The Impact of US-China Trade War on Market Capitalization of Chinese Lithium Battery Industry

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Abstract. The main issue of this paper is the impact of the US-China trade war on the market capitalization of Chinese lithium battery industry. Firstly, this paper analyses the impact of the evolution of US-China tariff policy from 2017 to 2025 on the fluctuations in market capitalization of Chinese lithium battery industry. Secondly, this paper examines the impact of three key factors in the industry's market capitalization: changes in the supply chain of lithium battery raw materials, the market diversification strategy of enterprises and their R&D investment levels. Finally, based on the above analysis, this paper explains the fluctuation of lithium battery companies' market capitalization in response to tariff policy changes. This paper selects five companies with a large proportion of exports to the United States, including EVE Energy Co., Ltd., Contemporary Amperex Technology Co., Ltd. and Build Your Dreams, as the research subjects. By analysing their market capitalization, Research and Development investment, and export data, and combining these with customs import-export data for trend and descriptive analysis, it reveals the short-term shocks of the trade war on the industry and its long-term resilience and adaptation mechanisms.

1 Introduction

1.1 Research background

The United States government has regarded China as its most important strategic competitor since 2018 [1]. The US-China trade war began with the United States imposing large-scale tariffs on Chinese imports through the "Section 301 investigation" [2]. The trade war has exerted a moderate impact on China's economic growth [3]. China's GDP growth rate in the first quarter of 2018 was only 11.03%, and the GDP rate subsequently showed an overall downward trajectory [4]. During the period of US-China trade war, the United States imposed tariffs on lithium batteries and their upstream and downstream products which had a great impact on the market capitalization of the lithium battery industry [5].

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1.2 Research purpose

China is one of the largest exporters of lithium batteries in the world, while the United States is the main export market for China's lithium batteries [6-9]. If the market capitalization of the lithium battery industry were solely affected by tariff policies, it would decrease in response to the U.S. imposition of additional tariffs. Therefore, the market capitalization of China's lithium battery industry may decline due to the impact of tariffs imposed by the United States. In addition to tariff policies, the market capitalization of the lithium battery industry may also be affected by other factors: the raw material supply chain of lithium batteries may affect the cost of lithium batteries, which in turn affects the market value of the lithium battery industry; the lithium battery industry can increase its own overseas revenue by developing new overseas markets, thereby increasing the market value of the industry; the companies increase their Research and Development Investment (R&D investment) to increase product sales and achieve industry market value growth [10-12]. In order to explore the specific impact of the US-China trade war on Chinese lithium battery industry, this paper will analyse the changes in the market capitalization of Chinese lithium battery industry caused by the United States tariffs, the fluctuations in the supply chain of key raw materials for lithium batteries, the export of lithium batteries, and the R&D investment of lithium battery companies, so as to explain the trend of the market value of the lithium battery industry.

1.3 Research significance

This paper holds research value in guiding investors' choices, supporting corporate risk management, and facilitating policy formulation. The first is to guide private equity investors to adjust their valuation logic, which can be used to help investors identify the differences in the impact of tariff policies on different lithium battery companies, so as to guide them to adjust their valuation logic. This paper can be used to assist lithium battery companies in formulating globalization strategies, and to provide a theoretical basis for Chinese lithium battery companies to increase R&D investment by studying the coping strategies of Chinese lithium battery companies in the context of the trade war. Finally, this study can help policy formulation and industrial planning, and provide a basis for the government to formulate countermeasures or industrial support policies by revealing the actual effect of tariff policies, warn of weak links in the industrial chain, and promote domestic enterprises to strengthen technological autonomy and control.

2 Theoretical framework

2.1 Protectionist trade theory

Protectionist trade theory aims to shield domestic industries from foreign competition through policies such as tariffs, quotas, subsidies, and regulatory barriers. Its core argument asserts that free trade is not always optimal, often justifying protectionism on grounds of national security, domestic employment protection, trade balance improvement, and countering unfair trade practices. Modern protectionism frequently combines with non-tariff barriers like technical standards and environmental requirements [13].

