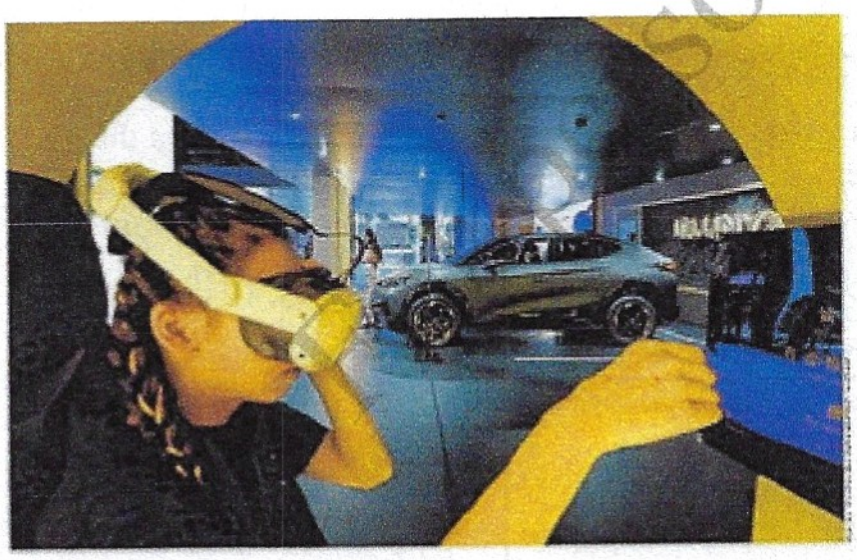
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Domestic sales have dropped sharply this year. The production line at Xiaomi's electric-vehicle factory in Beijing in 2024. VCG/ GETTY IMAGES



Volkswagen offered a virtual-driving experience at the 2025 Shanghai Auto Show. QILAI SHEN/ BLOOMBERG NEWS

# China's Car Industry Is Stalling at Home

## Domestic sales plunge, but shakeout in state-supported sector hasn't begun

BY STEPHEN WILMOT AND KATRINA NORTHROP

NANJING, China—Skyworth Auto's ambitions are visible everywhere in its electric- vehicle showroom here. A video spins the story of a founder who, like a Chinese version of Elon Musk, slept in the factory to get the company up and running. A map touts its presence in 45 countries. A new sport-utility vehicle is on display.

Back in 2021, Skyworth said its main EV plant could make 100,000 vehicles a year. Its actual sales in China this year through September: 660.

A brutal season has arrived in China's car market, among the most troubled in the world. Through September,

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Chinese consumers have bought about 22% fewer passenger vehicles this year than in the same period last year. This week, the head of a major Chinese car-industry group said sales for the full year would likely reach only 18.5 million vehicles, the worst performance since 2014.

In China, "there's so many competitors, there's a lot of sorting that's going to happen, needs to happen for long-term viability," said Mary Barra, the chief executive of General Motors, in a call with Wall Street analysts in July.

The needed shakeout, however, isn't happening yet in a country known globally for its advances in EV technology. The growth model that powered the industry's swift rise is making it hard to hit the brakes now that times have turned bad, leaving the industry filled with companies like Skyworth in various states of distress.

For decades, local governments teamed up with the private sector to invest in the car industry. When EVs became a national priority in the last decade, Chinese cities—each hoping to become the Detroit of the EV era—poured billions of government dollars into local champions. The number of Chinese EV brands selling at least one product rose to a record 143 at the end of 2025, according to a tally by management consultant AlixPartners.

Now, in a country with a shrinking population, reliable big-city mass transit and a growing robotaxi industry, sales of passenger cars to regular Chinese families are unlikely to ever again record a sustained surge, analysts said. But cities and their private-sector partners are reluctant to admit that their lofty ambitions won't be fulfilled, which would result in factory closures and lost jobs.

The industry's woes aren't just Beijing's problem. Desperate for customers, Chinese carmakers are piling into overseas markets with hypercompetitive products developed in a market where workers are paid a fraction of European and American wages. Although Chinese carmakers generally can't sell their vehicles in the U.S., the five largest players grabbed a 11.7% share in Europe in September.

"You get an earthquake in China, you get a tsunami outside," said Michael Dunne, founder of advisory firm Dunne Insights.

Volkswagen, the global automaker most exposed to China, has embarked on its second big restructuring program in less than two years, targeting as many as 50,000 jobs. BMW is cutting around 8,000 employees following a profit warning that it blamed on accelerating declines in China. Chrysler owner Stellantis is losing money in Europe in part because of competition from Chinese brands.

About the only major market where Chinese automakers aren't causing upheaval is the U.S., where tariffs and restrictions on Chinese vehicle technology have all but locked out the country's automakers. General Motors and Ford are among the few automakers still pumping out relatively healthy profits.

Skyworth, which sells fewer than 100 cars a month, has benefited from local government support as it fights to stay alive—at least nominally. At two of its dealers in Nanjing this summer, a reporter found no cars, no customers and no employees. A Shanghai dealership listed on the company's website turned out to be longdefunct. Yet the website shows new passenger-car models and advertises open jobs in research and development.

The local government of a district in Nanjing owns 5% of the maker of Skyworth passenger EVs, according to Chinese information provider Tianyancha. A year ago, that government's website said the vehicle business controlled by Skyworth's founder had received "the comprehensive support of government departments," and that the government's "concierge- style" service has cleared development obstacles for the enterprise.

