EVs reduces the relevance of many long-established supplier relationships and specialized labor skills, potentially pitting traditional ICE-focused suppliers against emerging EV technology firms (Hancké and Mathei, 2024). This process not only disrupts established production routines but also challenges the traditional German model of cooperative labor relations, as unions and works councils may struggle to maintain a unified front when facing diverging interests between ICE and EV production (Bosch et al., 2025). As a result, the German automotive sector may face a period of internal conflict and strategic realignment, as firms adjust to the new technological landscape (Muench et al., 2022).

Historical developments in the automotive industry show the profound influence of technological innovation on global production and economic structures. As Abbott (2003, p. 123) notes, the automobile has been central to the age of mass production. The first major transformation occurred with Fordism in 1913, when the introduction of the moving

assembly line enabled the efficient mass production of standardized vehicles, thereby reducing costs and boosting productivity, and establishing the model for modern industrial manufacturing. A second shift occurred in the 1970s with the rise of post-Fordism in Japan, exemplified by Toyota's lean production system (Steinberg, 2022, p. 1073). It introduced just-in-time delivery, faster improvement, quality management, and new managerial expertise. These innovations enabled flexible production and rapid adaptation to consumer demand, setting new global standards and contributing to the rise of global supply chains. Today, the transition toward electrification may signal a third major transformation, redefining how vehicles are powered, produced, traded, and integrated into broader energy and mobility systems. In this changing landscape, multinational car manufacturers must adapt. However, how they prioritize trade policy, such as German OEMs' resistance to EU tariffs on EVs, remains unclear.

The first significant entry of Asian competitors into the European automotive market occurred during the 1970s, when Japanese automakers capitalized on the economic dislocation of the oil crisis to expand internationally. Their fuel-efficient vehicles appealed strongly to European consumers, especially in West Germany. By 1978, Japan had doubled its car sales in the German market within two years, prompting apprehension among domestic manufacturers, who feared a deliberate sales push was underway (Engler, 1978). The German government, under Chancellor Helmut Schmidt, took a markedly liberal approach to this growing foreign competition. Germany eschewed protectionist measures such as quotas or tariffs (Flam, 1994, p. 118). As the New York Times reported at the time, "The Government of Helmut Schmidt has become a leader among major industrial countries in fighting protectionism" (Engler, 1978). This policy stance differentiated Germany not only from its French and Italian neighbors, who secured bilateral restraints on Japanese imports, but also from the United States, where escalating import pressures led to the adoption of a Voluntary Export Restraint (VER) with Japan in 1981 (Cohen, 1997). German OEMs responded with internal restructuring, thus lowering costs and improving efficiency. As a VW spokesperson acknowledged in 1978, "We just cannot compete with the Japanese on pricing… If we do not keep the quality margin, frankly, we are dead" (Engler, 1978).

Ultimately, the contrast between Germany's historical openness and the protective approach of its European and American counterparts suggests that German resistance to Chinese EV tariffs is not a novel phenomenon, but a continuation of a policy logic. The strategic calculus remains consistent: safeguarding long-term competitiveness through adaptation, rather than shielding incumbents from external competition. However, the current situation is not comparable, as German automakers in the 1970s and 1980s had no significant FDI exposure in Japan.

2.2 Multinational Corporations and Global Value Chains

MNCs are firms that own and manage production facilities in at least two countries, integrating their operations across borders to reduce costs and optimize production (Caves, 2007, pp. 1–2). In the automotive sector, this often takes the form of horizontal integration, where companies produce similar goods, such as cars, at multiple plants worldwide. This strategy allows MNCs to leverage economies of scale, optimize their supply chains, and gain more direct access to foreign markets. Over the past decades, the rise of GVCs has further blurred the distinction between domestic and foreign firms, fundamentally changing the dynamics of international trade and investment. GVCs encompass the full range of activities required to bring a product from its initial conception through various stages of production, marketing, distribution, and support services to the final consumer, often spanning multiple countries (Gereffi, 2018). By 2010, the number of MNCs had grown from around 7,300 in the 1970s to over 100,000, reflecting a significant expansion in cross-border investments (Oatley, 2019, p. 187).

Horizontal integration of MNCs is particularly relevant for automakers, whose primary assets are their intangible knowledge, such as engineering, branding, and production expertise, that underpin their competitiveness. This knowledge is difficult to license without risking intellectual property loss, making direct investment in foreign markets (typically defined as owning 10 percent or more of the voting stock) preferable to purely market-based relationships (Oatley, 2019, p. 235). Once disclosed, the value of such knowledge can be appropriated without adequate compensation. This stands in contrast to vertical

relationships, such as those employed by apparel retailers, which typically outsource production to independent suppliers through market-based contracts without assuming direct control over the production process. Horizontal integrations for carmakers mean maintaining control over their global production networks to protect their core competencies. This also aligns with internalization theory, which holds that firms internalize cross-border transactions to avoid market failures and protect proprietary technology (Buckley and Casson, 1976). In doing so, they also internalize the costs and benefits of protectionism and open markets.

The concept of GVCs further expands this logic by emphasizing the distribution of production stages across different countries to match local factor advantages. For instance, high-labor, low-cost assembly may be offshored to emerging markets, such as China, while capital-intensive research and development (R&D) remains in advanced economies. However, this model has undergone significant changes as China has advanced up the value chain, no longer just assembling parts but increasingly hosting capital-intensive production, including R&D (Malcomson, 2020).

Despite extensive global integration, MNCs often maintain strong ties to their home markets, driven by cultural familiarity and political support or pressure. The symbolic and economic significance of these industries reinforces these ties. For example, U.S. President Donald Trump emphasized the need for more American cars on U.S. roads, being obsessed with the visibility of German cars in cities like New York (Sorgi, 2024). Similarly, European Commission (EC) President Ursula von der Leyen has described the European automotive sector as a source of “European pride” (von der Leyen, 2024). At the same time, former German Chancellor Olaf Scholz has highlighted the German automobile industry as producing the “best cars in the world,” underscoring its central role in the region’s industrial identity and economic strength (Christmann, 2024). Moreover, German automakers maintain strong ties to their domestic economies through institutional mechanisms, such as the Betriebsräte (works councils), where labor representatives play a role in shaping strategic decisions. These structures help preserve the national identity of these firms, even as they operate on a global scale.

MNCs often generate tension by extending managerial control across national borders, creating a complex relationship between their global economic interests and their home-country political alignments (Oatley, 2019, p. 185). This dynamic is evident in the case of German car manufacturers operating in foreign markets. In the early stages of FDI, MNCs often have greater bargaining power than developing host countries, depending on factors such as market size and the strength of their institutions. MNCs benefit from advanced technology, established brands, and significant financial resources. Nevertheless, as these investments mature, the balance of power tends to shift (Vernon, 1971). What preferences do MNCs develop in response to these tensions, and what types of trade policies do they tend to support?

Throughout the 2000s, major European manufacturers and retailers advocated for China's inclusion in the World Trade Organization (WTO) and generally opposed EU protectionist measures, arguing that engagement would benefit Europe and that they could compete globally given the right conditions (Shu, 2018, pp. 322–325). Many firms contended that integrating with China's economic rise would benefit Europe, offering access to manufacturing and expanding consumer markets. Crucially, China's abundant, low-cost labor made it an attractive destination for capital-rich MNCs.

