

Hello Club Members.

This article is too large to go in a Monthly Newsletter and I have summarized the original article with the important comments.

It appears that the EV World is imploding for American, European and Japanese Automakers.

Newsletter Editor

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Why North American, European, and Japanese Automakers' Big Bet on China Could Soon Backfire



General Motors' sales in China last year [fell 8.7 percent](#), to about 2.1 million units. For the first time since 2009, GM sold fewer vehicles in China than it did in the United States, where, in 2023, it retailed more than 2.5 million cars, trucks, and SUVs. That was a 12.6 percent increase over the previous year, and Motown boosters will see [GM's improved performance in its home market](#) as a good thing. But they're focusing on the wrong numbers; the slump in China is worrying for GM's long-term growth and profitability.

Much of the discussion around the meteoric rise of the Chinese auto industry has been focused on [affordable Chinese imports](#) disrupting the established markets of American, European, and other Asian automakers. But China itself, since 2009 the world's largest auto market, has also become an irresistible target for foreign automakers. Like GM, many have invested heavily in manufacturing and sales and marketing operations in the country and have for years relied on the explosive growth of the Chinese auto market to boost their worldwide sales and profits.

Foreign automakers can no longer take those sales and profits for granted, however. First, the growth is not as explosive as it used to be. The Chinese auto market grew 5.6 percent in 2023, well down on the double-digit increases of previous years. More critically, though, huge improvements in quality and functionality, combined with low prices, have made products from China's domestic brands increasingly attractive to Chinese

consumers who might previously have bought a car or SUV from a foreign automaker.

The problem for GM is China now accounts for about half its total worldwide sales. In that context, any move by Chinese consumers to further embrace domestic brands, particularly in the market segments where [Chevy](#) and [Buick](#) play, is an alarming trend. And it's not just GM that should be worried: China now accounts for about one-third the total worldwide sales of Volkswagen Group, Mercedes-Benz, and [BMW](#) and almost 20 percent of [Toyota's](#) worldwide sales. A slide in market share or lower sales numbers in China will have bean counters in Wolfsburg, Stuttgart, Munich, and Nagoya frowning, too.

China's rapid pivot to electric vehicle technology—supercharged by government subsidies reckoned by some analysts to have exceeded \$57 billion from 2016 to 2022—will put even further pressure on the revenues and profits of foreign automakers in coming years. Almost 6.7 million EVs were sold in China last year, and 80 percent of them were made by Chinese manufacturers. [EVs accounted for 25 percent of GM's Chinese sales in 2023](#), a solid performance but only enough to net it just under 8 percent of China's EV market. [Volkswagen](#), which managed to stay ahead of BYD to top the Chinese sales charts overall, saw its EV sales increase 23 percent in 2023. But that netted it barely 3 percent of the EV market.

One challenge for foreign automakers is they simply can't bet as big on EVs as their Chinese rivals. There is clear evidence that demand for EVs in North America, Europe, and other parts of Asia is not as robust as automakers expected. EVs accounted for 7.2 percent of the 15.5 million vehicles sold in the U.S. in 2023 and just over 14 percent of the 17.5 million vehicles sold in Europe. But in China, EVs accounted for 22 percent of the 30.1 million vehicles sold there last year—about 70 percent of the total number of EVs sold worldwide.

Uncertain demand for EVs means many foreign automakers are rethinking their investment timetables. Ford, for example, has recently scaled back production of the [F-150 Lightning pickup](#) and put \$12 billion worth of spending on EV manufacturing on hold. Others are quietly walking back loudly proclaimed plans to be producing nothing but EVs by 2030: "We will make our internal combustion drivetrains ready to go into the 2030s, and then we will see what the market dynamics look like," [Mercedes-Benz CEO Ola Källenius told MotorTrend in an interview last year](#), echoing sentiments increasingly expressed by execs at other legacy automakers.

Alarmingly for GM, Volkswagen, and Toyota, Michael Dunne of Dunne Insights suggested in a recent *The Economist* cover story that, upon the rise of the Chinese auto industry, foreign automakers selling non-premium brands in China might be pushed out of the market in as little as five years. Premium brands such as [Mercedes-Benz](#) and BMW and [Lexus](#) may hang on for longer. In the same story, UBS bank analyst Patrick Hummel said that "instead of throwing money at China to regain market share, firms should just cash in while they still can." It's worth noting that Tesla, which has been building cars in China since 2019, has already begun to cut prices to compete with Chinese EV manufacturers.

Governments with domestic auto industries to protect—and, by extension, voters' jobs—are rushing to address the threat of the rising tide of low-cost Chinese imports lapping at their shores. In the U.S., the Biden administration is said to be looking at raising tariffs on Chinese EVs beyond the 25 percent levied on imported Chinese autos brought in under Donald Trump. France has introduced a subsidy scheme that favors cars made in Europe. Italy is considering similar action, and the European Union is working to decide whether tariffs should be imposed on Chinese-made vehicles sold in all EU member states.

More critically, though, fighting these Chinese imports won't help American, European, Japanese, or Korean automakers if they can't compete against Chinese automakers in China. Because if foreign automakers can't attract Chinese consumers to their products, then they can't grow market share and make money in the largest auto market in the world. They will be forced to repurpose plans that depended and relied on the Chinese market; they may have to exit China altogether. If and when that happens, we'll see who will struggle and who will survive.

