

## **Global carmakers desperately want to be more Chinese**

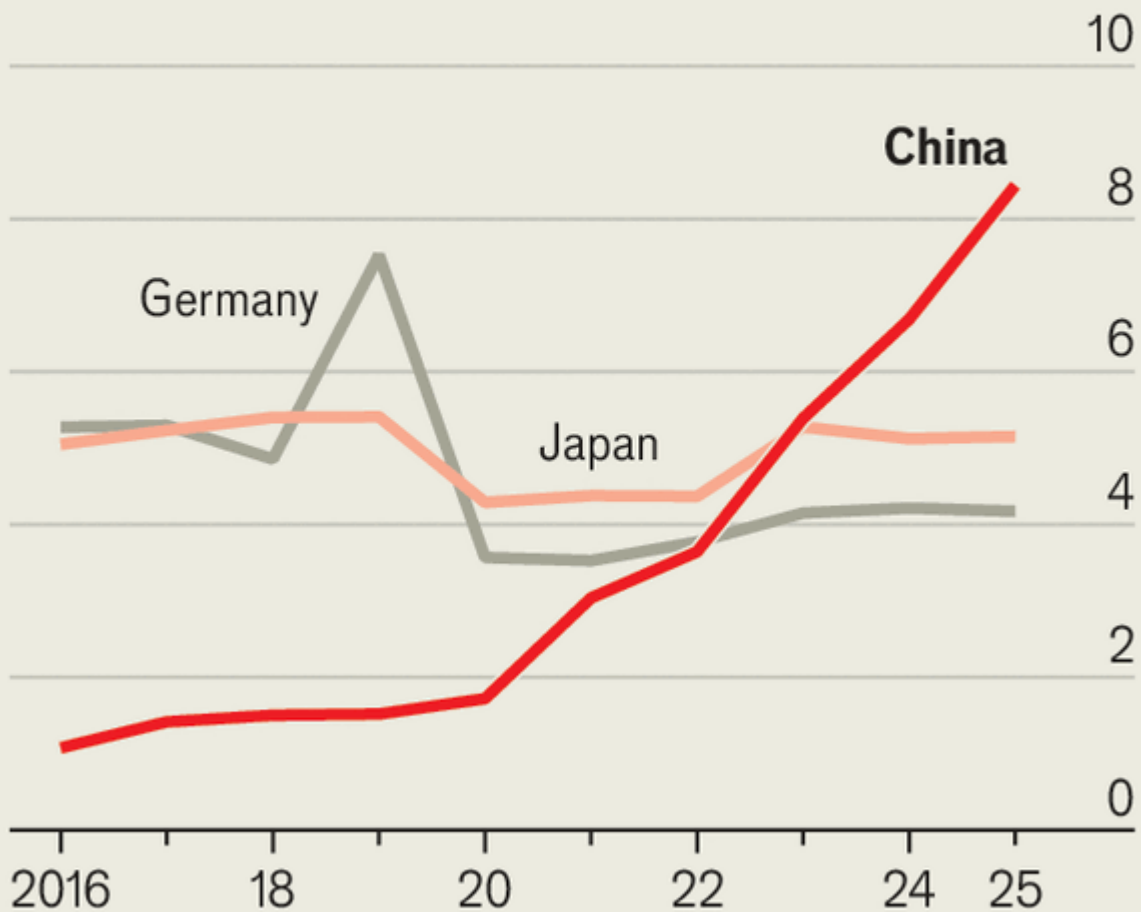
Any doubts that China has become the heartland of the global car industry are quickly dispelled by a visit to the country's main motor show. Beijing's crowded event this year was twice as large as in 2024 (it moves to Shanghai on alternate years) with around 180 new cars on display. The show, which concluded on May 3rd, demonstrated once again that foreign carmakers are lagging behind their Chinese rivals in the race to the industry's future.

Yet the show also illustrated the extent to which foreign carmakers are looking to remake themselves in the image of their ascendant Chinese competitors. At events to launch new models Western executives from Volkswagen (VW) and Mercedes switched effortlessly between English and Mandarin. VW opted to round off its show with a display of interpretive Chinese dance set to electronic music; Mercedes went for a Chinese rap.

To stem their loss of market share, carmakers around the world are looking to become more like their Chinese competitors—and not just when operating in China. So they might. François Provost, Renault's chief executive, admits that China now leads the industry in technology, speed and competitiveness. To match them, increasingly rattled car bosses are adopting Chinese practices and partnering with Chinese firms. Done judiciously, this may help them close the gap. But further down the road potholes lurk.