The EU increasingly counterbalances China's consolidation as the central hub of global production. Recent scholarship suggests a shift in EU policy towards a geoeconomic approach, marking a departure from the EU's traditionally liberal stance on external economic relations (Matthijs and Meunier, 2023). Geoeconomics refers to the application of economic tools to achieve geopolitical or strategic objectives, as well as the acknowledgment that economic interdependence can be leveraged as a source of power (Schneider-Petsinger, 2020). For the EU, a constellation of developments in the late 2010s and early 2020s forced a rethinking of its external economic strategy. These include China's growing economic might and more assertive use of state-driven tactics, the United States' turn toward unilateralism and economic nationalism, the paralysis of the WTO's multilateral dispute settlement system, and crises like the COVID-19 pandemic that exposed supply chain dependencies (Kalimo et al., 2023; Weinhardt et al., 2022). Together, these factors created a sense in Brussles that economic openness without strategic safeguards could

leave the EU vulnerable, whether to coercion, unfair competition, or supply shocks. The EC, for its part, has repositioned itself as a geopolitical actor. EC President Ursula von der Leyen declared upon taking office in 2019 that hers would be a geopolitical Commission, and she has since explicitly framed EU-China relations in terms of de-risking and defending European economic security (Koenig, 2019). While the EC is changing course, it remains uncertain how, when, why, and indeed whether European industries will follow suit.

Eckhardt's (2018) research on EU–China trade lobbying, for example, shows the divergent preferences between import-competing and import-dependent firms. Import-competing industries (such as European textile producers facing competition from Chinese imports, or steel manufacturers hit by Chinese overcapacity) often mobilize for trade defense instruments to shield them from Chinese imports. By contrast, import-dependent firms (for instance, European car tire consumers or textile retailers reliant on Chinese supply) have an interest in keeping imports cheap, so they tend to lobby against those same trade defense measures. Eckhardt (2018) finds that in EU trade defense proceedings involving China, the playing field has not been level: domestic producers have a structural advantage in mobilizing politically, since they are fewer, more concentrated, and often have more at stake (their survival) than the diffuse interests of downstream users of imports. The result can be a bias toward protection in specific cases, even if that imposes costs on consuming industries.

Where do automakers position themselves in this trade conflict? They occupy a position as both import-competing and import-dependent firms. On the one hand, they face direct competition from Chinese automakers in the European market, where subsidized Chinese EVs are quickly gaining ground and are sold at prices up to 20 to 30 percent lower than similar models (Barkin et al., 2024). This competitive pressure could, in theory, prompt them to support protective tariffs. On the other hand, German automakers are embedded in GVCs, with investments in Chinese manufacturing and reliance on Chinese-made components. This integration creates incentives to avoid trade barriers that might disrupt their supply chains. Additionally, if an industry's identity and interests are defined by export reliance, it may continue to favor open markets even when facing new import threats. These overlapping positions raise questions about the underlying drivers of OEMs' trade preferences.

3. Theory and Methodology

This study employs a mixed logic of inquiry, drawing on both deductive and inductive reasoning: it applies existing theories to empirical material while also refining and extending these theories through the analysis of case-specific evidence. The main body of this thesis will consist of a qualitative process tracing approach. The primary focus is on actors at the firm level. However, a firm-specific perspective alone would be incomplete, as firms operate in relation to a "wide range of other actors such as competitors, buyers, equipment suppliers, educational institutions, testing centers, universities, and research institutes" (Doner et al., 2021, p. 50).

3.1 Theory and Hypothesis

This thesis argues that FDI shapes the trade policy preferences of German automakers, but only within a supportive institutional context. Germany's coordinated market economy fosters a domestic coalition between labor and capital that is committed to an export-led growth strategy. This institutional backing allows firms to pursue and sustain FDI without significant domestic resistance. Once investments are made, particularly in China, firms develop fixed assets, localized supply chains, and joint ventures that are difficult to reverse. These commitments generate structural dependence. The cost of withdrawal rises, and the space for protectionist responses narrows. Rather than triggering calls for market closure, this dependence reinforces the logic of international openness, encouraging further investment abroad. The result is a feedback loop (Figure 1): institutions enable entrenched FDI, investment creates lock-in, and lock-in strengthens the political commitment to maintaining and expanding cross-border production.

Figure 1

To place this dynamic within a broader theoretical framework, the thesis draws on Lakes' (2009, cited in Oatley, 2011) model of three interconnected subsystems of

international political economy. These are private-sector interest formation (1), domestic institutions that aggregate and translate these interests into policy preferences (2), and the international bargaining environment (3). German automakers' preference for open markets reflects the strategic imperatives of firms (1) embedded in GVC (3), especially in sectors such as EVs, where technological innovation and market access are concentrated in China. These firm-level preferences are shaped and stabilized by Germany's institutional setup (2), which encourages FDI while limiting the potential for political backlash. At the international level, the rise of China as a production hub further constrains both firms and states. It narrows the policy space available to German automakers and reduces the EU's capacity to act cohesively in its external trade policy. Taken together, these three levels interact to produce a durable preference for liberal trade policies, even in the face of direct market competition.

Rather than treating firm strategy, national institutions, or international structures in isolation, as most previous analyses have (Oatley, 2011), this framework illustrates how each reinforces the others. The result is a form of embedded dependence that shapes not only how German automakers engage with global markets but also how they respond to geopolitical shifts that threaten their production models.

The structural dependencies operate through three mechanisms: structural market power (Drezner, 2008), bilateral dependence (Caves, 2007), and hub centrality (Farrell and Newman, 2019). Empirically, the thesis employs a process-tracing approach to identify and analyze the sequence of causal mechanisms linking institutional structures, FDI, and trade policy preferences. Situated within a problem-driven research framework, the study aims to generate context-specific insights rather than generalizable laws (Oatley, 2011, p. 335). As Hancké (2013) notes, process tracing enables the explicit rendering of theoretical mechanisms and the assessment of their empirical relevance. This approach moves beyond the reductive notion that "it is the FDI, stupid" by systematically reconstructing the pathways through which investment decisions shape political behavior. In doing so, the study contributes to a broader understanding of the political economy of MNCs, trade preferences, and shifting balance of power between China and the EU, challenging explanations that rely solely on domestic institutional or firm-level factors (Oatley, 2011).

3.2 Data

This thesis primarily relies on qualitative data, including both primary and secondary sources. Primary data includes documents from the German and Chinese governments, annual reports, and press releases from German OEMs such as VW, BMW, and Mercedes-Benz, as well as other major international automakers and trade unions like IG Metall. It also incorporates official statements by government officials and interviews with industry managers. Quantitative economic data are drawn from institutions such as the Deutsche Bundesbank, the International Energy Agency (IEA), and private research organizations, including the Kiel Institute for the World Economy, MERICS, Rhodium Group, and McKinsey & Company. Secondary sources include scholarly literature, policy analyses, media reports, and newspaper articles. Examining these materials enables the tracing of how firms articulate and defend their trade preferences over time, how institutional actors respond to shifting global constraints, and how structural dependencies emerge from firm-level choices. The arguments and evidence are structured as a within-case study, tracing causal developments over time.

