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From Tariffs to Conditional Integration: An EU Strategy for Chinese Electric-Vehicle Investment under the Industrial Accelerator Act*

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Abstract

Europe does not face a simple choice between admitting inexpensive Chinese electric vehicles and closing its market to protect domestic producers. The harder question is how foreign manufacturing can support decarbonization without hollowing out the industrial and employment base that makes the transition politically sustainable. The European Commission's proposed Industrial Accelerator Act (IAA) is an important but incomplete answer. Tariffs can buy time and origin rules can anchor production, but neither instrument alone can create software capabilities, retrain workers or strengthen regional suppliers. This paper compares defensive localization, managed openness and conditional integration, and recommends the third. Its three core proposals are a European Automotive Investment Compact, a Skills and Regional Transition Covenant, and a ring-fenced European Automotive Transition Financing Window. A software and data pillar and a structured implementation dialogue with China would support delivery. The aim is not decoupling or unconditional access, but the conversion of market-seeking investment into capabilities that Europe can retain.

Keywords: European Union; China; electric vehicles; Industrial Accelerator Act; conditional integration

Introduction

Europe's automotive debate is often framed as a contest between climate ambition and industrial protection. The issue is broader: can the European Union decarbonize transport while retaining enough productive, technological and social capacity to sustain public support? The sector provides direct and indirect work for approximately 13.8 million Europeans and supports extensive networks in steel, chemicals, electronics, software, logistics and services (European Commission, 2026a). When a major plant or supplier reduces production, the effects concentrate in towns where alternative employment may be scarce, and industrial identity remains politically important.

The pressure is real, but its causes are mixed. European producers face high energy costs, fragmented capital markets, uneven charging infrastructure, regulatory complexity and slow progress in software-defined vehicles (Draghi, 2024; European Commission, 2025; van Wieringen, 2024). They also confront a Chinese industry built on scale, intense domestic competition, integrated

battery supply chains and rapid product development. China accounted for more than 70 percent of global electric-car production in 2024, while sales of Chinese-made electric cars in Europe continued to grow in 2025 (IEA, 2025; IEA, 2026). This is not merely an import surge, but a collision between industrial systems as EU regulation creates a large market for electric mobility (Ban & Šćepanović, 2026; van Wieringen, 2024).

This collision has a political dimension. The IAA proposal notes that more than 100,000 automotive job cuts were announced in 2024 and 2025 (European Commission, 2026c). Chinese competition is not the sole cause: weak demand, delayed investment, management choices and technological change also matter. Research on Germany shows that actual job loss and fear of future decline can produce different forms of protest, with right-wing populist support particularly responsive where manufacturing remains central to local identity, but its future appears insecure (Bayerlein, Kölzer & Metten, 2026). Trade shocks also make openness easier to portray as a bargain imposed on workers rather than negotiated with them (Poletti, 2026).

The EU has already responded. Following its anti-subsidy investigation, it imposed definitive countervailing duties on battery electric vehicles imported from China, with company-specific rates ranging from 7.8 to 35.3 percent in addition to the ordinary tariff (European Commission, 2024). The duties address identified subsidization and create breathing space for European manufacturers. They do not resolve Europe's internal weaknesses. A tariff cannot build a battery plant, train a software engineer, connect a factory to affordable electricity or help a medium-sized supplier convert from combustion-engine components to power electronics.

The European Commission's March 2026 proposal for the Industrial Accelerator Act (IAA) moves beyond border measures. It would create lead markets for low-carbon and European-made products, simplify permitting and seek to ensure that major foreign investments generate value inside the Union. Its foreign-investment chapter would cover investments above EUR 100 million in strategic sectors when a single third country holds more than 40 percent of global manufacturing capacity. Under the Commission proposal, covered investments would have to meet at least four of six conditions concerning ownership, joint ventures, technology licensing, EU research spending, employment and local sourcing; the employment condition would be mandatory (European Commission, 2026c, 2026d).