## Full throttle

Passenger-car exports, m



Source: ITC Trade Map

Slowing the pace of China's blistering rise is vital. The market share of foreign firms in China has almost halved in five years, to around 30% in 2025. Moreover, in 2023 China passed Japan to become the world's largest exporter of cars (see chart). In 2025 over 8m of its vehicles went abroad, nearly a third more than the year before. In Europe over the past five years, Chinese brands have gone from almost nowhere to nearly 9% of all sales, estimates Schmidt Automotive Research, a consultancy. Incumbents are also under siege in markets from Mexico and Brazil to Indonesia and Malaysia.

Chinese cars are cheap. They are also packed with whizzy technology. Often in partnership with local tech giants, the country's carmakers have developed software

that has become an increasingly important differentiator; among the latest examples is the integration of voice-controlled artificial-intelligence systems.

The pace of innovation is stunning. “China speed” has become the “drumbeat” of the industry, says Ola Kallenius, boss of Mercedes. The legacy industry’s product-development cycle—roughly 40 to 80 months for new models—now looks painfully slow. Production processes designed around electric vehicles (EVs), combined with deep vertical integration and a greater willingness to improve vehicles after they are released via software updates, mean it takes 24 months at most in China. The technology integrated into foreign cars is often two years or more behind rival Chinese offerings.

Incumbent carmakers have begun to overhaul their businesses in response. Designing cars in Europe for the world has “had its day”, says Oliver Blume, boss of VW. The carmaker has started engineering vehicles at a vast new research-and-development (R&D) facility in Hefei, at a pace 30% faster than in Europe. These will be sold not only in China, but also some overseas markets. Mr Kallenius of Mercedes, which has also expanded its R&D presence in China, argues that the speed of innovation there will have to spread around the world. Even Renault, which does not sell cars in China, is now using the country to hasten its innovation: its latest Twingo model, though designed in France and manufactured in Europe, was developed in China to save time and money and glean know-how.

To help them catch up in EVs, foreign carmakers have also sought the assistance of Chinese firms. VW, which is launching 20 new models in China this year alone, has allied with XPeng, a local carmaker, and Horizon Robotics, an autonomous-driving startup. Toyota, which will make electric versions of its upmarket Lexus brand at a new factory near Shanghai starting in 2027, is working with Huawei and Tencent, two Chinese tech giants that develop software for cars, as well as Momenta, a rival to Horizon Robotics, and Xiaomi, a gadget-maker with a growing EV business of its own. BMW and Nissan have likewise teamed up with local companies.

Rumours of more tie-ups abound. Mercedes reportedly plans to use vehicle architecture from Geely, one of China’s biggest carmakers, to develop small EVs in the country independently of its European operations. Even American carmakers are starting to

buddy up with the Chinese. Ford is said to be talking to Geely about sharing technology and making vehicles in Ford's European factories.

Will efforts to become more Chinese work? Pedro Pacheco of Gartner, another consultancy, warns that China speed is "not a magic formula but a mindset" that will be very hard to match. It is the result of a culture of long hours and an industry that has been built from the start around software-infused EVs. Restructuring legacy carmakers that have relied for decades on petrol power and mechanical engineering will be tough. Mr Blume adds that VW will never be as fast as a Chinese startup because it will never compromise on safety and testing. Get this wrong and the damage to its reputation could be serious.

There is nothing wrong with embracing Chinese technology, supply chains and production methods and exporting them globally, reckons Patrick Hummel of UBS, a bank, as long as foreign carmakers are not "pushed to the passenger seat". But as Tu Le of China Auto Insights, another consultancy, puts it: by relying on technology from Huawei and other Chinese firms for its new cars, what does Toyota now offer? Chevrolet's attempts to rekindle sales in South America by putting its badge on evs from its joint venture with SAIC, another Chinese carmaker that has a presence of its own on the continent, risks promoting a rival at the expense of the American marque, says Felipe Munoz, an industry analyst.

That points to the long-term risks that come with seeking the help of Chinese companies that are increasingly competing with the legacy carmakers abroad. Xpeng is expanding rapidly in Europe and Xiaomi has plans to arrive next year, for example. There is a danger that foreign incumbents are not provided with the latest and best technology by potential rivals whose activities they are now funding through licensing fees.

Moreover, relying too heavily on partnerships risks creating a dependency that cannot be broken. Philippe Houchois of Jefferies, another bank, thinks that foreign carmakers may intend to move away from Chinese partnerships in the future. But that could prove difficult unless legacy car companies can transform into successful software-makers, a task at which they have so far failed. Mr Blume maintains that VW's goal is to become a "leading tech player worldwide". But its Cariad software division has struggled.

Therein lies the challenge. To avoid falling irrecoverably behind Chinese competitors in EVs, incumbent carmakers may have little choice but to strike partnerships. But in doing so, they run the risk of ceding expertise in the areas that will define the future of the auto industry. That would leave them at the mercy of the rivals they fear the most.