The Chinese EV exports reshaping international auto markets may eventually land in the U.S.

The U.S. auto industry, as one of the last markets that has not surrendered meaningful market share to China-made vehicles, may be the final frontier for Chinese automakers. If Chinese manufacturers bring their electric vehicles to the U.S. — and they elect the franchise model — dealers will have the chance to get in on the ground floor of a potentially lucrative opportunity even as they manage shifting revenue mix among their portfolio of brands. Automakers, however, face a direct threat of lost market share. In the large and mature U.S. market, with low growth rates, any volume gains by Chinese manufacturers would come directly from already established vehicle brands. By contrast, dealers can offset declines from their legacy-brand stores with gains from dealerships representing new entrants. And those entrants seem likely to choose franchising. Chinese automakers will need to rapidly develop distribution scope, scale and expertise, and the established U.S. franchise dealer network is well positioned to serve as their retailing channel.

Decades of manufacturing and supply chain building make China the world's leading exporter

Over the last few decades, China has accelerated its manufacturing prowess to become the world's exporter. As other countries have become more dependent on its output, China has become less dependent on commodities, goods and services from trading partners. China exported $3.6 trillion in merchandise in 2024, the most of any country and 14.6% of the world's total. China's share of global exports jumped by 13.9 percentage points between 1970 and 2024, while the U.S. lost 5.2 points of share during that same period and has been below 10% since 2002.

China has gained traction with its affordable vehicles, making automobiles a key manufacturing export

The volume of finished vehicles exported from China has soared since 2014 and represented 6% of global unit sales in 2024. While China has the ability to produce nearly 50 million new cars and trucks annually, its 59% capacity utilization rate indicates that its production capabilities have outpaced domestic and export demand for its vehicles. Meanwhile, developed countries with their own domestic manufacturing capacity have begun to push back on China exports. As a result, the pressure on Chinese automakers to break into the large and profitable U.S. market will intensify in the coming years.

The Chinese government's subsidization of the country's auto producers has positioned Chinese manufacturers as formidable international competitors. By backing extensive domestic mineral extraction and processing, China aims to create electric energy independence and ultimately convert export markets to its electric drivetrain technology. China is on pace to export a record 5.2 million

Source: World Trade Organization

Source: China Automotive Tech and Research Center, Tianjin

BYD electric vehicles at a port in Suzhou, China, are waiting to be loaded on to container ships for global export.

new passenger vehicles in 2025. In 2015, the country exported fewer than 500,000 — making for a compound annual growth rate of 28.6% over ten years. During the same period, U.S. vehicle exports, measured in dollars, have increased by just 0.5% compounded annually.

The encroachment into foreign markets is expected to continue. The Chinese government has the wherewithal to subsidize the losses of China-based automakers for an extended period — long enough for them to take market share from the domestic automakers in export markets. The Asian, European and U.S. governments cannot compete dollar for dollar with China's heavy subsidies. From 2009 through 2024, the U.S. government subsidized electric vehicle development with $15 billion in federal tax credits to automakers and less than $3 billion to consumers. Meanwhile, China's government is estimated to have directly subsidized its automakers with $230 billion, about $18,000 per electric vehicle, during the same period.

European automakers losing the EV market to China is cautionary tale for U.S.

The diesel emissions scandal that came to light in 2015 left Europe open for a change in drivetrain technology. The European Union subsequently implemented emissions-reduction requirements that forced its domestic automakers to transition to electrification before their supply chains and technology were competitive. In recent years, Chinese manufacturers leveraged the scale of its supply chain and technology investments, enabling it to quickly pick up large swaths of Europe's market.

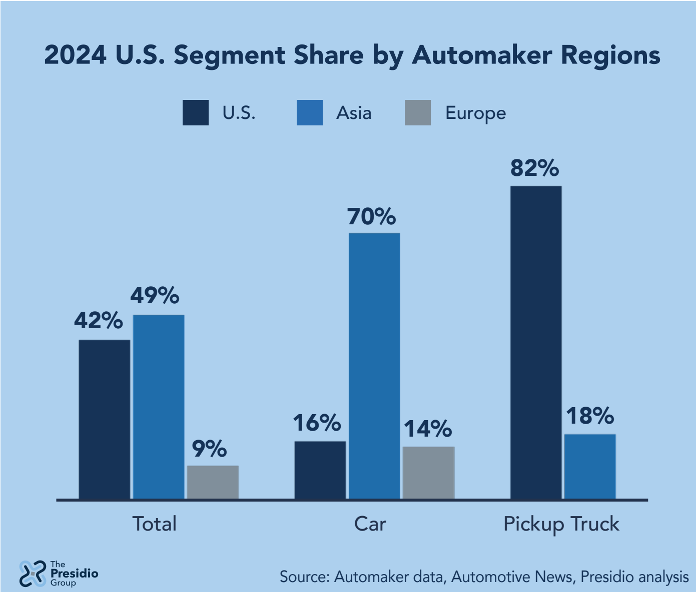
The European Commission reported that market share of China-built EVs (including foreign automakers with operations in China) was 27.2% in the second quarter of 2024, up from 3.5% in 2020. By October 2024, EU member states had approved increasing tariffs on electric vehicles built in China — to as high as 35.3% for Chinese EV maker SAIC — in a bid to level the competitive landscape. More recently, to avoid the confrontational implications of tariffs while attacking the subsidies China hands to its automakers, the EU's discussions on China have centered on implementing minimum prices for Chinese EVs selling in Europe.