This policy paper argues that the IAA should become the basis for a policy of *conditional integration* rather than *defensive exclusion*. Chinese investment can accelerate European electrification and add manufacturing capacity. Yet investment should not be treated as beneficial simply because a factory stands within EU borders. The relevant test is whether it strengthens capabilities that remain in

Europe: skilled employment, local suppliers, research, engineering, data governance, circular production and regional resilience. The task for DG TRADE, DG GROW and the wider Commission is to make these conditions predictable, proportionate and common across the Single Market.

Europe's Automotive Dilemma

The EU's dependence on China runs through battery cells, processed materials, components and production equipment, not only finished vehicles. Chinese firms benefit from a dense ecosystem in which battery makers, car manufacturers, software providers and suppliers develop products quickly and at scale. European companies remain strong in engineering, premium brands, safety and research, but competition increasingly turns on vehicle software, battery management, data integration, user interfaces and rapid product cycles (IEA, 2025; IEA, 2026; van Wieringen, 2024).

This is why the present 'China shock' differs from a conventional import surge. European climate policy is deliberately expanding demand for electric mobility. If European firms and suppliers cannot respond quickly, the demand created by EU regulation will be met by imported vehicles and components. Decarbonization would proceed, but with fewer of the industrial learning effects, investments and jobs that policymakers expected. The dilemma is therefore not whether Europe should remain open. It is how to prevent openness from becoming a one-way transfer of market share while avoiding a protectionist turn that raises consumer prices and slows electric-vehicle adoption (IEA, 2026; van Wieringen, 2024).

Trade figures reinforce the sense of imbalance. In 2025, the EU exported EUR 199.6 billion in goods to China and imported EUR 559.4 billion, producing a deficit of EUR 359.8 billion (Eurostat, 2026). A bilateral deficit is not, by itself, evidence of unfair trade. It does, however, intensify political pressure when it coincides with plant closures and visible import growth in a strategic industry. Measures presented as technical trade defense can quickly become symbols in a wider argument about sovereignty, dependence and the distribution of globalization’s costs.

Hard protectionism would not solve the problem. Europe still needs affordable EVs, competitive batteries and private investment, as well as cooperation with China on climate, standards and trade. Closing the market would reduce competition, delay capacity expansion and invite retaliation. It could also divert Chinese exports towards Europe's southern neighborhood, where European manufacturers already face stronger competition (Fulton, Lons & Tsang, 2026). A broader protectionist turn would also shrink a major market for Chinese firms and make EU rules less predictable (IEA, 2026; Tagliapietra, Trasi & Sebastian, 2025).

Unqualified openness is equally inadequate. Chinese car and battery manufacturers are investing in Europe or considering local production, which can create jobs and shorten supply chains. Yet local assembly does not necessarily create local capability. A plant may import high-value inputs, retain research and software functions elsewhere and generate mainly assembly jobs. Separate Member-State negotiations can therefore produce uneven benefits and a subsidy race in which the largest public budgets attract the most valuable projects (Tagliapietra, Trasi & Sebastian, 2025).

The green transition must therefore be understood as a political bargain. Consumers need affordable vehicles. Firms need predictable rules and access to finance. Workers need credible routes into new occupations. Regions need replacement investment before old capacity disappears. The EU needs resilience without autarky, and Chinese investors need access without assuming that access can remain detached from European social and industrial concerns. *Conditional integration* offers a way to connect these interests.

Why *the Industrial Accelerator Act* Is Only a Partial Answer

The proposed IAA is significant because it recognizes that trade policy, industrial policy and foreign investment can no longer be treated as separate fields. Its demand-side measures would use public procurement and support schemes to favor low-carbon and European-made products in selected sectors. Its permitting provisions would aim to reduce delays through digital procedures and industrial acceleration areas. Its investment chapter would seek to prevent strategic foreign projects from operating as isolated enclaves by linking approval to European participation, research, training and value-chain integration (European Commission, 2026c, 2026d).