4. Empirical Analysis

The empirical analysis is structured to trace the causal sequence through which German automakers' opposition to EU tariffs has emerged. It follows a mechanism-based framework grounded in five analytical steps. First, it examines the formation of a German free trade coalition between capital and labor, which enables and legitimizes extensive outward FDI, particularly to China. Second, it examines how China's structural market power attracts and disciplines German OEMs. Third, the analysis focuses on the emergence of bilateral dependence, which limits strategic flexibility. Fourth, it assesses how China's rise as a hub in the global EV value chain has shifted the strategic orientation of German firms from a European to a China-centered model. Ultimately, the section illustrates how these structural entanglements lead to a distinct policy outcome: German opposition to EU protective tariffs and the resulting fragmentation of a unified European trade strategy.

4.1 German Free Trade Coalition

Germany's extensive automotive engagement in China is not simply a function of market dynamics. It reflects a political-economic logic rooted in institutional complementarities. The international strategies of MNCs are shaped by firm-level preferences, which are themselves embedded in historically evolved institutions (Oatley, 2019, chap. 9). In Germany, these institutional configurations are characteristic of a coordinated market economy, in which business and labor co-govern strategic sectors. The automotive industry is emblematic: its export-oriented trajectory and long-term investment logics are enabled, not constrained, by an industrial relations regime that institutionalizes collaboration between labor and capital (Strötzel and Brunkhorst, 2019). This position reflects their embedded role in export-oriented industries (Brinkmann and Nachtwey, 2013).

A central feature of this regime is the structural integration of IG Metall, the sector's dominant union, into firm-level decision-making through both works councils and supervisory boards. The union is not simply a voice at the bargaining table but a co-strategist in corporate governance. At VW, for instance, the presidium of the supervisory board, which decides on corporate strategy, plant allocation, and product development, is composed of eight members, four of whom are labor representatives affiliated with IG Metall and central works councils (Weller, 2023). This configuration grants the labor bloc a de facto veto over major decisions, institutionalizing a shared governance structure. This embeddedness generates a political incentive for IG Metall to support export continuity rather than adopt protectionist stances. Mercedes-Benz's General Works Council, which includes commissions on innovation and technical strategy, explicitly frames the union's role as enabling the transition toward electromobility through cooperation with management and state actors. Rather than demanding trade protection, their recent policy statement calls for public investment in infrastructure and green energy to maintain competitiveness, not to restrict competition (General Works Council, 2024).

Even in the face of intense competitive pressure from Chinese automakers, the dominant trade union response is not one of defense. For example, BMW's influential works council chairman, Manfred Schoch, warns of looming Chinese dominance but advocates for

a national industrial strategy, such as a coordinated battery production plan, rather than calling for tariffs or market exclusion (Hage, 2018). Even in high-profile union moments, China remains a marginal topic. In the prestigious Willy Brandt Speech, Germany's leading unionist and VW works council chairman, Daniela Cavallo, mentioned China only once, calling it a market many German companies cannot do without (Cavallo, 2022). Likewise, Cavallo backed expanding VW's presence in China, emphasizing the need to strengthen local R&D capabilities. She argued, "We must do everything we can to continue to be successful in this key market" and pointed to the decision for Cariad, VW's in-house software arm, to establish its branch in China to develop IT solutions locally (Müssgens, 2022). With further support from the German government, German automakers are fully positioned to increase their engagement with China. In a joint declaration of intent, the outcome of ongoing dialogue since 2018, the German and Chinese governments committed to promoting collaboration between Chinese and German players in the field of automated and connected driving (BMV, 2024).

The convergence between organized labor and capital in Germany becomes particularly stark in the context of trade policy (Table 1). In 2024, IG Metall and the general works councils of major automakers jointly rejected the EC's proposed tariffs on Chinese-made EVs, warning they would undermine employment and fail to enhance competitiveness: "We reject the planned import tariffs [...] they do not improve the competitiveness of the European automotive industry" (IG Metall, 2024). Echoing this, the German Association of the Automotive Industry (VDA) declared: "Tariffs do not strengthen the competitiveness of European industry" (VDA, 2025). This alignment diverges sharply from the more defensive stance of U.S.-organized labor. The United Auto Workers (UAW) endorsed the Biden administration's 100 percent tariffs on Chinese EVs (Fain, n.d.) and Canada's largest private sector union, Unifor, has also voiced support for similar tariffs targeting Chinese EVs (Unifor, 2024). Even within Europe, labor's consensus is fractured: IndustriALL, the global union federation that includes IG Metall among its members, backed the EU's anti-subsidy investigation and the resulting tariffs, arguing they were necessary to protect strategic industries from the threat of state-subsidized overcapacity (IndstrieAll, 2024). France's

automotive industry association also endorsed the measures, invoking the rhetoric of a level playing field (PFA, 2024).

Table 1

	LABOR	CAPITAL
ENDORSES TARIFFS	IndustriALL, UAW, Unifor	PFA
OPPOSES TARIFFS	IG Metall German work councils	VDA

IG Metall has maintained a more trade-liberal position. Rather than direct market closure, its policy proposal is to strengthen domestic capacity through a Local-Content-Strategy, which links public subsidies and market access to domestic value creation in Germany and the EU (IG Metall, 2024). In other words, IG Metall envisions competition with China not through protection, but through openness and an industrial policy that secures domestic industrial investment. Similarly, IG Metall criticizes what it calls "media hysteria about China dependencies" and contends that the media's sharp rhetoric toward China is designed to mobilize public support for a Western united front against the country (IG Metall, 2023). This position reflects not a principled embrace of trade liberalism but a pattern of institutional path dependency. Two dynamics shape this response. First, unions worldwide are under pressure from deindustrialization, much of which is tied to China's ascent as a dominant global exporter (Charles et al., 2021). Second, as Hancké and Mathei (2022) argue, the rapid shift toward EVs brings risks of stranded assets and job disruption. In this context, Germany's coordinated market economy has pursued a strategy of negotiated restructuring, designed both to extract continued value from integration with China and to slow and manage the pace of the EV transition deliberately. The underlying aim is to protect industrial capacity and employment while remaining anchored in global production networks.

From the perspective of IG Metall, China is not primarily viewed as a threat, but rather as a potential source of industrial demand and employment, both through expanded export opportunities and through Chinese investment in European production (IG Metall, 2017). The underlying structural logic here is not that of nationalist industrial policy but of embedded

openness. Yet this embedded openness came with a blind spot. IG Metall's alignment with corporate strategy not only facilitated but also legitimized the rapid expansion of German OEMs into China without imposing meaningful constraints or foresight regarding future strategic dependencies. Despite warnings about overreliance on Chinese manufacturing and growing competition from state-subsidized EV firms, IG Metall remained committed to a narrative of mutual industrial benefit (IG Metall, 2004). This stance was reinforced by its selective reading of industry trends. For instance, while the union acknowledged studies that projected a long-term shift in value creation away from Western Europe, it instead emphasized alternative forecasts predicting substantial value gains within Europe. These projections, grounded in assumptions about continued technological leadership and high-value activities in Western Europe, proved overly optimistic. "Despite massive percentage increases in China (...), the largest quantitative increase in value added would be in Western Europe" (IG Metall, 2004, p. 37).