Germany and the United Kingdom demonstrate the sales momentum of Chinese automakers. For 2025 through June, Chinese automakers represented 11.7% of the U.K. market, marking a 3.4 percentage point share gain and a 45.2% increase in sales volume. In Germany, unit volume of Chinese brands increased 20.9% through August in a market that declined 1.4%. That translated to the Chinese makers holding 4.1% of Germany's total volume, up from 3.4% through the first eight months of 2024.

Legacy brands face market share realignment when and if Chinese brands arrive

The entry of Chinese automotive brands into the U.S. would likely trigger an immediate market share shuffle, much like what was experienced with the influx of Japanese and European brands after World War II.

A push into the U.S. by Chinese brands would likely most disrupt the Japanese automakers that themselves disrupted domestic brands when they first entered the U.S. market. In 1960, as Toyota and Nissan were the first



Japanese brands getting acclimated, Chrysler, Ford and General Motors commanded more than 80% of U.S. market share. The oil and gasoline crisis of the 1970s pushed consumers to smaller, more fuel-efficient Japanese vehicles. By 1980, the Japanese brands commanded 21% of all new-vehicle sales in the U.S. South Korean brands later made inroads in the lower-priced segments. By 2024, all Asia-based brands — including Hyundai, Kia and Genesis of South Korea — accounted for 46.7% of U.S. volume, while the share held by Ford, GM and current Chrysler parent Stellantis had dropped to 37.9%.

Those Japanese and Korean brands are likely to be the most vulnerable in the U.S. to China's encroachment, particularly in car segments, given Chinese brands' key selling points of affordability and efficiency. Japanese and Korean brands currently dominate the U.S. passenger car market, holding a 70.5% share. U.S. domestic manufacturers have largely ceded that segment, holding just 6.7% of share.

While Chinese brands would still threaten domestic share, those U.S. brands have reduced their vulnerability by moving upmarket and to higher-priced truck segments. Ford, GM and Stellantis commanded 80% of total U.S. pickup truck volume in 2024, including 92% of full-sized pickups. The U.S. makers have handily defended the profitable pickup space from Japanese brands for decades.

Franchised dealers can offset share losses from their existing brands by turning to new market entrants

Unlike the tenuous position and potential market share loss automakers face from Chinese brands, the dealer base would have the opportunity to add Chinese-brand franchises and sell the new products coming to market. In addition to that new-vehicle sales volume, Chinese-brand dealerships would generate ancillary revenue streams from used vehicles, parts, service and finance and insurance. From a strategic standpoint, Chinese automakers are highly likely to sell through franchised dealers, like they do in most of their markets. Using the franchised model in the U.S. would allow them to quickly build distribution scale.

While existing Asian brands could be the most at-risk to lose market share to Chinese entrants, their dealers could find a complementary offset. Chinese makers have EV-heavy product portfolios that could fill a gap for dealers representing Japanese brands that have been slow to offer battery electric vehicles. Dealers representing Japanese and Korean brands also have the financial wherewithal to take a chance on newly introduced Chinese brands, given their likely long-term profitability stemming from robust sales throughput at their existing stores. Dealers selling Asian brands in the U.S. boast the market's highest new-vehicle volume per franchise. The new-vehicle sales run rate for Toyota stores so far in 2025 translates to an average of 1,700 new vehicles sold per franchise when annualized, while the run rate for Lexus would make for 1,400-plus new vehicles sold per outlet this year. And Honda, Subaru, Hyundai and Kia are all on pace to top 1,000 new vehicles per franchise for full-year 2025.

The total franchise count in the U.S. has declined every year since 2017, keeping sales per franchise at a profitable level during the period. While the introduction of Chinese automakers into the U.S. could mean market share shifts for existing brands, the impact on dealers could be a net positive as they gain the opportunity to sell low-priced vehicles subsidized by China that can fill the widening affordability gap for U.S. consumers.

One final note of caution for North American dealers, though: The process of integrating new Chinese brands may initially come with growing pains. While established brands and their dealers have navigated their relationship for more than a century, Chinese brands in some cases are struggling with the dynamics of working efficiently and collaboratively with franchised dealers in South America and Western Europe. Reports of tension and inefficiencies between dealers and their Chinese partners in new markets have surfaced, and the friction is both cultural and rooted in inexperience. Time will tell how quickly those issues are resolved.