Written by **Luis Miguel** on February 28, 2024

Detroit Faces Existential Crisis as Chinese Electric Cars Flood Market


AP Images
Detroit

American manufacturers once felt confident that they were safe from Chinese incursion in the realm of high-end products such as automobiles. But recent advances by China, particularly when it comes to electric vehicles, are turning that common wisdom on its head.

As detailed in a recent *New York Times* report, the top American car makers — General Motors, Ford, and Stellantis (owner of the Dodge, Chrysler, and Jeep brands) — now face stiff competition from the Chinese auto industry, which is rapidly expanding its sales across the globe.

The primary challenge facing the trio of heavyweight American automakers comes from firms such as China's BYD. Specializing in the production of plug-in hybrid and fully electric vehicles, BYD has experienced remarkable growth. In the previous year alone, it achieved sales of three million electric cars, surpassing all other competitors.

With the capability to manufacture four million cars annually in China, BYD is further broadening its reach. The company is establishing new production facilities in Brazil, Thailand, Hungary, and Uzbekistan, anticipating an increased vehicle output. Additionally, there are plans to include Indonesia and Mexico in this expansion. All this comes as the automotive industry is on the brink of a surge in electric vehicles.

The quality of Chinese cars has long been a running joke among the American public; while U.S. manufacturers have come to accept that China has supplanted much of America's industrial output with its cheap production of inexpensive items, it seemed impossible that Beijing could become a force to be reckoned with in the car market, which has been dominated by nations known for the high caliber of their productive output — such as Germany, Italy, Britain, and the United States.

And while China may not yet be producing anything on the level of a Bentley or Ferrari, their engineering in recent years has improved to a point where, combined with their relative affordability, Chinese cars are filling an important place in the market across the world.

BYD's vehicles offer exceptional value, outpricing their Western counterparts. This month, BYD introduced a plug-in hybrid with a commendable all-electric range, set to retail for slightly above $11,000. BYD and other Chinese automakers have achieved this partly due to the benefit of their home country's lower labor costs.

But another important factor is that BYD, alongside fellow Chinese firms such as Geely (owner of Volvo Cars and Polestar brands), have come to excel in the art of automobile manufacturing. In particular, they have capitalized on China's supremacy in the battery industry and the implementation of automated production lines.

Motor City, meanwhile, has struggled to break into the electric game. Three years ago, Ford and GM embarked on an ambitious transition to electric vehicles. However, their journey encountered setbacks rather swiftly. In the past year alone, Ford incurred a loss exceeding $64,000 for each EV sold.

Furthermore, delays have plagued the opening of one of Ford's new EV battery plants since October. GM faced challenges with the launch of its new Ultium battery platform, designed as the cornerstone for all future electric vehicles. While Ford and GM have seen some successes (such as the Mustang Mach-E and Chevrolet Bolt gaining modest popularity), they still fall short of competing at the same level as Tesla and Hyundai. Notably, Tesla and Hyundai operate factories in states within the manufacturer-friendly Sun Belt region.

Ford's CEO, Jim Farley, recently revealed the existence of a clandestine development team at the company working on an economical electric car to rival Tesla and BYD. However, the ability to manufacture electric vehicles profitably requires organizational development — and that takes time, dedication, and financial investment to cultivate.

Ford and GM face another imminent challenge, as their seemingly strong balance sheets obscure an inherent vulnerability in their structure. Despite their overall success in recent years, the majority of their billions in profits stem from the sale of a relatively limited number of vehicles to a specific demographic. In particular, Ford and GM heavily depend on selling pickup trucks, SUVs, and crossovers to well-to-do consumers in North America for their earnings.

This means that if Americans' purchase of SUVs and trucks goes down, Ford and GM will find themselves in dire straits. Thus, they find themselves confronted by the seeming necessity of using their revenue from truck and SUV sales to subsidize EV production and make it profitable.

But the clock is ticking, for even while the American auto giants plan and deliberate, the flooding of the market with cheap Chinese electric cars poses a possibly existential threat.

As *The New American* previously reported, much of the Russia-China aligned world is already transitioning to Chinese vehicles, a development accelerated by Western sanctions on Moscow. In response to the war in Ukraine, top German automakers withdrew from Russia — and China quickly stepped in to take their place. This is one factor in the recent decline of the German auto industry.

Other countries, such as Mexico, are also buying Chinese cars in significant numbers. All of this spells trouble for the future of American car manufacturing. Are Detroit's days numbered?