The theory highlights that tariffs increase import costs, subsequently reducing profits for export-oriented enterprises. The United States' substantial tariff hikes on Chinese imports delivered a significant impact on the market value of American market-dependent Chinese companies. Similarly, by sanctioning mineral enterprises in the Democratic Republic of

Congo (DRC), the United States restricted the supply chain for lithium battery raw materials such as lithium and cobalt. This forced Chinese companies to seek higher-priced alternatives, driving up production costs—validating protectionism's theoretical conclusion of "increasing transaction costs and undermining global efficiency." Protectionist trade theory emphasizes the "vulnerability of single-market dependence." Chinese enterprises' expansion into European and Southeast Asian markets to reduce reliance on the United States validates the effectiveness of "market diversification in hedging geopolitical risks."

2.2 Strategic trade policy

Strategic trade policy focuses on how national scale differences affect policy outcomes, arguing that large countries can leverage interventions like export subsidies in imperfectly competitive markets to gain competitive advantages through learning effects and economies of scale. Its core premise is that in specific industries characterized by imperfect competition and significant scale economies, governments can strategically intervene to alter the competitive dynamics between domestic firms and foreign rivals in international markets. Such interventions aim to help domestic companies capture larger market shares, achieve scale economies, reduce unit costs, and potentially shift excess profits from foreign to domestic firms—ultimately enhancing national welfare. Large countries, due to their vast domestic markets, can internalize technology spillovers (e.g., knowledge flows confined within national borders). In the initial phase, they expand exports to accumulate experience; in the subsequent phase, they significantly boost production efficiency to dominate global markets, even driving down prices to marginalize smaller competitors. However, these policies risk triggering retaliation from trade partners, and measures like export quotas may reduce global welfare, highlighting the dilemma of balancing scale advantages with policy risks [14].

The U.S. imposition of tariffs to restrict Chinese exports—aimed at undermining Chinese firms' price competitiveness—aligns with the strategic trade policy logic of "transferring monopoly profits through policy intervention." For instance, by labelling China a "strategic competitor" and implementing trade restrictions under the guise of "national security," the U.S. strategically shields its domestic industries. The theory further notes that large nations can curb rivals' development by restricting technology diffusion. The U.S. CHIPS and Science Act, which enforces technology blockades against Chinese lithium battery firms, seeks to suppress their learning effects. Yet Chinese enterprises' breakthroughs via R&D investments validate the theory's emphasis on the critical role of "internalizing technology spillovers" for large economies [3].

2.3 Dynamic competition theory

Dynamic competition theory examines the strategic interactions between firms over time and their evolutionary impact on market structure and performance. It transcends static analytical frameworks by emphasizing competition as an ongoing, ever-changing process. At its core, the theory posits that firms proactively shape future market conditions through innovation, strategic investments, and learning effects, rather than passively accepting current circumstances. Corporate actions are based not only on competitors' present moves but also on anticipating and attempting to influence their future responses. Such intertemporal interactions may lead to path dependence, first-mover advantages, shifts in market structures, and the persistence or transfer of competitive advantages. This theory profoundly explains the competitive nature of innovation-driven industries, highlighting that competitive efficiency manifests in dynamic innovation incentives and resource allocation processes—not merely static market prices—offering critical implications for antitrust policy [15].

The theory suggests that technological leadership enables firms to secure long-term competitive advantages. China's lithium battery industry exemplifies this by increasing R&D investments to counter geopolitical risks from tariff policies and enhance long-term competitiveness. Moreover, Chinese firms flexibly reconfigure supply chains and market structures to reduce dependence on single regions amid geopolitical uncertainties. The US-China trade war has catalysed dynamic competition between the two nations. Throughout this process, Chinese lithium battery companies have responded to tariff-induced risks through market diversification and supply chain restructuring, thereby validating the theory's effectiveness.

3 Data and method

3.1 Data sources

This paper investigates the impact of the US-China trade war on the market capitalization Chinese lithium battery industry valuation by analysing five representative firms with significant U.S. export exposure—EVE Energy Co., Ltd. (EVE), Contemporary Amperex Technology Co., Ltd. (CATL), Gotion High-tech Co., Ltd. (Gotion), Jiangsu Azure Corporation (Azure), and Build Your Dreams(BYD)—tracking their market capitalization and R&D investment (sourced from ifind). Concurrently, it examines Chinese export value of lithium primary cells/batteries and lithium-ion accumulators (China Customs data) to assess trade war effects on exports and non-U.S. market diversification, alongside import volume/value data for lithium and cobalt (China Customs) to evaluate raw material supply chain adjustments. Corporate R&D strategies are further scrutinized using annual reports. The timeframe spans January 2017 to March 2025, covering pre-trade war, Phase 1.0, and the initial Phase 2.0 of the trade conflict for rigorous analysis.