This stance remained consistent for decades. In its 2015 policy report, IG Metall emphasizes the importance of trade with China, noting that over 80 percent of exports to China come from the metal and electrical industries (the core industry the union represents). The union praises China as a source for "further growth for the automotive industry in the coming years" and sees it continuing as the "world's most important sales market" (IG Metall, 2015, p. 8). Nevertheless, despite recognizing increasing pressures on German firms to produce in China rather than export to it, and acknowledging looming investor restrictions, IG Metall maintains an optimistic tone and avoids calling for concrete countermeasures. Rather than curbing the geographical shift in value chains, IG Metall's position inadvertently contributed to it, prioritizing short-term employment guarantees over long-term strategic autonomy.

In conclusion, the German automotive strategy in China is a product of institutional complementarity. Rather than a conflict between national sovereignty and global capital, it exemplifies how national institutions can mediate global integration. German trade unions do not stand apart from globalization; they help organize and shape it, provided that it delivers investment, jobs, and industrial capacity within Germany. This path-dependent configuration contrasts with more adversarial or defensive models in other countries.

4.2 Structural market power

China has actively used its structural market power to integrate German car manufacturers into its domestic automotive industry. Power is understood as a combination of a robust internal market and reduced vulnerability to external disruptions (Drezner, 2008, p. 35) and has evolved in China's favor over time. Its internal market has expanded significantly, while its exposure to external risks, particularly regarding German carmakers, has diminished. German automakers, responding to both market pressures and policy incentives, became increasingly embedded within China's industrial ecosystem, a dependence that now significantly influences their behavior. As early as the 1980s, China identified the automotive sector as a pillar of industrial development, using FDI as a tool to both modernize its domestic industry and assert regulatory control over foreign entrants (Nam, 2011).

German firms, notably VW, were among the earliest to enter. The 1984 joint venture between Shanghai Automotive Industry Corporation and VW marked the beginning of a model that would define the structure of China's automotive industry for decades. Under this model, foreign automakers were permitted to enter the Chinese market only through joint ventures with domestic firms; they were limited to engaging in no more than two joint ventures, and their ownership stake was limited to no more than 50 percent (Liu and Yeung, 2008, p. 524). Furthermore, the foreign partner should ensure the transfer of technology and skills, including human capital training. The joint venture must design cars for the Chinese market, prioritize local suppliers, and gradually increase the domestic content of auto parts beyond basic assembly (Jia-Zheng and Broggi, 2025, p. 220). Although China joined the WTO in 2001, the country continued to enforce strict joint venture requirements for foreign firms. Such restrictions remained in place for more than two decades and were not fully lifted until 2022. Furthermore, following its entry into the WTO, the conclusion of a six-year adjustment period, China still maintained a 25 percent import tax on motor vehicles and imposed 10 percent tariffs on automotive components (Doner et al., 2021, p. 16).

Reflecting this approach, VW's 1985 annual report states: "In China (...), the Volkswagen Group is currently manufacturing (...) in collaboration with national

counterparts. Cooperation was agreed in order to open up markets on a joint basis with local industrial companies" (VW, 1985, p. 70). Notably, the 1984 annual report emphasizes the strategic nature of this partnership, particularly the sharing of VW's core technological expertise: "a VW four-cylinder engine will be produced as a gasoline and diesel version in a joint engine factory" (VW, 1984, p. 11). Following the early 2000s, BMW and Mercedes-Benz (then called Daimler) initiated their first collaborations in China through joint ventures, which played an important role in shaping their long-term presence in the Chinese automotive sector. In 2003, BMW entered into a joint venture with Brilliance China Automotive Holdings Ltd., resulting in the formation of BMW Brilliance Automotive Ltd. (Brilliance). Mercedes-Benz pursued a similar path in 2005 by establishing Beijing Benz Automotive Co. (BBAC) in partnership with the state-owned enterprise BAIC.

German OEMs at the time expanded their international operations primarily by setting up assembly plants abroad, which often limited their foreign presence to final vehicle assembly and manufacturing. The practice is commonly referred to as the "assembly of completely knocked-down vehicles" (Abbott, 2003, p. 120). Contributes little to the industrial upgrading of host countries. China, however, leveraged the size and potential of its domestic market to move beyond this limited stage. Annual reports from the time frequently referred to China as the fastest-growing market, citing consistent double-digit growth rates (BMW, 2003; VW, 1984).

China also utilized its strategic leverage to enforce the localization of production. This process is complex, as it requires institutions with the expertise to understand all components. Protectionist measures are thus not sufficient on their own; they must be integrated with processes that also enhance productivity in the medium- to long-term (Doner et al., 2021, chap. 3). Usually, MNCs often rely more on imported components from other MNCs than domestically owned firms do, which reduces their use of local suppliers. For example, in 2006, only 15 percent of first-tier suppliers for European firms were domestic, compared to 61 percent for Chinese OEMs (Brandt and Thun, 2009). By mandating the incorporation of locally produced components, China gradually transitioned from basic assembly operations to the full-scale manufacturing of motor vehicles. For example, BMW noted in its 2003 annual report that the local content of China was expected to exceed 40

percent of the vehicle's value added. (BMW, 2003, p. 16). Similarly, VW raised the proportion of locally sourced components in its Santana model in China from 10 percent in 1986 to more than 90 percent by 2000 (Liu and Dicken, 2006, p. 1244). Additionally, starting in 1991, no more vehicle kits were imported into China from VW, but were produced locally (VW, n.d.).

This trend is also evident in the evolution of BMW Group's R&D network. In 2003, BMW's R&D activities outside Europe were confined mainly to Europe and the United States. By 2024, the company lists 17 established R&D and IT centers outside Europe in its AR, of which five are located in China (BMW, 2024). This gives Chinese regulators significant control over the terms of foreign engagement, reinforcing Beijing's capacity to set the rules of participation. Few other markets influenced the operational decisions of major global automotive manufacturers to such an extent (Abbott, 2003).

Over the following decades, a strong level of integration and a generally optimistic relationship developed between German OEMs and the Chinese market. By the year 2000, VW had secured an impressive market share of over 50 percent in China, benefiting from its early-mover advantage (VW, 2000, p. 20). By 2009, China had overtaken the United States as the world's largest car market, a status it has retained (Ke and Yang, 2025). Even into the 2010s, German brands dominated the premium car segment, holding more than 80 percent of the market, a remarkably high figure (McKinsey, 2013, p. 5). At the time, they seemed and felt untouchable. Reflecting on that era, the CEO of VW from 2015 – 2022, Herbert Diess, later described it as unusual: "Chinese liked to buy German cars and paid a lot for them. For 20 years, we broadly distributed the profits generated in China across the economy" (Knigge, 2025). German OEMs viewed China's automotive sector with strong optimism. As Ulrich Walker, then Head of Northeast Asia for Mercedes-Benz, noted, "Nowhere is the potential for the future more obvious than here" (Viehmann, 2010). He described China as the global epicenter of the automotive industry.

