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GUEST ESSAY

China’s Electric Vehicles Are Going to Hit Detroit Like a Wrecking Ball

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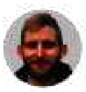


By Robinson Meyer
Mr. Meyer is a contributing Opinion writer and the founding executive editor of Heatmap, a media company focused on climate change.

It happened very quickly, so fast that you might not have noticed it. Over the past few months, America’s Big Three automakers — Ford, General Motors and Stellantis, the oddly named company that owns Dodge, Chrysler and Jeep — landed in big trouble.

I realize this may sound silly. Ford, General Motors and Stellantis made billions in profit last year, even after a lengthy strike by autoworkers, and all three companies are forecasting a big 2024. But recently, the Big Three found themselves outmaneuvered and missing their goals for electric vehicle sales at the same time that a crop of new affordable, electrified foreign cars appeared, ready to flood the global market.

About a decade ago, America bailed out the Big Three and swore it wouldn't do it again. But the federal government is going to have to help the Big Three — and the rest of the U.S. car market — again very soon. And it has to do it in the right way — now — to avoid the next auto bailout.

The biggest threat to the Big Three comes from a new crop of Chinese automakers, especially BYD, which specialize in producing plug-in hybrid and fully electric vehicles. BYD's growth is astounding: It sold three million electrified vehicles last year, more than any other company, and it now has enough production capacity in China to manufacture four million cars a year. But that isn't enough: It's building new factories in Brazil, Thailand, Hungary and Uzbekistan, which will produce even more cars, and it may soon add Indonesia and Mexico to that list. A deluge of electric vehicles is coming.

BYD's cars deliver great value at prices that beat anything coming out of the West. Earlier this month, BYD unveiled a plug-in hybrid that gets decent all-electric range and will retail for just over $11,000. How can it do that? Like other Chinese manufacturers, BYD benefits from its home country's lower labor costs, but this explains only some of its success. The fact is that BYD — and

Chinese automakers like Geely, which owns Volvo Cars and Polestar brands — are very good at making cars. They have leveraged China's dominance of the battery industry and automated production lines to create a juggernaut.

The Chinese automakers, especially BYD, represent something new in the world. They signal that China's decades-long accretion of economic complexity is almost complete: Whereas the country once made toys and clothes and then made electronics and batteries, now it makes cars and airplanes. What's more, BYD and other Chinese automakers are becoming virtually global car companies, capable of manufacturing electric cars that can compete directly with gas-burning cars on cost.

That is, on the surface, a good thing. Electric cars need to get cheaper and more abundant if we are to have any hope of meeting our global climate goals. But it poses some immediate and thorny problems for American policymakers. After BYD announced its $11,000 plug-in hybrid, it posted on the Chinese social media platform Weibo that "the price will make petrol car assemblers tremble." The problem is many of those gasoline carmakers are American.

Ford and GM plotted an ambitious E.V. transition three years ago. But it didn't take long for them to stumble. Last year, Ford lost more than $64,000 on every E.V. that it sold. Since October, it has delayed the opening of one of its new E.V. battery plants, and GM has fumbled the start of its new Ultium battery platform, which is meant to be the foundation for all of its future electric vehicles. Ford and GM have notched some wins here (the Mustang Mach-E and Chevrolet Bolt are modest hits), but they aren't competing at the level of Tesla and Hyundai — companies that operate factories in less union-friendly states in the Sun Belt.

Jim Farley, Ford's chief executive, recently disclosed that the company had a secret development team building a cheap, affordable electric car to compete with Tesla and BYD. But producing electric vehicles profitably is an organizational skill, and like any skill, it takes time, effort and money to develop. Even if Ford and GM now bust out innovative new designs, they will lag their competition at executing them well.

The other looming problem for Ford and General Motors is that their balance sheets, while superficially robust, conceal a structural vulnerability. While the two companies have done generally well in recent years, their billions in profits have overwhelmingly flowed from selling a relatively small number of vehicles to a small group of people. Specifically, Ford and GM's earnings rest primarily on selling pickup trucks, S.U.V.s and crossovers to affluent North Americans.