3.2 Method

This paper categorizes the US-China trade war into three defined phases: the Trump 1.0 period (2018–2020), followed by the Biden Transition period (2021–2024), and currently the Trump 2.0 period (January 2025–present), establishing a chronological framework aligned with U.S. presidential terms for analytical clarity. This paper systematically examines how tariff policies across different phases impact corporate market capitalization by analysing their specific provisions and policy objectives, particularly through mechanisms such as restricting exports, raising production costs, and diminishing price competitiveness. This paper simultaneously tracks raw material import fluctuations to assess supply chain impacts on market capitalization, analyses how lithium battery export shifts affect industry valuation to evaluate the effectiveness of overseas market diversification in hedging geopolitical risks, and examines market cap data from the five representative enterprises. By observing their short-term volatility and long-term trends during the trade war while comparing resilience differentials between high and low R&D intensity cohorts, the article investigates whether technological barriers can mitigate geopolitical vulnerabilities.

4 Analysis of industry market capitalization fluctuations

During the initial phase of the Trump 1.0 period, U.S. tariff policies did not directly target core segments of Chinese lithium battery industry but impacted upstream and downstream sectors of the supply chain. Consequently, the five major lithium battery enterprises exhibited phased market capitalization fluctuations. From March to July 2018, EVE's market

capitalization remained unaffected, rising steadily to RMB 15.1 billion. However, between July and October of the same year, its value plunged from RMB 15.1 billion to RMB 10.4 billion—the lowest level in recent years—before recovering to RMB 13.45 billion by December. This volatility pattern strongly correlated with shifting market expectations driven by U.S.-China trade tensions. Meanwhile, CATL's market cap bottomed at RMB 142.30 billion during this phase, yet exhibited extreme volatility with a standard deviation reaching RMB 415.62 billion, underscoring market leaders' heightened sensitivity to external shocks [16].

During the Biden Transition period, the United States maintained Trump-era tariffs while enacting the CHIPS and Science Act and Inflation Reduction Act to intensify technological suppression against China [3]. Within this phase, Chinese lithium battery firms generally saw market capitalization growth, albeit at rates constrained by trade tensions. In Table 1 and Figure 1, CATL's market capitalization peaked at RMB 1,585 billion in November 2021, but subsequently retreated to RMB 910 billion by October 2022 (a 42.6% decline) amid technology blockade concerns, before recovering to RMB 1,171.32 billion by late 2024. With a mean capitalization of RMB 743.06 billion but extreme volatility (variance: 1.73×10^5), these fluctuations reflected tariff policy uncertainty. Meanwhile, BYD achieved a mean market value of RMB 436.06 billion, peaking at RMB 899.51 billion in June 2022. Its subsequent volatility demonstrated persistent expansion momentum in new energy operations despite growing headwinds in overseas market development [16].

During the initial phase of the Trump 2.0 period, the United States imposed steep tariffs on new energy industries, later rescinding 91% through negotiations while retaining a 10% levy. This policy reversal triggered significant market capitalization fluctuations. During the tariff-tightening period, Gotion and Azure experienced notable valuation declines, revealing weaker risk resilience among small-to-mid-sized manufacturers. In figure 1, following policy moderation, BYD's market capitalization surged to RMB 1,031.79 billion by February 2025—approaching its historic peak of RMB 1,124.11 billion—as market confidence rebounded amid improving trade expectations [16].

Table 1. Monthly Revenue Data of the Lithium Battery Industry [16].

