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Last September, the EU announced an anti-subsidy probe into imports of Chinese-made electric vehicles (EVs), and the UK is reportedly considering a similar investigation. Policymakers" main concern is that a flood of cheap Chinese EVs might eat into the market share of European manufacturers, replicating the decimating effect that cheap Chinese solar panels have had on Europe"s solar industry. This time, however, the economic security stakes are much higher, with the automotive sector representing 6.1% of total EU employment and over 7% of the Union"s GDP.

While Western automakers have been dragging their feet on transitioning to pure battery electric vehicles (BEVs), Chinese policymakers began prioritising BEVs as early as 2009, hoping to help Chinese firms technologically leapfrog Western companies. Companies like BYD - now the world"s largest EV producer - have benefited hugely from government support, including various discounts and tax breaks, availability of credit, the provision of supporting infrastructure, as well as finance for research and manufacturing.

Ambitions were initially limited to the domestic market, but by 2017, Chinese policymakers had explicitly outlined goals for Chinese automakers to conquer the world. On the domestic market, Chinese brands have climbed up the leaderboard of best-sellers, with BYD surpassing Volkswagen last year. In Europe, too, Chinese brands are making headway, their market share rising from just 0.4% in 2019 to 7.9% in 2023.

But there is also a battle beginning between Chinese and Western auto companies for emerging EV markets in the Global South. Rich countries currently account for the vast majority of global EV sales, but uptake in middle-income countries like Brazil is starting to pick up. Chinese automakers have invested heavily in these markets, where US, European and Japanese companies currently dominate with traditional internal combustion engine (ICE) models.

In Brazil, EV sales were up 145% in the first three months of 2024, with BYD accounting for over 40% of the cars sold. Second place, with just 15% of the total, went to another Chinese brand, Great Wall Motors. In March, BYD"s Dolphin Mini became the best-selling electric vehicle (EV) in the country, breaking the record previously held by another BYD model. EV penetration in Brazil is still low compared to Europe, but it is a rapidly expanding market, and this expansion is largely being driven by Chinese companies, particularly BYD.

BYD has been able to win ground in Brazil due to the low price point of models like the Dolphin Mini. This compact electric hatchback retails for ?15,800 - below the average price of a new car in Brazil and a bargain for an EV, which also costs the consumer less to run than an ICE car. State support has certainly helped BYD bring down costs, but by manufacturing most of its own components, BYD has also achieved a massive cost advantage through vertical integration.

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By introducing affordable EVs, BYD has effectively created a new segment in the market. As of yet, Western companies do not have a product that can compete on price, meaning that BYD is likely to dominate the rollout of EVs in middle-income countries. BYD"s explicit ambition in Brazil is not just to become the top EV manufacturer, but to displace Volkswagen as the top auto brand, and if EV penetration in Brazil continues at pace, that is a real possibility.

BYD is also investing heavily in local manufacturing. The left-wing government of Lula da Silva is not opposed to EVs, but nor is it incentivising Brazilians to buy electric. The government is concerned about deindustrialisation and jobs, so it has been reluctant to encourage EV imports that would undermine the national auto industry. BYD has managed to get around this resistance by building an ?860 million manufacturing facility in the north of Brazil. Poignantly, this site formerly belonged to US automaker Ford, which abandoned its Brazilian operations in 2021.

And BYD"s is not just investing in Brazil. Besides a planned factory in Hungary and a failed bid to invest in India, BYD has also established a joint manufacturing venture in Uzbekistan worth ?130 million, built a ?520 million factory in Thailand and announced a ?1 billion facility in Indonesia, and it is scouting locations for another factory in Central Mexico. The speed and scale of this push to internationalise is unprecedented - while Toyota"s global expansion took decades, all of the developments above have occurred in the last 18 months.

Accompanying German Chancellor Olaf Scholz on his recent trip to China, BMW boss Oliver Zipse claimed, "we don't feel threatened by Chinese manufacturers". Given the colossal dependence of German automakers on China, it is easy to see why they might seek to play down tensions, but it is difficult to buy Zipse"s confidence while surveying BYD"s progress in China, Europe and now across the Global South.

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