In contrast, institutional actors voiced concerns about the direction of the policy process. In 2017, the European Chamber of Commerce in China (European Chamber) observed that newly introduced legislation in the EV sector placed pressure on European companies to transfer advanced technology in exchange for market access. Moreover, the European Chamber warned that Chinese industrial policies would increasingly distort the

competitive environment in favor of domestic firms. It argued that while some European businesses could selectively benefit in the short term through partnerships and access to specific segments of the market, the long-term outlook would be less favorable: “Market access for European business can therefore be expected to shrink” (European Chamber, 2017, p. 1). German OEMs responded with significant capital commitments, despite caution from the European Chamber. Mercedes-Benz announced a $735 million investment in EV infrastructure in China, while VW committed over $11 billion in 2017 to expand its operations, to “win” the EV race (Regan, 2017; Shane, 2017).

Substantial investments in China have created a structural dependency for German OEMs, where compliance with Chinese regulations and alignment with policy objectives are largely a function of their reliance on the Chinese market. This dependency, in turn, constrains the German government’s capacity to adopt an independent position, as economic exposure renders political confrontation increasingly costly. Former Chancellor Olaf Scholz’s remark that “companies rather than countries must de-risk relations with China” (Reuters, 2023) illustrates how the responsibility for managing geopolitical risk in Germany effectively lies within the corporate sector. As a result, German car makers operate under comparatively less political pressure to reduce their dependence on China than their counterparts in other advanced economies. The trajectory of their actions over the past decades underscores this point: German OEMs have systematically utilized their policy autonomy to deepen integration with the Chinese market, primarily because they have prioritized access to its vast consumer base and responded to the structural market power exerted by China. Consequently, they have shown limited intent to pursue de-risking strategies by repatriating production and R&D to their domestic or regional bases.

4.3 Bilateral dependence

Over time, the relationship between German OEMs and China has undergone significant changes. Put simply, they are no longer in a position to threaten withdrawal from the country without facing considerable costs (Oatley, 2019, p. 219). This shift reflects what Vernon (1971) termed the “obsolescing bargain,” a concept that provides a theoretical

framework for understanding how the initial leverage of foreign investors erodes once their capital is committed. The host country gains the capacity to renegotiate the terms of cooperation.

VW entered the Chinese market in the 1980s, bringing significant technological and managerial expertise, as well as a competitive advantage. Reflecting on this period, Jochem Heizmann, former President and CEO of VW Group China, described the decision as forward-looking and commendable in its strategic foresight (Qiong, 2018). In contrast, Mercedes-Benz and BMW established a presence only in the 2000s. At the time of VW's entry, China's industrial base was still in its early stages, and automobile production was minimal. Private car ownership was rare, with an average of just one vehicle per 2,500 people (Qiong, 2018). Until the mid-1970s, passenger car manufacturing was almost non-existent. Remarkably, within three decades, China's output had surged by 2004, and the country was producing 2.3 million vehicles annually (Holweg et al., 2009, p. 3).

The advanced engineering capabilities, production expertise, and globally recognized brands of German OEMs were central to China's ambition of accelerating industrial upgrading in the automotive sector. Furthermore, China was gradually liberalizing its economy through the so-called Open Door Policy. Following the implementation of market-oriented reforms under Deng Xiaoping, the country began its transition from a largely agrarian society to a global manufacturing powerhouse, generating significant international interest (Gill, 2022). This development did not go unnoticed; VW's annual report (1986, 74) explicitly observed that "the Chinese economy saw further liberalization." While China was, even then, not a typical developing economy (see the previous section), it nonetheless relied on foreign firms to supply critical technologies, expertise, and investment. In this phase, the balance of dependence was tilted in favor of the German firms. Over time, however, this asymmetry began to erode. Jie et al. (2023) identified two primary mechanisms through which knowledge spillovers occur: the movement of workers and the sharing of suppliers. First, 27.2 percent of job-switching employees transitioned from joint ventures to affiliated domestic firms, accounting for as much as 54 percent of the observed knowledge transfer. This effect was particularly pronounced among highly skilled professionals, including engineers and designers. Second, joint ventures and their domestic affiliates exhibited a higher degree of

supplier overlap compared to unrelated firms. The stringent quality standards imposed by joint ventures contributed to improvements in the capabilities of domestic component suppliers. Together, these mechanisms explain up to 65 percent of the total knowledge spillover from 2001 to 2014.

As German carmakers scaled up their operations in China, they invested heavily in fixed infrastructure, such as factories, logistics hubs, and regional R&D centers, and developed extensive supply chain relationships. These are not easily redeployable. Once these assets were sunk, German firms became increasingly exposed to local political and regulatory dynamics. For example, VW reported a total investment of €22.0 billion in China between 2015 and 2019 (VW, 2015). In China, this pattern was neither accidental nor purely reactive: it was a deliberate strategy. Authorities leveraged the immobility of foreign capital to enforce more stringent localization requirements, extend state oversight over operations, and promote the upgrading of domestic firms via joint ventures and industrial policy.

The global financial crisis significantly accelerated the strategic reorientation of German automobile manufacturers toward the Chinese market. In 2009, VW sold approximately 1.4 million vehicles in China, representing more than 20 percent of its total global sales for the year (DW, 2010). BMW similarly emphasized the shifting market dynamics, noting that while total vehicle sales in the United States declined by nearly 25 percent, from 13.2 million to 10.5 million units, vehicle sales in China rose from 8.6 million to 12.6 million units during the same period. BMW itself recorded a 31 percent increase in sales in China compared to 2008, reaching a total of 98,960 units (BMW, 2009). 2009 BMW and its joint venture partner, Brilliance Auto, announced an investment of over half a billion euros to establish a new production facility in China, signaling a strong commitment to the local market (BMW, 2009). Nevertheless, while the agreement appeared advantageous in the short term, particularly for BMW's market expansion during the recession, it also facilitated substantial long-term knowledge transfer. Over time, Brilliance Auto, the domestic partner, absorbed significant technological expertise and intangible capabilities. For instance, empirical evidence shows that approximately 8.7 percent of the quality improvements implemented in BMW models through the joint venture were subsequently integrated into comparable models produced by Brilliance (Jie et al., 2023). Mercedes-Benz followed a

similar trajectory. Although China accounted for only 5.5 percent of the company's revenues in 2009, it became the fastest-growing premium car brand in the country. As sales declined across global markets, German automotive manufacturers increasingly relied on growing demand in China. This not only provided short-term financial relief but also prompted a more profound strategic shift, aligning company priorities with the expectations of Chinese consumers and regulatory authorities. Building on this optimism, Chinese automakers Geely and BAIC acquired stakes of up to 20 percent in Mercedes-Benz, an unprecedented development that triggered political backlash amid growing unease over foreign ownership in strategic industries (Gries, 2021).