These are useful corrections to a policy model that relied heavily on carbon regulation and market incentives while assuming that industrial capacity would follow. The proposed IAA also reflects the Draghi Report's argument that decarbonization can support growth only when climate targets are matched by investment, innovation and coordinated industrial action (Draghi, 2024). In the automotive sector, the proposed Act could help create demand for European batteries and components and give public authorities leverage when negotiating with major investors.

The difficulty is that location is not the same as competitiveness. The proposed IAA is strongest on vertical questions: where a battery cell is produced, how much Union-origin content a supported vehicle contains, or whether an investment creates jobs. It is weaker on the horizontal systems that determine long-term performance, including software platforms, vehicle data, cybersecurity, testing environments, charging infrastructure and recycling (European Commission, 2025; van Wieringen,

2024). A factory may satisfy an origin rule while remaining dependent on technology and critical components controlled elsewhere.

The proposed foreign-investment provisions also need refinement. A four-out-of-six test gives flexibility, but investors may select the least demanding combination without producing the capabilities Europe most needs. The proposed 50 percent EU-workforce threshold cannot distinguish temporary assembly jobs from durable technical and research positions. Moreover, conditions tied directly to the purchase or use of domestic goods can create risks under the WTO Agreement on Trade-Related Investment Measures, while compulsory or uncompensated technology transfer would be politically and legally vulnerable (WTO, 1994). China's Ministry of Commerce has criticized the proposal on precisely these grounds and warned of countermeasures (MOFCOM, 2026a, 2026b).

A further weakness is finance. The proposal warns that uncoordinated national measures can fragment the Single Market, but much industrial support still depends on national fiscal capacity. Germany or France can offer packages that smaller or more indebted Member States cannot match. Without a common EU layer, 'Made in EU' may in practice become 'made in the Member States with the largest subsidy budgets.' This would deepen regional inequalities and weaken the collective bargaining power that a common European approach is meant to create (Collin, García Bercero & McWilliams, 2026; Tagliapietra, Trasi & Sebastian, 2025).

Finally, the proposed IAA's social logic remains too automatic. It assumes that anchoring production will anchor employment. Yet electrification changes the industry's occupational structure, and new factories may be far from the regions losing old ones. Research on the European car industry shows that the transition can reproduce regional and social inequalities unless policy addresses who receives investment, who bears adjustment costs and who participates in decisions (Szabó & Newell, 2024). The European Trade Union Confederation (ETUC) is therefore right to call for mandatory training, worker participation and regional transition planning, not employment numbers alone (ETUC, 2026).

The proposal should not be abandoned. It should be completed. Its central insight is correct: access to the scale of the Single Market gives the EU bargaining power. That power should be used to secure outcomes rather than to build a wall. Recent assessments similarly caution that poorly calibrated origin and investment rules could delay capacity formation or distort the Single Market unless they are tied to clearer sectoral objectives (Collin, García Bercero & McWilliams, 2026).

Assessing Three Policy Options

At the present stage of the legislative debate, three policy approaches can be envisaged.

The first option is ***defensive localization***. The EU would tighten 'Made in EU' rules, maintain or increase tariffs, restrict Chinese participation in public support and apply the proposed IAA's ownership and technology conditions in their most demanding form. It offers a visible response to job losses and may create protected demand while European producers scale up.

The costs would be substantial. Strict exclusion would raise prices, reduce competitive pressure and delay capacity expansion. It would invite retaliation, while broad local-content requirements could conflict with WTO rules if they discriminated against imported goods (WTO, 1994). Protection would not guarantee innovation: firms could gain a sheltered market without closing gaps in software, batteries and production speed. Export diversion would also expose European manufacturers to stronger Chinese competition in nearby third markets (Fulton, Lons & Tsang, 2026).