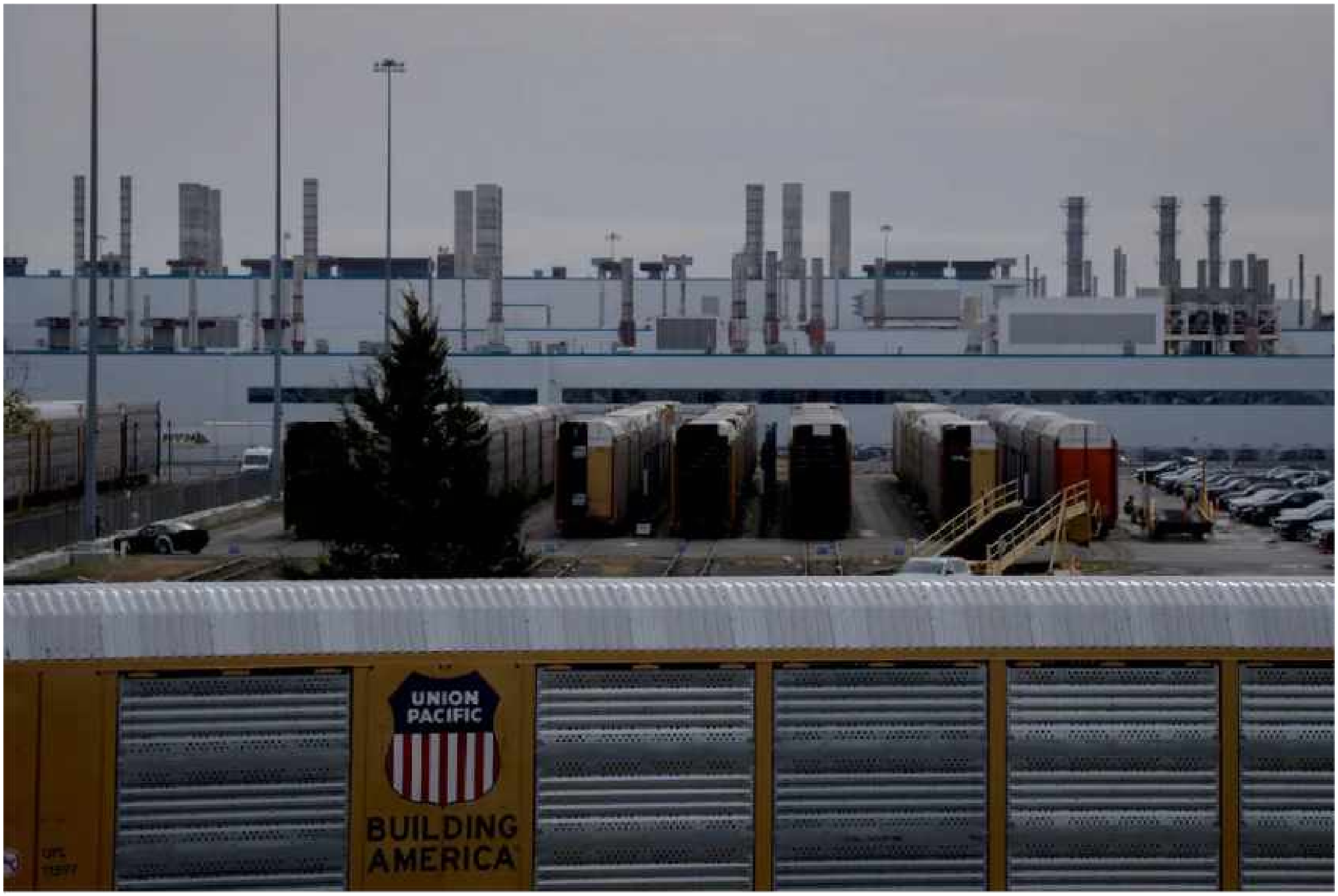
In other words, if Americans' appetite for trucks and S.U.V.s falters, then Ford and GM will be in real trouble. That creates a strategic quandary for them. In the coming years, these companies must cross a bridge from one business model to another: They must use their robust truck and S.U.V. earnings to subsidize their growing electric vehicle business and learn how to make E.V.s profitably. If they can make it across this bridge quickly, they will survive. But if their S.U.V. profits crumble before their E.V. business is ready, they will fall into the chasm and perish.

