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China's EV Champion Is Coming for Your Gas-Powered Cars, Too

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Competition in China's car market is getting even more intense. That means cheaper Chinese electric vehicles. It is also terrible news for China's competitors abroad.

As margins compress at home, China's EV makers are increasingly eyeing global markets. And Western and Japanese automakers' traditional strength in gasoline-powered vehicles won't necessarily save them: , China's homegrown EV champion, is starting to undercut the prices of some internal combustion engine-based vehicles too.

The price war in the Chinese auto market that began in late 2022 shows no signs of stopping. BYD, which overtook in EV sales last quarter, dropped another bomb last week—cutting prices of some models by more than 10%. Its Qin Plus DM-i sedan now starts at the equivalent of $11,090, cheaper than some equivalent gasoline-powered cars from brands such as Volkswagen and Toyota.

BYD advertised its price cut with the slogan "Bi You Di," which means "cheaper than gasoline" in Chinese, but it is also a play on its name, which stands for Build Your Dreams. The models in question are plug-in hybrids, which are usually cheaper than pure EVs due to smaller batteries. But the gambit is still significant because they are now explicitly competing with gas-powered cars head-on. BYD's move has already forced other automakers to follow suit, both foreign and domestic.

After years of explosive growth—one in three cars sold in China is now an EV—the market is starting to slow. In January, sales of new energy vehicles including plug-in hybrids fell 39% from the previous month—although that still marks a 79% increase from a year earlier, according to the China Association of Automobile Manufacturers. BYD reported a 44% month-on-month drop in car sales in January.

Some of the weaker players likely won't survive: There are still far too many carmakers in China. Nomura says there are 180 auto brands in China. It expects two-thirds of those to eventually disappear.

Price cuts will also eat into margins, even for BYD. But falling raw-material prices could help soften the blow. Goldman Sachs estimates that BYD's battery cost could decline by 22% in 2024. Foreign carmakers, which dominated China's internal combustion engine-based car market, will also need to grin and bear the hit to margins if they want to stay in the world's largest automobile market.

BYD will probably seek other ways to shore up its margins, including selling more premium models and shipping more cars abroad. Around 77% of BYD's revenue came from selling mass-market cars in China last year, according to Goldman Sachs. The bank expects that share to drop to 64% this year, and exports to rise to 16%, from 12% in 2023. The domestic premium segment will make up the rest.

January sales already contain possible hints of things to come. BYD's export volumes in January were flat from the previous month, in contrast to the sharp fall in domestic shipments. Exports made up 18% of its car sales last month, compared with just 7% a year earlier.

China became the world's largest auto exporter last year. Shipping gas-powered cars to Russia, which is under Western sanctions, was one key reason. But strong EV exports to countries such as Brazil and Thailand also helped.

As Chinese EV makers find their domestic market growing tougher, they will set their sights abroad. BYD, especially, is dreaming big. That could become a nightmare for foreign competitors—not just for their EV businesses but their legacy gas-powered ones, too.

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