The 2010s marked a further shift as Chinese firms began to absorb and diffuse the very capabilities that foreign firms were once uniquely able to provide. The policy goal of the "Made in China 2025" (MIC2025) initiative, under Xi Jinping, prioritized developing domestic industries, reducing reliance on foreign competitors, and transforming China into a leader in science and technology innovation by 2049. This strategy identified 10 key sectors for national development, with "energy-saving vehicles and new energy vehicles" being one of the primary focuses (PRC, 2015). It was designed to squeeze "out foreign competition inside China" (Gill, 2022, p. 99). The goal was to position these industries for leading roles in the international marketplace in the coming decades and ultimately to become a global manufacturing power. As a consequence, the shift by companies toward EV research and development was not driven by consumer demand but was instead directed by state policy and intervention (Doner et al., 2021, p. 237). For instance, nearly half of the demand for EVs in 2015 came from government procurement (AutomotiveNewsChina, 2016). In this process, foreign companies, especially German OEMs, played a key role in helping China pursue its MIC2025 ambitions, particularly in the automotive sector (European Chamber, 2025). However, this dynamic has now shifted. Automotive joint ventures became conduits for reverse learning. German technology was no longer guaranteed a privileged position, and carmakers' dependency on China grew. Reflecting this shift, the former VW CEO Deiss acknowledged in an interview, "Volkswagen, for example, employs 20,000 to 30,000 developers in Germany, half of whom work for customers in China." (Hage and Klusmann, 2022a). The same holds for BMW and Mercedes-Benz.

McKinsey (2013, p. 11) predicted what later became reality: “The rapid emergence of a large entry-level segment of consumers will encourage premium automakers to localize their vehicle portfolios further.” FDI flows reflect this realignment. In 2020, China was the destination for close to one-fourth of Germany’s overseas investments in the automotive industry (Langhammer, 2022, p. 5). According to the Rhodium Group (2024), German FDI in China hit its second-highest annual level on record in 2023, even as other European firms pulled back. Notably, nearly 90 percent of all EU investment in China that year came from just four German firms: VW, BMW, BASF, and Mercedes-Benz. Furthermore, China accounted for approximately one-third of the total sales of German automakers in 2024 (BMW, 2025; Mercedes-Benz, 2025; VW, 2025). This high degree of concentration underscores the German automotive industry’s pivotal role as a key channel for sustained capital transfer to China, particularly in comparison to other countries. For example, while U.S. companies, which are the largest source of FDI globally, largely refrain from engaging with the Chinese market, (Langhammer, 2022) German carmakers have adopted a markedly different strategy by maintaining and expanding their investment presence. It is argued that the German manufacturing sector, more so than services, is integrated into global supply chains, allowing parent firms to control high-tech production stages, often keeping them in-house or in secure nearby markets, such as the EU (Langhammer, 2022). However, this pattern does not hold for German car manufacturers, as discussed in the following section.

4.4 Hub centrality

EVs are fundamentally different from ICE cars in how they are built and designed. They utilize approximately 6,000 parts, compared to roughly 20,000 in traditional vehicles, making production simpler and more standardized (Hancké and Mathei, 2024, p. 138). The focus shifts away from mechanical systems to software and electronics, with leading producers like BYD or Tesla designing EVs primarily from the software side rather than around the motor. German automakers are following this trend, with VW aiming to transform into the leading “digital tech firm”, and Mercedes-Benz envisioning cars as smartphones on wheels (FUNKE, 2021; Hage and Klusmann, 2022b). This changes the required skills in manufacturing and

shifts the value creation process. Traditional suppliers of engines, gearboxes, and related components are losing importance, as these components are no longer central. The battery is the most valuable part, accounting for 35 to 50 percent of total vehicle cost (McKinsey, 2021). EVs also require separate production lines, making it inefficient to build them alongside combustion models. The chairman of VW's works council put it bluntly: "VW earns the money for the transformation [towards EV] largely with the ICE" (Müssgens, 2022). Traditional OEMs must invest in new plants while phasing out existing ones, making the transition both costly and complex. As a result, former Ford CFO John Lawler commented on China's leading role in the EV market: "I would say they had a focus [on electrification] before the rest of the world because they did not have a dominant position in internal combustion engines" (Inagaki et al., 2025).

This structural transformation had significant implications, with China emerging as the global hub of EV production, dominating not only assembly but also upstream and downstream segments of the value chain, including mineral refining and battery component manufacturing. This development path was shaped by increasing returns to scale, where early scale advantages reinforced cost and innovation leadership over time (Krugman, 1980). The concentration of firms and suppliers within integrated industrial clusters has generated learning effects and knowledge spillovers, thereby accelerating technological progress in EV subsystems, including batteries, software, and digital platforms. This leadership has not simply emerged from market forces. However, it has been actively shaped through the strategic positioning by the Chinese government of domestic firms in industries characterized by imperfect competition (Doner et al., 2021, chap. 8). In other words, governments "can raise domestic welfare by shifting profits from foreign to domestic firms" (Spencer and Brander, 2008, p. 1). Rather than following a path dictated by resource endowments, China's industrial rise in the EV sector illustrates how production capabilities, technological dominance, and global market share can be systematically developed. Most of China's successful, entirely domestic EV companies are privately owned rather than state-run. In the early stages, their models were often licensed from international brands or closely mirrored foreign designs. Now, nearly all are independently designed and engineered within China. (Doner et al., 2021, p. 231).

Two policy mechanisms were central to China's rise as the global leader in EVs. First, central and local authorities provided broad location-based incentives, including consumer rebates, exemptions from the vehicle sales tax, public funding for charging infrastructure, targeted R&D support, and large-scale public procurement. Notably, eligibility for direct purchasing subsidies was limited to EVs manufactured within China (Mallesons King & Wood, 2018). Between 2009 and 2023, these measures amounted to an estimated $230 billion in state support for the domestic EV market (Kennedy, 2024). BYD's case illuminates how strongly China's government supports single companies: From 2011 to 2015, BYD received $435 million in government support, equal to 45 percent of its total profit. In 2012, subsidies of $83 million were over twice its $32 million profit (Clifford, 2016). These measures significantly lowered production costs and encouraged domestic and foreign firms to establish operations in China.

Second, China secured control over the battery value chain by restricting subsidy access to firms included on a regulatory "white list" issued by the Ministry of Industry and Information Technology (MIIT) in 2015 (MIIT, 2015). The list excluded foreign producers and tied eligibility to stringent domestic production and R&D standards. This created a protected market for Chinese firms, allowing them to scale rapidly and absorb technology. By 2024, China processed over half of the world's lithium and cobalt and accounted for nearly 85 percent of global battery cell production capacity, while regions like Europe, the U.S., and South Korea each control less than 10 percent of segments in the battery supply chain (IEA, 2024).

These two policy mechanisms shaped the strategic decisions of firms in China differently from those abroad. As Spencer and Branders (2008) note, foreign firms face constraints and incentives: "Trade policy instruments set by one country (…) tend to affect the strategic choices of firms located in that country differently from firms located abroad" (p. 2). For German OEMs, this meant adjusting their strategies to meet Chinese regulatory and industrial priorities, departing from their traditional approaches in Europe. Over time, China-based subsidiaries within these firms gained growing influence. Initially created to comply with local rules, they now play a larger role in shaping the overall strategy of the parent companies. Notably, the former VW CEO said, "The influence of Wolfsburg on the

assembly kits and technology is being pushed back. The technology from there is too expensive, and the development speed is too slow" (Diess, 2025).