This option carries a political paradox. Protection can temporarily reassure workers, but if it leads to expensive electric vehicles, weak demand and continued restructuring, populist actors will shift their argument. Brussels can then be blamed both for imposing the transition and for making it unaffordable. Evidence from manufacturing regions also cautions against assuming that one visible protective measure will settle deeper anxieties about status, employment and regional decline (Bayerlein, Kölzer & Metten, 2026; Poletti, 2026).

The second option is ***managed openness***. The EU would retain countervailing duties and general investment-screening tools while welcoming Chinese factories case by case. Member States would remain free to negotiate investment packages, and the Commission would intervene mainly where subsidies, security risks or market distortions were evident. This approach could attract capital quickly and expand European production without the conflict generated by rigid joint-venture or technology-transfer requirements.

Managed openness is preferable to a trade war, but it is too weak for the scale of the transition. Individual Member States may compete to offer subsidies, land and tax advantages while accepting limited commitments on suppliers, research or skills. Investors could divide production across Europe in ways that maximize incentives rather than industrial coherence. A series of assembly plants would improve output statistics without necessarily strengthening European capability. The approach would also disadvantage smaller Member States and make monitoring uneven (Tagliapietra, Trasi & Sebastian, 2025).

The third option, recommended in this paper, is ***conditional integration***. It starts from two propositions. First, Chinese investment is not inherently a threat; it can support decarbonization, competition and employment. Second, the value of an investment cannot be measured by its location alone. It should be judged by the capabilities it creates and retains in Europe.

Conditional integration would establish common EU rules for major electric-vehicle and battery projects, regardless of which Member State hosts them. Investment approval, eligibility for relevant public support and access to lead-market measures would remain available when investors make verifiable contributions to local research, skilled employment, supplier development, circularity and secure digital systems. The framework would not require firms to surrender corporate control or transfer proprietary technology. Instead, it would impose outcome-based obligations proportionate to the scale of the investment and the public support received.

This approach better balances openness and resilience. It uses the Single Market as leverage without treating investment as a zero-sum contest and aligns with proposals for a common European strategy towards Chinese EV investment (Tagliapietra, Trasi & Sebastian, 2025). Chinese firms would gain a predictable route into Europe: invest for the long term, build local capabilities and meet common standards. Europe would convert competitive pressure into learning and capacity-building rather than a sequence of trade disputes and national restrictions.

Political Feasibility on Both Sides

Conditional integration is viable only if it can be defended in domestic politics. In Europe, governments must show that openness does not mean accepting low-value assembly while research and supplier development remain elsewhere. Commitments on permanent technical jobs, paid retraining and regional supplier conversion should therefore be visible before public support is granted. This matters in industrial regions where expected decline can be as politically consequential as closures already recorded (Bayerlein, Kölzer & Metten, 2026), and it answers populist claims that trade policy protects abstract European interests while local communities absorb the costs (Poletti, 2026).

China faces a different constraint. Beijing is unlikely to accept a framework described as forced technology transfer, discriminatory localization or an anti-China ownership regime (MOFCOM, 2026a, 2026b). Chinese firms may nevertheless accept training, European R&D, supplier-development and carbon-performance commitments when these are presented as normal conditions for long-term investment and apply to all covered foreign investors. Deeper localization can then be framed as commercial adaptation rather than a political concession.

The framework should therefore privilege measurable outcomes over symbolic ownership tests. Country-neutral rules, protection of pre-existing intellectual property and a transparent route to approval make *conditional integration* easier to defend on both sides: Europe gains visible domestic value, while Chinese investors avoid openly punitive treatment.

Three Core Recommendations

1. Establish a European Automotive Investment Compact

The first step should be a European Automotive Investment Compact anchored in the proposed IAA framework. During the legislative negotiations, the co-legislators should strengthen Article 18 by making capability creation a mandatory element of covered EV and battery investments. In addition to the proposed employment requirement, each project should meet either the EU research-and-development condition or a strengthened supplier-development condition. The relevant legal bases are Articles 18(2)(d), 18(2)(f) and 18(3). The Commission should then use the implementing act foreseen in Article 18(5) of the proposal to establish a sector-specific verification scorecard (European Commission, 2026c).

