

Chinese Electric Car Industry Is Chaotic, Rife With Fraud - Gas 2



China is firmly committed to electric cars. Government policies are designed to make purchasing an electric car the most economical and desirable option for Chinese consumers. For instance, in China's densely populated cities, if you buy a conventional car, you cannot register it until you have a parking permit. To get one, you enter a lottery system. It can take up to 5 years to get permission to drive your dream car on the road.

By contrast, someone who buys an electric car can register it immediately and begin driving tomorrow. That's an easy choice for many people to make. China also imposes stiff import duties on foreign made cars. It requires foreign companies to partner with a Chinese company in order to get permission to manufacture cars in China. That policy is having some unintended consequences.

Dozens of Chinese companies are rushing to build electric cars even though they have no experience in the auto industry. Some are hoping they will attract a foreign investor in need of a domestic partner. Others are simply defrauding the government by building cheap, poorly built cars nobody will buy in order to collect government subsidies. According to Liao Wang, the research unit of the official Xinhua news agency, those cars cost less than \$7,000 to produce but are eligible for more than \$9,000 in subsidies from the government.

The mania to get in on the electric car ground floor has induced many companies and some local governments to make enormous investments that have no economic justification. The latest company to take the plunge is Gree, a Guangdong-based home appliance maker best known for its air conditioners. It says it wants to acquire Zhuhai-based auto maker Yinlong, even though Gree's revenues were down 30% last year.

In 2015, steel maker Fangda Special Steels acquired a 60% stake in electric car company Jiangxi Tezhong. Mining company Western Resources raised \$304 million to invest in battery makers and electric car startups. Metals trader China Dynamics Holding quit its core business entirely to make electric cars in 2014.

The Chinese Association of Automobile Manufacturers says more than 30 electric car projects with a total investment exceeding \$15 billion have been announced over the past 18 months. Included in that total is a project by Huzhou, a little known city in eastern Zhejiang province. It says it will invest \$1.6 billion to build an industrial park to manufacture electric car batteries.

Despite all this fervor, the Chinese automobile market is still in its infancy and incapable of absorbing so many

electric cars. China sold only 330,000 electrics last year. While that is more than any other country, it is still a very small percentage of total sales. Many consumers are not interested in buying an electric car because of a lack of charging infrastructure, according to consulting firm McKinsey & Co.

“There are so many electric car projects with billions.....in investments,” says Pilar Dieter, a Shanghai based partner at corporate strategy consulting firm Solidiance. “Given the state of immaturity in this market, how is it that all of them are going to survive?” Bill Russo, managing director at Shanghai-based Gao Feng Advisory Company, says a lot of hardware companies will be “winnowed out” over the next few years as the market matures. “The odds for a company like [Gree] to be successful is very limited,” he says.

There is more behind the electric car craze than just building product. Chinese web giants Alibaba , Baidu, and Tencent are partnering with local auto makers to develop “connected” electric cars. They envision a future where money can be made from in-car services such as navigation, e-commerce and video streaming.

That bright new dawn when all of us drive around in self driving cars while we have our eyes glued to our touchscreens is the bait luring much of the investment in electric cars today. But even the indomitable Elon Musk admits that building an automobile is a very difficult task and far harder than he ever imagined.

The Chinese electric car industry is reminiscent of the the automobile business in America and Europe 100 years ago. The list of car companies that began, soared, and then flamed out when confronted with harsh economic realities is very long indeed.

The issue is not that so much money will be lost chasing poorly thought out dreams. The issue is that so much money will be squandered that could have been put to better use helping the world wean itself from its fossil fuel habit. The lesson seems to be that even with the benefit of central planning from the highest levels of the Communist Party in China, stupidity, venality, and poor policy choices are universal attributes that afflict all cultures equally.

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