That’s why the flood of cheap Chinese electric vehicles poses such a big problem: It could wash away Ford and GM’s bridge before they have finished building it. Even a wave of competitive electric cars from the Sun Belt automakers — like Kia’s EV9, a three-row S.U.V. — could eat away at their S.U.V. profits before they’re ready.

Perhaps the Big Three deserve destruction; after all, they hooked us on S.U.V.s in the first place and then fell behind in the E.V. race. But letting them die is not a tenable political option for the Biden administration. One goal of Mr. Biden’s presidency is to show not only that decarbonization can work for the American economy but also that it can revive moribund fossil-fuel-dependent communities in the Rust Belt. Mr. Biden has also fought for and won the endorsement of the United Auto Workers, which just cemented a generous new contract with the Big Three and now needs them to thrive.

He has reason, in other words, to help the Big Three even before you get to the harsh electoral realities: The legacy auto industry employs more people in Michigan than any other state, and Mr. Biden's path to re-election all but requires him to win Michigan in November. (Recall that Donald Trump won Michigan by just under 11,000 votes in 2016.) Mr. Biden cannot allow the possibility of another China shock to hit the Midwest's auto economy. So what should he do?

The good news is that Congress has already done some of the work for him. You may have heard about the Inflation Reduction Act's generous subsidies for domestic electric car production. Can it help here? It can, and it will, but the act alone is not nearly big enough to insulate these companies from the threat posed by Chinese E.V.s. The Chinese automaker Geely is preparing to sell the small, all-electric Volvo EX30 S.U.V. in the United States for $35,000. That price — which seemingly includes the cost of a 25 percent tariff, first imposed by the Trump administration — rivals what American automakers are capable of doing today, even with the Inflation Reduction Act's subsidies.



Nic Antaya for The New York Times

Subsidies likely won't be enough; Mr. Biden will need to impose new trade restrictions. But here's where it gets messy. The case for protecting the American auto market from Chinese E.V.s is obvious and politically essential but also highly troublesome. In the short term, American automakers — even the homegrown electric-only carmakers like Tesla and Rivian — must be shielded from a wave of cheap cars. But in the long term, Mr. Biden must be careful not to cordon off the American car market from the rest of the world, turning the United States into an automotive backwater of bloated, expensive, gas-guzzling vehicles. The Chinese carmakers are the first real competition that the global car industry has faced in decades, and American companies must be exposed to some of that threat, for their own good. That means they must feel the chill of death on their necks and be forced to rise and face this challenge.

This could be done in a number of ways. One is by suggesting to American companies that any import restrictions imposed on Chinese cars in the next few years won't necessarily be permanent. That might encourage American companies to learn everything they can from their new Chinese competition, getting over their hubris and recognizing that Chinese companies now understand aspects of E.V. manufacturing better than their American counterparts. That means that Republican lawmakers, in particular, must recognize that climate-friendly technologies are the future of global industry. Mr. Trump is threatening that, if elected, he would gut the Inflation Reduction Act, even though it's full of policies meant to help America compete with Chinese E.V.s. There would be no faster way to destroy the U.S. car industry as a global force.

What the United States is trying to do is really hard. We want to preserve the economic geography and institutions of our old fossil-powered economy while retooling it to work in a new zero-carbon world. There's no small amount of irony in the fact that all those involved here — Democrats, Republicans, major automakers — resent China for achieving what was once a goal of, well, hippies and environmentalists: making electric cars popular and cheap. But if they’ve done it, we can do it too. It will take grit and good-faith effort. We should assume that Ford and General Motors will be competing with BYD and Geely for decades to come, and we should relish that fight.

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