

The European cars made in China

Western automakers are taking advantage of Chinese overcapacity to export lower-cost vehicles to their home markets, but there are fears they will become too dependent on foreign technology.

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In the early 1970s workers at Dongfeng imported American trucks to inform their attempts at making off-road vehicles for the People's Liberation Army. Nearly 60 years later Stellantis, the owner of the Jeep brand, is partnering with Dongfeng to produce a new electric version of the iconic American vehicle for consumers in China, the Middle East and south-east Asia.



The tie-up is the latest example of a trend reshaping the global auto industry. International carmakers, struggling for survival amid an expensive transition to electric vehicles, are turning to China's technologically advanced and cost-efficient factories as manufacturing bases for their global businesses.

Foreign groups already account for about two-fifths of China's car exports to Europe, when joint ventures with local companies are included, according to Rhodium Group, a US consultancy.

"A lot of joint venture foreign car companies use China as the manufacturing base to export," says Zhang Yu, managing director of Automotive Foresight, a Shanghai consultancy. "The manufacturing advantage is pretty big."

Volkswagen, BMW, Nissan, Hyundai and others are increasing exports from Chinese factories with spare capacity to markets other than Europe and the US.

Amid heightened scrutiny over Chinese technology and tariffs of as much as 100 per cent, the US has in effect closed off its market. But Europe, despite duties of up to 45 per cent, remains a prize, while groups ranging from Mazda to Nissan are fighting back with plans to export China-made vehicles to the continent. Even Volkswagen, Europe's biggest car-maker, has not ruled out such a step.

Yuqian Ding, a veteran China auto analyst with HSBC, says the upheaval reflects a "global realignment of the production base" comparable to the shift in US automakers' capacity from Detroit to Mexico over the past four decades.

"China is increasingly playing a more and more important role, not just as a cheap production centre, it's more about technology leadership, the massive supply chain advantage," she adds.

Western auto executives maintain that using the world's largest car market as an export base will benefit their other businesses through lower costs and more advanced technology.

Critics depict the move as a desperate measure from European manufacturers struggling with falling sales and idle capacity at home and in China, as well as contending with a wave of Chinese imports into their domestic markets.

China is already the world's biggest auto exporter, according to data from the Shanghai-based consultancy Automobility. Exports soared to more than 7mn passenger vehicles last year from fewer than 1mn in 2020. Momentum is increasing. Shipments for the first four months of 2026 stood at 3.1mn cars, up 61 per cent year on year.

"We need to accept that China is setting the pace of innovation in many industries," Robert Cisek, head of Volkswagen's China operations, said in April. "There will always be strong competition from China. You either embrace it or you're going to struggle."

But others warn of devastating consequences, with Chinese imports cannibalising production in Europe and other higher-cost countries, weakening local manufacturing and supply chains. Ford and Opel have already begun discussions with their partners about producing Chinese-designed cars in underused European plants.

Sander Tordoir, chief economist at the Centre for European Reform, says there is "a real risk that significant chunks of the engineering, production, innovation and supply chains in automotive will end up concentrating even more heavily in China".

"The EU has to decide whether it is willing to confront China with a tougher trade and industrial policy . . . that incentivises not only Chinese producers to produce in Europe, but also their own car multinationals to continue producing in Europe."

Severe overcapacity and razor-thin margins in the Chinese market are the main factors driving exports, for domestic and foreign automakers alike.

A report by Rhodium, commissioned by the US Chamber of Commerce and released last week, highlighted that China's \$2tn trade surplus in manufacturing goods had, in part, been driven by weak domestic demand coinciding with hefty subsidies in key sectors such as electric vehicles.

Domestic car sales last year totalled 23.9mn, far lower than the country's estimated production capacity of 45mn to 50mn cars. EV growth has slowed sharply since the consumer subsidies that turbocharged the boom were phased out. As a result BYD, Jaecoo, Omoda and MG cars are now pouring out of the country.

Passenger vehicle exports from China to Europe rose 29 per cent year on year to 922,000 units in 2025. The trend has further accelerated this year, with exports up 72 per cent in the first quarter, according to Rhodium.

The best known part of the phenomenon is the surge in Chinese models now exported to Europe and elsewhere. Geely, owner of Volvo Cars, Polestar and Zeekr, has raised its export target for this year and has ambitions to take 5 per cent of the market in key regions.

Chery International is growing so fast in Europe that its Jaecoo 7 model was the best-selling new car in the UK in March, 14 months after entering the market.

Executive vice-president Charlie Zhang said in written comments to the FT that the company's domestic and overseas business should support each other, with foreign sales driving "brand premium and profit quality".

Bill Russo, founder of Automobility, adds that while the Chinese carmakers' export pivot began as "a mechanism to absorb overcapacity" it is now also about boosting profitability. Overseas consumers will bear higher prices, yielding thicker margins than the saturated domestic market can support.

Battery-only and plug-in hybrid models made up 44 per cent of China's car exports in the first four months of 2026, according to Automobility, compared with 7 per cent five years ago when exports were dominated by cars with internal combustion engines. Russo says this shows China's "long-term export competitiveness" is increasingly based on technological leadership, not just scale and cost efficiency.