German OEMs have responded to these dynamics by reinforcing their presence in China through "reverse joint ventures" (Xue et al., 2024a) over the past decade, aiming to capitalize on China's EV technology. Reverse joint ventures mark a shift in which German OEMs now seek to absorb Chinese EV technology, rather than transferring their own. Seeking to consolidate their competitive position within this critical market, they have collectively pledged more than €11 billion in new investments since 2022. By 2024, this trend was further underscored by VW's additional announcement of a €2.5 billion upgrade to its production base in Hefei, alongside Mercedes-Benz's additional €1.8 billion capital infusion into its joint venture with BAIC (Brown and Mischer, 2024). Moreover, after China eased its strict joint venture regulations, VW and BMW took advantage of the policy shift by acquiring majority stakes in their respective Chinese joint ventures (Xue et al., 2024b). These investments are markedly different than their previous behavior. Rather than focusing on expanding production volumes using existing platforms, they now reflect a very long-term commitment based on locally designed and developed vehicles.

BMW produces the first full electric model (iX3) in Shenyang for global export and is developing the electric Mini in China. Franz Decker, head of Technology at Brilliance (BMW), noted, "With a production system like this, specialized for high quality, we are able to deliver what customers worldwide demand from premium vehicles." (BMW, 2020). Similarly, Mercedes-Benz is shifting greater emphasis toward China as a hub for its global production strategy. As the company stated: "The new generation of smart vehicles will be [designed by Mercedes-Benz] developed by the Geely global engineering network." (Mercedes-Benz, n.d.). Likewise, VW, the largest of the three major German automakers, manufactures one of its flagship models, the Cupra Tavascan, in China for export to the European market (Seat, n.d.). The company's ID brand aims to "make e-mobility attractive for a wide range of customers" (VW, 2019), a goal that reflects a core element of VW's strategic orientation. Key models within this EV family are now being fully developed and manufactured in China. As VW explains, "Its core was created at Volkswagen's innovation and development center in Hefei, eastern China" (VW, 2019).

This is not limited to manufacturing. VW's software division, CARIAD, operates a central hub in China, co-developing a unified cell battery platform with Chinese Gotion High-Tech. This platform is expected to power 80 percent of the company's global EV portfolio while cutting costs by half (Sebastian, 2022). Mercedes-Benz plans to focus its smart driving vehicle development primarily in China, rather than in Germany. As part of this strategy, the company will equip its vehicles with sensors produced by the Chinese firm Hesai. This represents the first known instance of a German carmaker planning to deploy Chinese-made technology in models intended for global markets (Reuters, 2025a). BMW has expanded its cooperation with Chinese firms such as Alibaba Cloud to integrate autonomous driving and AI into its global vehicle architecture. Sean Green, the CEO of BMW Group Region China, contends that "BMW will work closer with Chinese tech partners on electric mobility and intelligent technologies" (Alibaba, 2025).

To conclude, China's emergence as a key hub in the global EV sector can be understood through modern trade theories that stress firm-level heterogeneity, strategic trade policy, increasing returns to scale, and spatial agglomeration. For MNCs, production decisions are increasingly driven by globally integrated strategies rather than domestic conditions. This cross-border orientation often produces structural tensions, as corporate control operates across national boundaries (Oatley, 2019, chap. 9). German automakers are increasingly basing their strategic decisions on China's role as a central node (Farrell and Newman, 2019) in the EV value chain. While this alignment may yield short-term commercial gains, it poses significant long-term risks, including concerns over innovation sovereignty, supply chain security, and exposure to geopolitical volatility.

4.5 Results

The empirical findings trace a causal pathway that explains German automakers' opposition to EU tariffs on Chinese EVs. This outcome is best understood as the product of a long-term transformation in firm strategy, coordinated through the domestic institutional environment, and integration into GVC. Each step in this causal mechanism reinforces the next, producing a structural alignment between German automotive interests and continued

openness to the Chinese market. At the origin of this trajectory is the formation of a German free trade coalition that includes both capital and labor. This coalition is not merely ideological. It is institutionalized in Germany's coordinated market economy, where co-determination between labor and capital, along with long-term strategic planning, supports a model of export-led growth and global investment. Although the exact share of automotive revenues from FDI in China is unclear, macro-level data shows consistent profitability. Between 2017 and 2021, German FDI in China yielded €11 to €15 billion annually, with up to 80 percent repatriated to Germany (Bertelsmann, 2023). This configuration enabled and legitimized outward FDI, by removing potential sources of domestic opposition by trade unions.

German automakers were able to expand aggressively into the Chinese market with political support and without labor resistance, on the condition that global competitiveness would sustain domestic industrial capacity. This strategy deepened over time. Within China, German OEMs encountered a robust institutional and regulatory framework designed to localize production, enforce joint ventures, and facilitate the diffusion of technology. German firms adapted, embedding important elements of their research, development, and manufacturing operations into the Chinese system. This was not only a response to state pressure. It was also a strategic calculation. China offered superior conditions for the emerging EV sector, including large-scale state support, rapid innovation, and fully integrated supply chains. As this integration matured, a condition of dependency emerged. German automakers invested heavily in fixed assets, supply partnerships, and joint R&D ventures that cannot be easily relocated. These commitments created strategic immobility. Firms became increasingly reliant on Chinese production not just for local sales, but as part of their global business model. This, in turn, reinforces German OEM's reliance on the Chinese market, a stance supported by labor representatives.

The result was a fundamental shift in orientation. Rather than producing in China for China, German OEMs began to produce in "China for the world" (Sebastian, 2022). This transition is particularly significant in the context of EVs, where platform development, cost competitiveness, and speed to market are critical. The empirical data laid out in this thesis confirm this strategic realignment. This reflects two related factors. First, China holds a

technological lead in the EV sector and remains the most dynamic center of innovation. Second, it is the most cost-effective location for vehicle production due to the completeness of its local supply chains. While firms publicly emphasize local production for local consumption, their capital commitments reveal a broader objective. The aim is to use Chinese facilities as an export platform for future EVs, particularly to Europe.

In 2023, Germany exported passenger cars to China valued at €15.1 billion, while imports of passenger cars from China totaled €4.0 billion (VDA, 2024). This strategy puts German OEMs at odds with EU trade policy. The imposition of tariffs on Chinese-made EVs threatens to undermine the viability of the China-centered global production model. These duties increase the cost of current exports and disrupt long-term production plans. The issue is not limited to existing made-in-China models such as the Cupra Tavascan or the Mercedes Smart. It extends to future vehicles under development that were intended for export from China to the European market. In this sense, the tariff threat affects not only firm revenue but also the coherence of their industrial strategies. The threat of retaliation further compounds the problem. In the months preceding the EU investigation, leaks indicated that Beijing might respond with tariffs targeting high-margin ICE vehicles (Bloomberg, 2024). These products continue to anchor the profitability of German automakers. The possibility of retaliatory measures heightens the risk profile of EU protectionism and reinforces firm, trade union, and state-level opposition to the EC's trade defense instruments.