	EVE	**CATL**	**Gotion**	**Azure**	**BYD**
Mean (RMB bn)	89.61	743.06	37.18	11.22	436.06
Max (RMB bn)	277.60	1584.98	85.32	34.19	1124.11
Min (RMB bn)	10.36	142.30	13.14	3.46	108.08
Standard Deviation (RMB bn)	66.95	415.62	17.81	6.62	288.64
Variance (RMB bn)^2	4.48×10^3	1.73×10^5	317	43.8	8.22×10^4

However, overall analysis reveals that the impact of the US-China trade war on the market capitalization of lithium battery enterprises correlates directly with tariff policy intensity and corporate market positioning. Leading companies like CATL and BYD experienced more pronounced market cap fluctuations and sharper short-term tariff shocks due to their large scale and high overseas exposure. Meanwhile, mid-sized manufacturers such as Gotion and EVE showed relatively smaller valuation swings constrained by supply chain transmission effects and limited risk resilience—though still affected by industry-wide disruptions triggered by tariffs. The uncertainty of tariff policies stands as the core factor driving divergence in standard deviations of market capitalization across firms, while resilient domestic demand and technological breakthroughs underpin long-term valuation recovery capabilities.

5 Analysis of lithium battery raw material imports

During the ongoing evolution of the US-China trade war, the impact of U.S. tariff hikes on China's lithium and cobalt imports has exhibited distinct phases and variations across product categories. In the initial phase of Trade War 1.0 in March 2018, when the United States imposed tariffs on steel, aluminium, and $50 billion worth of Chinese goods, and China retaliated with tariffs on American agricultural products, lithium imports plunged to 5,035 kg in May 2018 as companies reduced purchases in anticipation of tariffs. Meanwhile, cobalt ore imports surged to 13,270 tons in March 2018, reflecting pre-emptive stockpiling by firms to mitigate risks. When the United States further escalated tariffs to 25% in May 2019, Chinese lithium battery manufacturers pivoted to suppliers in Australia and South America. Against this backdrop, the value of lithium imports reached 3.39 million yuan that month, demonstrating supply chain resilience without sustained volume contraction. In contrast, cobalt imports collapsed to 2,634 tons in December 2019 due to dual pressures from geopolitical instability in DR Congo and trade barriers, highlighting the fragility of its supply chain [17].

In January 2020, China and the U.S. signed the Phase One trade agreement, with the U.S. suspending some tariff hikes. However, technology restrictions escalated gradually. After the Biden administration took office in 2021, it introduced the CHIPS and Science Act and the Inflation Reduction Act, further tightening technology controls on China's lithium battery supply chain. In July 2021, lithium import value reached a historic peak of RMB 4.63 million as shown in Table 2, reflecting both surging global lithium prices due to supply-demand imbalances and heightened supply chain uncertainties exacerbated by technology restrictions. By October 2022, cobalt imports plunged to zero due to U.S. sanctions against mining enterprises in the Democratic Republic of Congo. This compelled China to accelerate its shift toward nickel-cobalt projects in Indonesia. Simultaneously, companies like EVE Energy Co., Ltd. reduced reliance on cobalt through technological breakthroughs in sodium-ion batteries [17].

Table 2. China's Lithium and Cobalt Import Value Data [17].

	Lithium Import Value	**Cobalt Import Value**
Mean (RMB)	2.46×10^{6}	1.01×10^{8}
Max (RMB)	25152841.0	466674921.0
Min (RMB)	0.0	0.0
Standard Deviation (RMB)	4.10×10^{6}	1.16×10^{8}
Variance $(RMB)^2$	1.68×10^{13}	1.35×10^{16}

During the Trump 2.0 period, the United States revived its "America First" policy, imposing tariffs as high as 34% on Chinese goods. By this period, China's lithium self-sufficiency rate had risen to 70%, and the unit price of lithium imports had dropped 60% from its 2024 peak. The impact of tariffs weakened significantly due to enhanced domestic supply capabilities. Meanwhile, cobalt imports plummeted to zero, marking the completion of China's "decoupling from Congo" through strategic investments in Indonesian nickel-cobalt projects and technological substitutions [17].

In contrast, while lithium imports experienced a short-term decline during the early phase of the trade war, they quickly recovered through supply chain diversification. The impact of tariffs manifested more indirectly, mitigated by market shifts and increased self-sufficiency,

with technology controls exerting minimal influence. Price fluctuations were primarily driven by supply-demand dynamics. Conversely, cobalt imports initially saw pre-emptive stockpiling but later suffered severe geopolitical shocks. Tariffs affected cobalt more directly, compounded by geopolitical factors that triggered import collapses—even to zero. Technology restrictions significantly disrupted cobalt supply chains, compelling China to restructure through technological substitution and supply chain relocation.