The scorecard should test substance: technical and permanent jobs, engineering and research performed in Europe, paid training, supplier contracts and the treatment of jointly created intellectual property. An investor should not be able to meet formal ownership conditions while contributing little to learning, nor should a project be rejected merely because a joint venture is commercially inappropriate.

Technology cooperation must be handled carefully. The Compact should recognize paid licensing, joint research centers, jointly created intellectual property, testing facilities and university partnerships, while protecting pre-existing rights. Europe should seek competence rather than ownership of every foreign technology. Supplier conditions should be framed as verifiable value-chain development rather than a blanket obligation to purchase domestic goods, reducing WTO risk (WTO, 1994).

2. Attach a Skills and Regional Transition Covenant to Major Investments

The second recommendation is a Skills and Regional Transition Covenant. The Commission's March 2026 IAA proposal would require at least half of the workforce in covered investments to be EU workers across occupational categories, accompanied by training. A qualitative plan should also identify the occupations created, qualifications required, share of permanent positions and routes for displaced automotive workers to enter them (European Commission, 2026c).

Investors should partner with vocational schools, universities and recognized training providers. Training should occur during paid working time and extend to affected supplier firms. Where projects receive significant public support, unions and worker representatives should participate in design and monitoring, preventing Europe from gaining mainly assembly jobs while high-value engineering remains elsewhere (ETUC, 2026).

The Commission should also favor projects linked to regions undergoing automotive restructuring, where infrastructure and skills conditions permit. Industrial Acceleration Areas should be tied to regional development, clean-energy access and supplier conversion rather than treated as deregulatory enclaves. A new battery plant does not automatically compensate for a distant components-factory closure; the connection must be designed and funded (Szabó & Newell, 2024).

3. Create a European Automotive Transition Financing Window

The third recommendation is a ring-fenced *European Automotive Transition Financing Window* under existing EU instruments, coordinated by the Commission and the European Investment Bank. The proposed IAA relies on synergies across the Innovation Fund, InvestEU, Horizon Europe, the Connecting Europe Facility and cohesion funds rather than a new spending envelope (European Commission, 2026c). The Commission should begin preparing a coordinated pilot in 2027, with implementation to follow once the IAA's legal basis and the necessary budgetary arrangements are in place. In the longer term, the financing window could be incorporated into the European Competitiveness Fund if that instrument is established under the 2028-2034 Multiannual Financial Framework.

The window should finance shared European public goods rather than routine vehicle production: supplier conversion, battery recycling, testing facilities, worker training, grid connections and first-of-a-kind manufacturing. Cross-border value chains and shared research should receive priority over isolated plants with limited spillovers.

National aid could continue, but major packages should be listed on a common transparency platform with public contributions, expected jobs, training, supplier contracts and environmental performance. Investors would then face one European framework rather than a patchwork of national bargains, accepting consistent obligations in return for access to finance and lead markets.

Two Enabling Measures

A Software, Data and Innovation Pillar

The proposed IAA's emphasis on manufacturing is understandable, but the competitive frontier is shifting towards software-defined vehicles, autonomous-driving systems, battery management, digital services and data. Europe could localize vehicle assembly while remaining dependent on external operating systems and data architectures. That would replace one form of dependence with another (European Commission, 2025; van Wieringen, 2024).

The Commission's automotive action plan already points towards testing zones, connected and autonomous vehicle alliances and public-private research. These initiatives should be linked to the proposed IAA investment regime. Major projects should comply with EU cybersecurity, data-protection and competition rules; critical software updates and remote-control functions should face independent security auditing; and access to vehicle data generated in Europe should be governed by transparent legal rules (European Commission, 2025).