**Rescue force**

China's car business developed in two stages. Starting in the 1980s, stateowned industrial companies expanded rapidly, particularly through joint ventures with leading foreign automakers. The 2010s and early 2020s were a more entrepreneurial period when EV startups, often led by charismatic founders, teamed with local governments.

NIO, a Chinese EV pioneer listed on the New York Stock Exchange, was running out of money when the city of Hefei bailed it out early in 2020 with an investment equivalent to nearly $700 million. The city made NIO one of the anchors of an EV-centered industrial park in Hefei intended to employ tens of thousands of workers.

NIO stock soared as investors looked for the next Tesla, briefly making the Chinese company the world's fourth most valuable automaker, ahead of GM.

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That initial success triggered a wave of copycat deals between struggling Chinese EV makers and local governments, entrenching regional links between the private and public sectors, according to a recent paper by Fengming Lu of the Australian National University in Canberra and Xiao Ma of Peking University in Beijing.

Some startups got factories from local authorities for little money and tax credits for machinery, according to people familiar with the arrangements. Local banks provided easy financing.

In Beijing, smartphone maker Xiaomi won support from local officials for a car factory that it put up in three years, a speed unthinkable in the West. It opened in 2024 featuring cutting-edge equipment such as a huge die-casting machine that churns out entire rear-floor units—a technique pioneered by Tesla.

The proliferation of brands and vehicles has spurred widespread innovation. The world's top battery maker is China's CATL, which last year demonstrated flash charging of an EV battery in less than 10 minutes— a feat quickly matched by BYD, the biggest Chinese carmaker and the world's biggest seller of EVs. Geely Automobile now says it can get a battery nearly full in less than five minutes.

Heavy investment made sense when the market was growing rapidly. As recently as 2001, when China joined the World Trade Organization, only a tiny elite in China could afford a family car. By the mid-2010s, more than 20 million vehicles were sold annually, making it the world's largest car market.

Those who bet on EVs over traditional gasoline engines made the right call. In September, roughly two-thirds of new vehicles sold in China were full battery EVs or plug-in hybrids. The problem is that the domestic growth has stopped, leaving way too much capacity. This year, China has plants capable of producing around 63 million light vehicles a year, according to data provider Mobility Global. That is more than triple the number of cars Chinese consumers are expected to buy this year.

NIO has lost more than $1 billion every year since 2021, and the stock is down 95% from its peak. Mercedes-Benz partner BAIC Motor, controlled by the Beijing city government, in late July issued a profit warning and said it was losing money because of intense competition. Even Xiaomi, which once had long waiting lists for its cars, is falling well short of its sales target for this year.

China's struggling carmakers have a couple of options. One is to reduce prices to grab a bigger piece of a shrinking domestic pie. Chinese vehicle prices have fallen by almost one-fifth since the start of 2023, according to AlixPartners. In the first eight months of this year, the industry's profit margin fell to a multiyear low of 3.6%, according to the China Passenger Car Association. The second option is to export. China is on track to export 12 million vehicles this year, the car association's head said, up from around a million annually at the beginning of this decade.

China overtook Japan as the world's top auto exporter in 2023 by shipping inexpensive cars to Russia after Western producers pulled out. Today, the Chinese onslaught is reaching middle- and upper- income countries around the globe— the U.K., Germany, Singapore, Mexico, Brazil and more.

In the U.K., BYD is selling its flagship Seal hybrid sedan for the equivalent of around $44,000, more than $10,000 less than a similarly equipped Volkswagen Passat.

"These vehicles are sold at Chinese price points we cannot match with European cost structures," said Volkswagen Chief Executive Oliver Blume in an August memo to staff.

In recent months, Germany's once-towering trade surplus with China in automotive products has turned into a deficit. Germany —the country widely credited with inventing the automobile— is embracing Chinese brands, while German automakers are struggling in China.

**Growth addiction**

Beijing shows little sign of doing anything about its car mess, partly because it doesn't enjoy full control. Local government officials who promoted car manufacturing are reluctant to pull the plug, said Tu Le, managing director of consultant Sino Auto Insights.

"How provincial governments get promoted is generating tax revenue, keeping people employed," he said. "There is a disconnect between the central plan and what is happening locally."

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The average Chinese EV brand sold around 87,000 vehicles last year, according to Alix-Partners, with a long tail of zombie brands below 1,000.

The rapid shift to EVs and plug-in hybrids means China also has too many old-school plants churning out cars with traditional internal combustion engines.

Volkswagen for decades dominated the Chinese market through joint ventures with state-owned automakers. It has already worked with its partners to shut three factories, helping to cut its production capacity in the country to roughly four million vehicles, from five million a few years ago.

Now the German company wants to trim by another halfmillion units. Last year it sold only around 2.6 million Volkswagens and Audis in the country, and this year sales have dropped by another 30%.

Volkswagen has invested heavily in a newer joint venture to develop and produce the kind of technology-packed EVs Chinese consumers now buy.

The Chinese Communist Party government in Beijing has expressed concern about what it calls "involution," or excessive competition. It has called on automakers not to cut prices as much and to accelerate payments to struggling suppliers.

One of the Chinese EV industry's pioneers, XPeng founder He Xiaopeng, has said cars alone are no longer a viable business strategy. In a recent interview, He said his company was transforming itself into a builder of robotaxis and robots and the software powering them.

Lu of Australian National University said China successfully tempered excess capacity in its steel and aluminum industries in the 2010s, but cars were a harder nut to crack. "Car factories employ so many people and are so deeply embedded in local economies," he said.

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