Overall, tariffs imposed limited direct impact on lithium and cobalt imports, while technology restrictions and geopolitics emerged as core variables. Cobalt's heavy reliance on Congo (DRC) imports amplified its vulnerability to combined geopolitical and tariff pressures, whereas lithium demonstrated greater resilience through global sourcing and domestic development. Chinese enterprises mitigated risks through supply chain restructuring and innovation: for lithium, shifting to Australian and South American suppliers while boosting domestic production; for cobalt, investing in Indonesian nickel-cobalt projects and developing alternatives like sodium-ion batteries. By the Trump 2.0 period in 2025, import data revealed China had substantially reduced dependence on U.S. sources, establishing domestic supply chain advantages through long-term strategic planning. The actual disruptive effect of tariff hikes on raw material supply chains had notably diminished.

6 Analysis of lithium battery export

Export value of lithium primary cells and batteries to the U.S. exhibited significant volatility. During Trade War 1.0, after peaking at 5.09 million dollars in September 2018, exports progressively declined following the May 2019 tariff hike to 25%, plunging 60% YoY to 1.23 million dollars by February 2020. Enterprises mitigated impacts by diversifying markets, raising non-U.S. export share from 80% to 85%. In the 2020-2021 agreement period, exports gradually recovered. Despite a COVID-induced drop to 7.92 million dollars in February 2020, an upward trend emerged post-July 2021. During Trade War 2.0, after reaching 10.61 million dollars in July 2024, exports fell to 7.52 million dollars by March 2025 as the 34% tariff eroded confidence, accelerating market diversification. Table 3 shows that the standard deviation of exports to the U.S. was 2.19 million dollars, with fluctuations far exceeding those to other countries. The total export volume increased by an average of 8% annually, but the proportion to the U.S. dropped from 20% initially to less than 15%, highlighting that low-value-added products are vulnerable to tariff shocks. Enterprises relieved pressure through market diversification, but the decline in dependence was irreversible [18].

Table 3. Export Data of Lithium Primary Cells and Batteries [18].

	U.S. Export Value	**Non-U.S. Export Value**	**Total Export Value**
Mean (USD)	5.49×10^{6}	2.88×10^{7}	3.43×10^{7}
Max (USD)	10610648.0	45810789.0	55394658.0
Min (USD)	1226895.0	7922413.0	9149308.0
Standard Deviation (USD)	2.19×10^{6}	8.23×10^{6}	9.97×10^{6}
Variance $(USD)^2$	4.81×10^{12}	6.77×10^{13}	9.94×10^{13}

U.S. export value of lithium-ion batteries demonstrated sustained growth, reaching 151 million dollars in August 2018 without significant disruption from the US-China trade war – reflecting robust demand in America's EV market. As high-value-added products leveraging technological advantages, these batteries overcame tariff barriers to achieve >30% YoY

export growth to the U.S. in 2019. During 2021-2022, exports surged continuously, peaking at 1.49 billion dollars in December 2022. Despite successive U.S. tariff policies targeting Chinese lithium-ion batteries, exports remained resilient at 1.104 billion dollars as of March 2025 – highlighting how technological irreplaceability enhances tariff resistance for premium batteries as shown in Table 4 [18].

Table 4. Export Data of Lithium-ion Batteries [18].

	U.S. Export Value	Non-U.S. Export Value	Total Export Value
Mean (USD)	5.45×10^{8}	2.17×10^{9}	2.71×10^{9}
Max (USD)	1.91×10^{9}	4.70×10^{9}	6.05×10^{9}
Min (USD)	5.54×10^{7}	3.14×10^{8}	3.70×10^{8}
Standard Deviation (USD)	4.91×10^{8}	1.49×10^{9}	1.95×10^{9}
Variance $(USD)^2$	2.41×10^{17}	2.21×10^{18}	3.82×10^{18}