This pillar should remain open to Chinese firms. Exclusion from European research ecosystems would slow learning and encourage incompatible standards. Participation, however, should depend on interoperability, auditability and compliance with EU data governance. Joint testing facilities could allow European and Chinese firms to develop products for the EU market while ensuring that safety, cybersecurity and data standards are verified in Europe.

A Structured EU-China Implementation Dialogue

The second enabling measure is a structured EU-China implementation dialogue. It should not replace enforcement or offer China exemptions unavailable to others. A working group involving DG TRADE, DG GROW, relevant Chinese ministries, industry and social partners should instead reduce uncertainty during the proposed IAA's legislative and implementation phases.

The agenda should cover Union-origin calculations, joint research and intellectual property, recognition of training expenditure, reporting and carbon accounting. It could also examine WTO-compatible alternatives to duties, including price undertakings where they address the subsidization identified by the Commission (European Commission, 2026b). Non-confidential guidance should be published for firms on both sides.

Reciprocity should remain on the agenda, but through defined sectors and measurable commitments rather than a demand that every market opens simultaneously. Progress on procurement, standards

and research partnerships could be linked to greater confidence in implementation of the proposed IAA. The aim is managed bargaining, not rhetorical escalation.

Risks and Safeguards

Conditional integration will not eliminate conflict. China may challenge provisions of the proposed IAA or retaliate against European firms. The EU should prepare sector-specific contingencies, diversify critical inputs and use trade-defense instruments when evidence supports them. Rules should remain country-neutral and rest on transparent market-share, security and value-creation criteria, making them easier to defend legally (European Commission, 2026c; WTO, 1994).

Symbolic compliance is another risk. Research centers or training programmes may remain small relative to the investment. Approval decisions should therefore include measurable milestones and five-year reporting on permanent jobs, paid training, R&D, jointly developed intellectual property, supplier contracts, recycled content and carbon performance. Failure to meet commitments should trigger proportionate recovery of support or revised approval conditions.

Industrial policy can also become detached from affordability. Consumers cannot carry the full adjustment cost through higher vehicle prices. The Commission should preserve competition, expand charging infrastructure and target demand measures towards small and affordable EVs. Resilience will not be politically sustainable if electric mobility becomes a premium product (European Commission, 2025; IEA, 2026).

Finally, the proposed IAA should not be sold as a victory over China. Such language would strengthen nationalist narratives on both sides. It should be presented as a rule for all major investors: access to public support and the Single Market comes with responsibilities to workers, regions, innovation and climate goals. Visible local benefits are the strongest answer to populist claims that trade and decarbonization serve only distant institutions and large corporations (Poletti, 2026).

Conclusion

The European automotive transition cannot be secured by tariffs alone. Nor can Europe assume that any factory built within its borders will automatically deliver resilience. The decisive issue is the quality of industrial integration.

Defensive localization would protect selected producers but risk higher costs, retaliation and technological complacency. *Managed openness* would attract capital but leave Member States competing for investments that may create limited European spillovers. *Conditional integration* offers a more durable route. It welcomes Chinese electric-vehicle and battery investment when that

investment creates capabilities Europe can retain skilled jobs, research, suppliers, secure digital systems, circular production and regional development.

The proposed Industrial Accelerator Act provides the beginnings of such a framework, but it needs clearer priorities, a realistic financing channel and stronger links to skills, software and regional policy. A *European Automotive Investment Compact* would turn broad legal conditions into predictable sectoral rules. A *Skills and Regional Transition Covenant* would connect industrial location to social legitimacy. A *European Automotive Transition Financing Window* would limit fiscal fragmentation, while the two enabling measures would address future technological competition and reduce uncertainty without weakening enforcement.

Europe should not ask Chinese firms to become European. It should ask every major investor benefiting from the European market to make a measurable contribution to European capacity. The strategic shift is from market access to co-development, and from the location of output to the creation of capability. Implemented in that form, the proposed IAA could do more than manage a trade dispute. It could support decarbonization, democratic stability and a more balanced EU-China economic relationship.

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