Foreign brands — often run as joint ventures between global and Chinese groups — have come to similar conclusions about exporting from the country as well as meeting local demand.

Western carmakers have long exported some EVs made in Chinese factories, but the broader economic context has changed the equation for global brands in the country. "As competition in China intensifies and capacity pressure builds, exporting has become a

more practical way to utilise local manufacturing scale,” says Chris Liu, a Shanghai-based EV analyst with consultancy Omdia.

Manufacturers initially tried to recover market share in the country by developing what Volkswagen calls “in China for China” products. When those products turned out to be compelling, groups such as Hyundai quickly transitioned to using them to boost sales in other markets — a strategy of “in China, for China, to global”.

Nissan has laid out plans to gradually increase exports from China to 300,000 vehicles by 2030, from zero last year. It plans to export two Chinese EVs produced with Dongfeng, the state-owned partner also working with Stellantis to Latin America, south-east Asia and the Middle East. “The beauty is, when we export these cars, . . . we are profitable,” Nissan’s chief executive, Ivan Espinosa, told the FT’s Future of the Car conference last week, adding that “Europe, of course, would be one of our potential destinations in the future.”

The shift is a humbling moment for those European and Asian carmakers who spent decades transferring expertise and technology to Chinese joint venture partners in exchange for access to the country’s huge market. It also undermines efforts by the US to push other countries to decouple from China’s supply chains.

Executives privately admit that Chinese manufacturing, particularly for electric cars and software, is becoming the global standard and could soon replace models produced elsewhere.

Chery’s Zhang said the Chinese group was still learning from European carmakers about premium craftsmanship and “the ability to operate across cultures and regulatory systems”. But he added that China had succeeded in building “the world’s most complete” industrial supply chain for electric vehicles and plug-in hybrids including “a clear lead” in battery technology and speed of product development.

“If Chinese manufacturing has sprinted ahead in certain areas, it represents a new kind of standard — one defined by faster technological innovation and an obsession with user experience,” Zhang said.

It costs at least 30 per cent less to produce a small petrol or electric SUV in China than in advanced economies, according to the International Energy Agency, partly because of much lower battery pack prices. Late last year, Volkswagen executives said they could produce an EV in China for half the cost of doing so elsewhere.

For European manufacturers, increasing exports from their Chinese operations is a double-edged sword, since some factories closer to home are already running at below 50 per cent of their capacity amid subdued demand, according to S&P Global Mobility and S&P Global Ratings.

Gregor Williams, associate director at Rhodium, says companies such as Volkswagen and BMW would previously have been reluctant to export heavily from China because of the

risk of cannibalising European production.

“At the moment, it doesn’t make sense,” VW brand chief executive Thomas Schäfer said of exporting from China at the FT car conference last week. “But you could if you wanted to.”

Such a move would also be highly politically sensitive. EU leaders and US President Donald Trump have criticised China’s export-focused policies, arguing that the country has weaponised its manufacturing might and left industrial regions elsewhere to pay the price.

One solution for Europe’s underutilised factories is to seek Chinese partners to fill their spare capacity. Stellantis has said it intends to make Dongfeng’s high-end EVs at a plant in France that is currently operating at about half its capacity, while Opel, another Stellantis brand, plans to produce an electric SUV in Spain using Chinese partner Leapmotor’s motor and battery technology.

For global automakers, importing Chinese-made vehicles into their home markets and enlisting Chinese partners to use spare capacity at their factories risk diluting their market share. But the cost of inaction could be higher.

“If they don’t move, then that EV market share will be [taken] by the Chinese,” says Alasia Zhang, a Shanghai-based electric vehicle and battery supply chain analyst at Wood Mackenzie. “The only option for them is to compete . . . [either] with the cheapest models imported from China or by partnering with Chinese partners.”

As carmakers integrate more Chinese technology into vehicle development, policymakers in Europe have sought to reverse the tide.

The European Commission set out plans in March to increase incentives for local content. Its proposed Industrial Accelerator Act would set “Made in Europe” manufacturing requirements for accessing government subsidies.

The legislation proposes limiting Chinese technology in cars and forcing “a degree of relocation” of this production to Europe, according to one official.

It would require at least half of main electronic systems in cars to be made in the EU by 2030 to qualify for public funding, subsidies or be part of corporate fleets. Analysts question how effective the final measures will be, with the IAA not designed to block Chinese cars from European markets altogether.

The EU could resort to more restrictive measures, such as copying US rules that ban the use of Chinese software and hardware in cars sold in America.

“I think that’s something that is coming, and we just need to adapt to that,” said Håkan Samuelsson, chief executive of Geely-owned Volvo Cars, at the FT conference.

With European and Chinese manufacturers becoming increasingly dependent on each other, Brussels faces the delicate task of imposing technology restrictions without starting

a fullblown trade row with China.

Ding, of HSBC, expects that cars from China will “gradually” bring more cutting-edge technology to foreign markets despite security concerns, probably with the help of European partners.

Rhodium’s Williams highlights what he sees as the danger of European companies growing dependent on Chinese suppliers and technology. That would cause a dilemma for EU regulators since they would strangle their own car industry if they cut off Chinese tech from Europe. “If you lose that sort of knowhow on how to build an EV, it’s going to be really critical,” says Williams.