In the lead-up to the EC's announcement of provisional duties on Chinese EVs in June 2024, the German government mounted an unusually aggressive lobbying campaign to protect the interests of its domestic automotive sector (Tordoir, 2024). Chancellor Olaf Scholz and his team exerted intense pressure on both the EC and fellow member states to block or dilute the tariff proposal. This included direct appeals to European leaders, coordinated outreach by German car manufacturers to foreign governments, and even threats from Berlin suggesting that conditional support for key EU appointments might be withdrawn. According to EU officials, the Chancellery floated proposals to drop the case entirely in exchange for symbolic tariff reductions by China. As one EC insider bluntly noted: "What you would be doing is creating export opportunities for German manufacturers while

maintaining the subsidization injury on EVs. It would not fly in any country but Germany." (Barkin, 2024).

This lobbying effort laid bare the extent of Germany's exposure to and dependence on the Chinese market, particularly in the automotive sector. Berlin's resistance stood in contrast to most major EU member states like France or Italy, which aligned behind the EC's position. The episode shows not only the strength of entrenched FDI but also the degree to which it constrains national policy autonomy when economic and political coalitions are structurally bound to global markets. The institutional conditions that enabled global expansion also shielded it from domestic constraints. Once that expansion became structurally dependent on the Chinese market, firms developed preferences that align more closely with Beijing's industrial logic than with the EC's agenda. For instance, BMW launched legal action against the EC regarding the EV tariffs (Reuters, 2025b). The result is not simply a divergence in trade preferences. It is a political economy of fragmentation. The structural embeddedness of German automakers in China weakens the EU's capacity to act cohesively in trade policy. Their opposition to tariffs is not a temporary response to economic pressure. It reflects a long-term strategic commitment to a model of global production in which China plays a central role. That model now defines both the risks and limits of European industrial sovereignty.

5. Conclusion

This thesis began with a puzzle in contemporary trade politics. German automakers, whose domestic market position is directly threatened by subsidized Chinese-brand EVs, have opposed the EU's imposition of tariffs on those very imports. Through subsidized production, Chinese brands are able to offer comparable EVs at prices that are between 20 and 30 percent lower than those of their European competitors. This apparent paradox challenges the conventional wisdom in trade theory, which predicts that import-competing industries will mobilize in favor of protection. Instead, the German automotive sector (including Unions and the German State) has lobbied against tariffs designed to shield it, aligning itself with free trade even in the face of mounting competitive pressure.

To answer this question, the thesis proposed a theoretical framework rooted in the work of Lake (2006), as interpreted and extended within the field of international political economy. Lake's model identifies three interdependent levels of analysis: private-sector interest formation, domestic institutional aggregation, and the international bargaining environment. This framework allows for the examination of not only firm preferences but also how those preferences are formed, legitimated, and constrained by both national institutions and global structural conditions. Rather than reducing German automakers' stance to a simple function of FDI or firm strategy, this thesis has situated their behavior within a broader set of political-economic configurations. It has demonstrated that German trade preferences are not the sum of corporate choices, but the product of a co-evolved institutional regime in which capital and labor form a historically grounded coalition organized around the logic of export-led growth.

This thesis has demonstrated that Germany's institutional configuration facilitates a stable coalition between labor and capital centered on free trade. This coalition makes outward FDI politically viable and shields it from domestic contestation. What distinguishes the German case is not the scale of its FDI, but its institutional foundation, which enables what this thesis refers to as entrenched FDI. This form of investment allows firms to become embedded in foreign markets through long-term commitments that are politically supported and strategically reinforced at home. Over time, this produces structural lock-in. In the case of China, it has tied German automakers to a production system they can no longer exit without incurring significant costs, which explains their opposition to tariffs, even when their domestic market position is at risk.

This shift has profound implications. German automakers now oppose EU tariffs not because they are ideologically wedded to free trade, but because their corporate strategies depend on Chinese production. Tariffs disrupt not only supply chains but long-term industrial planning. Moreover, German labor remains aligned with this position. Unions have not demanded protection but instead have proposed strategies to strengthen local content, enhance competitiveness, and manage the transition to EVs without resorting to closure or retrenchment. This marks a sharp contrast with other countries, where labor mobilizes for

defensive protection. In cases like France, for example, Renault and trade unions have agreed to concentrate EV and mobility development domestically (Renault, 2021).

The result is a structural misalignment between the EC's evolving geopolitical strategy and Germany's embedded industrial interests. While Brussels promotes a narrative of de-risking from China, Berlin's core industry is doing the opposite. This divergence undermines the EU's ability to act coherently in trade policy. It remains doubtful whether the EC can sustain a policy that runs counter to the long-term interests of its most influential member state. German automakers, through their resistance to tariffs, fracture the consensus needed for a unified European strategy. The consequence is not just a policy disagreement, but a weakening of the EU's position in global economic negotiations. Further research is needed to examine the specific forms of entrenched FDI in China, identifying which sectors are most involved, which European countries are most exposed, and how national industrial relations and institutional frameworks shape these patterns.

This situation raises difficult political questions. German OEMs are still headquartered in Germany and formally embedded in its legal and corporate frameworks, but their operational and strategic priorities are increasingly transnational. In this sense, they are German in name only. Their loyalty lies not with national industrial policy or European integration, but with the imperatives of global competitiveness. This realignment poses a challenge to the assumption that MNCs serve as vehicles of national interest in international economic relations. Instead, some have become genuinely transnational, operating across jurisdictions and beyond the control of any single polity.

This has not gone unnoticed. Think tanks, investigative journalism, and academic observers have raised alarms about the dependence of German industry on Chinese capital and regulation. However, political responses have been muted. The German state, caught between geopolitical caution and economic dependence, has largely deferred responsibility to firms themselves. The implications are significant. First, the global balance of industrial power has shifted dramatically. In 2000, the EU produced over 31 percent of the world's vehicles while China accounted for just 4 percent. By 2022, China's share had surged to 32 percent, while the EU's dropped to 15 percent (Draghi, 2024). This is not a cyclical fluctuation but a structural transformation. Second, the coherence of multilateral trade policy is under

strain. As national interests diverge within blocs like the EU, and as corporations become less tethered to domestic institutions, the capacity to formulate and enforce collective strategies weakens. Third, the very concept of industrial sovereignty is being redefined. When MNCs prioritize production in China and oppose policies designed to protect their home markets, the lines between economic power and political authority begin to blur.

The aim of this thesis has not been to prescribe policy but to uncover structure. What it has shown is that trade preferences are not reducible to market exposure or ideological positions. They are the product of a historically specific institutional configuration that binds labor and capital into a shared commitment to international openness. Entrenched FDI, therefore, generates a paradox: the institutional strength that enabled German firms to globalize now constrains their capacity to realign when faced with geopolitical or market shocks. This configuration has enabled global competitiveness, but it has also created structural vulnerabilities. It has allowed firms to thrive in GVCs but has reduced the state's leverage in international economic negotiations. It has empowered labor to co-manage globalization, but has left it with limited tools to redirect it.

The EU faces a stark choice. It can continue to defer to national industrial strategies, even when they diverge from collective priorities. Or it can seek to reassert strategic direction through industrial policy, investment conditionality, and regulatory coordination. But it cannot do both indefinitely. Suppose the EU wishes to pursue a coherent trade policy toward China. In that case, it must confront the structural reality that its most influential member state is embedded in a production model that resists such coherence. The very firms that once symbolized European industrial strength now function as conduits of Chinese integration. Whether the EU can respond to this fragmentation will determine the future of its role in the global political economy.

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