

China is on the move

by Matt Connor, Investment Analyst

Over 13 years ago an episode of US sitcom *The Office* aired in which Michael Scott tried to raise the alarm surrounding China's impending global dominance, and in 2023 China dominated a new market – Electric Vehicles. In the final quarter of 2023¹ Chinese Electric Vehicle (EV) manufacturer BYD outsold the western incumbent Tesla, to become the world's top selling electric carmaker.

With BYD leaving Western carmakers as roadkill, other Chinese firms like Geely (which owns Volvo, Polestar, & Lotus) are breathing down the necks of long-standing European and American brands such as Volkswagen and General Motors and are already larger than neighbours South Korea's Hyundai and Japan's Nissan. Xiaomi, a Chinese tech company known for its mobile phones is steering into the space, a decision that Apple and Google have contemplated over for many years.

In 2017 BYD only produced 420,000 cars (mainly internal combustion engines), so what has led to the rapid ascension? There has been a massive amount of state support from China to help homegrown manufacturers with generous subsidies totalling over \$50bn, along with billions of dollars in financing via cheap loans and equity stakes. The state support coupled with China's domination in the production of lithium-ion batteries, a key component for an EV, has helped Chinese firms gain economies of scale and pricing advantages over western counterparts in the Chinese market. China is the biggest market for carmakers, with foreign brands enjoying a 50% market share of the domestic Chinese car market. When it comes to EVs however, domestic manufacturers dominate, with² Chinese brands holding an 80% share within EVs according to UBS.

Chinese brands often have better technology, with new models updated frequently to reflect changing tastes, a desire for better infotainment systems, and thanks to the economies of scale they now enjoy, Chinese EVs can be much cheaper than their Western counterparts giving them a route to increasing market share in Europe and the US by offering better technology for cheaper. BYD is looking to expand its European production capacity, adding to its existing factory in Hungary to counter moves by European governments to impose tariffs. The same is happening in Mexico, with Chinese carmakers scouting production locations to find a way around the USA's punitive import tariffs.

It would seem that CEOs of Western carmakers have been asleep at the wheel when it comes to their new competition. For how long European marques such as Volkswagen and BMW can keep on relying on their brand allure remains to be seen. A recent study by ALD Automotive³ found 86% of UK respondents said that brand was not a primary consideration, with drivers valuing price and reliability above all else.

As EV sales begin to moderate in the UK after a very inflationary couple of years⁴, it will be interesting to see whether consumers start to switch to the cheaper Chinese brands to do their bit for the environment – leaving the traditional brands in the rearview mirror.

Sources

1 <https://www.theguardian.com/environment/2024/jan/02/chinas-byd-overtakes-tesla-as-top-selling-electric-car-seller>

2 <https://www.economist.com/leaders/2024/01/11/an-influx-of-chinese-cars-is-terrifying-the-west>

3 [https://brokernews.co.uk/business-drivers-dont-care-about-brand-says-new-ald-leaseplan-report/#:~:text=It%20found%20that%2086%25%20\(nearly,consideration%20for%20choosing%20a%20car](https://brokernews.co.uk/business-drivers-dont-care-about-brand-says-new-ald-leaseplan-report/#:~:text=It%20found%20that%2086%25%20(nearly,consideration%20for%20choosing%20a%20car)

4 <https://www.theguardian.com/environment/2024/jan/05/electric-car-sales-in-uk-flatline-prompting-calls-for-vat-cut>

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