Comparative analysis reveals divergent tariff impacts between lithium primary cells and lithium-ion batteries: The former exhibits high tariff sensitivity, where low-value attributes triggered short-term export collapses under tariff pressures. Enterprises relied on market diversification, causing sustained decline in U.S. export share (now <15%) with moderate total growth. Conversely, the latter demonstrates low tariff sensitivity, leveraging technological advantages to withstand shocks amid robust demand. Despite facing technology controls, U.S. exports grew against headwinds (+13% in 2024), fueling strong overall expansion. Fundamentally, low-value-added products face long-term export erosion to the U.S. due to substitutability and forced market shifts. In contrast, high-value-added batteries maintain U.S. dependency through technological irreplaceability, showcasing China's global competitiveness in advanced battery sectors. The trade war accelerated globalization of China's lithium battery supply chains: Primary cell producers expanded into European and Southeast Asian markets, while lithium-ion battery makers localized overseas production to circumvent tariffs. Crucially, U.S. automakers' structural reliance on Chinese supply chains persists despite tariff hikes and legislation (IRA/CHIPS Acts). China retains market dominance through technological superiority even under technological containment threats, evidenced by sustained >55% global market share in premium batteries through 2025 [18].

7 Analysis of technological innovation in the lithium battery industry

In the Trump 1.0 period, CATL's R&D investment increased at an average annual rate of 35.5%, BYD's R&D investment increased at an average annual rate of 34.4%,Gotion's R&D-to-revenue ratio rose from 6.91% to 11.86%.During this period, dominant players enhanced product value-added through R&D investment enterprises with lower R&D investment exhibited weak risk-bearing capacity by comparison. In the Biden Transition period, the R&D investment of CATL and BYD reached RMB 18.6 billion and RMB 54.2 billion respectively that increased 522% and 374% compared to 2019.CATL and BYD focused investment on solid-state batteries and related fields, their market value increased from RMB 167 billion and RMB 128 billion to RMB 1170 billion and RMB 5620 billion respectively while their R&D-to-revenue ratios decreased in 2024.In the early stage of period Trump 2.0,

BYD focused on the development of sodium batteries and adaptation for overseas markets, BYD recorded a year-on-year increase in R&D investment during the first quarter of 2025,its R&D-to-revenue ratio also rose to 6.97% at the same time [19].

Enterprise R&D investment uses triple mechanism to hedge against tariff risks. Firstly, R&D investment offsets tariff costs with technology premium. For example, CATL's CTP battery technology enables products to maintain a gross profit margin of over 30% even after a 25% tariff is imposed, BYD's R&D investment exceeding over RMB 10 billion in blade batteries contributed to its counter-trend market capitalization growth in 2024.Secondly, R&D investment helps the industry reduces reliance on foreign-sourced raw materials through supply chain autonomy. For example, by channelling 15% of its R&D investment into lithium resource recovery, Gotion attained 95% lithium recovery rate in 2024 which drove an 18% reduction in raw materials costs. Thirdly, enterprises allocated R&D investment for product localization to penetrate global markets. For example, Azure's R&D investment of RMB 416 million in 2023 focused on energy storage batteries to shift to the European market, reducing the proportion of exports to the United States from 15% to 8% [19].

In a word, the R&D investment of enterprises is positively correlated with the export revenues. Enterprise R&D investment uses triple mechanism of “technology-supply chain-market” which benefits from economies of scale to hedge against tariff risks. The high-R&D investment enterprises like BYD, CATL and EVE can effectively resist the impact of the trade war by building technological barriers. In contraction, low-R&D investment enterprises like Azure are more vulnerable to tariffs on exports to the United States.

8 Conclusion

8.1 Research summary finds

The US-China trade war will lead to a contraction in the United States export market, causing short-term declines in the market capitalization of some Chinese lithium battery companies reliant on American exports, thereby affecting the valuation of China's entire lithium battery industry. Simultaneously, U.S. tariff hikes have disrupted supply chains for critical raw materials like lithium and cobalt, increasing manufacturing costs for China's lithium battery sector and further depressing industry valuations. However, market diversification strategies and corporate technological innovation can help companies expand exports, effectively counteracting the geopolitical risks posed by U.S. tariffs.

8.2 Research limitations and future prospects

This paper has limitations in its selection of only five leading companies as research subjects, failing to comprehensively cover small and medium-sized enterprises (SMEs) or differentiate between sub-sectors within the lithium battery industry. Furthermore, it lacks sufficient quantitative analysis of "geopolitical risks" and "technological barriers." Future research will incorporate representative SMEs into the sample to expand its scope. Additionally, quantitative indicators for measuring political risks and technological barriers will be developed to precisely assess their causal relationships with market capitalization changes.

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