

Research Project:

Export Business Plan

Jonathan Doberenz

Park University

IB315: International Business Perspectives

Malallai Zalmi

May 1, 2022

PART I: Purpose Statement

The purpose of this export plan is to signify how and why the exportation of electric vehicles (EV) to China from the United States would be profitable and advantageous to do so in the current market. This plan will consist of four objectives. The first is the examination of the benefits and shortcomings of the product we want to export. The second is the exploration into China. With this, we will do a deep dive into China's trade history, a cultural overview, the political environment, and the country's economic development. Furthermore, the third will be the inquiry of the product to export (Electric Vehicles) and the country chosen (China) in whether the blend will indicate a prosperous, successful future or predict an unlucrative disastrous venture. Lastly, our fourth goal with this export plan will be to illustrate the long and short-term goals associated with the business endeavor of the specified product and country.

Understanding the culture, consumer attitudes, demand, education, laws and requirements, infrastructure, and purchasing power of the country regarding the product we wish to export is essential in creating a successful export plan! Therefore, all mentioned above is within this report. However, countless resources are available to understand the market and define the strategy for the country we are trading with and the product exported. The information below only gives a brief synopsis of the past, present, and what the future could look like in the event of exporting EVs to China from the United States.

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PART III: Executive Summary

Electric Vehicles are a product of the future. The successful implementation in exporting EVs stands to be a fast ticket to profitable gains for our company to export. Choosing the right EV market and EV type will determine our company's ability to lock in success. China has one of the largest and fastest-growing economies, and as a result, the average Chinese consumer's wage and purchasing power has doubled and sometimes tripled within the last two decades. Currently, China emerges as the ultimate vacuum of international trade. This was not always the case; the success of China's trade history shows current high imports in the automotive industry and projects excellent potential in future EV imports. China's goal to replicate part of the "American Dream" in their ability to market Electric Vehicles in much of the same way the traditional gasoline automobiles were marketed in America indicates our company will have great attainment in exporting EVs to China. However, the Chinese Communist Party does present unique challenges for our company to overcome in securing contractual agreements within China. China Compulsory Certification (CCC) markings and other government requirements must be adhered to by our company regarding Chinese law. Chinese education is vital in our mission as misconceptions about EVs could lead to growth stagnation. Therefore, our plans must focus on educating and advertising the importance of our product. Infrastructure, like education in rural areas, presents concern in our long-term goals, but we will focus our exports on urban areas within China in the short run. Furthermore, lastly our short- and long-term goals must correctly target the market and the company's profitability success in China!

PART IV: Introduction

Electric Vehicles to China

Why export electric vehicles to China? The richest man alive is Elon Musk, CEO of Tesla. Tesla is the leading Electric Vehicle (EV) automaker based in Texas in the United States of America. China has grown into one of the largest economies in the world and is now only second to the United States. Some experts believe that China will soon surpass the United States economy. China has seen what the automobile industry did for other countries like the United States, Japan, and South Korea and is envious and would like to become the leader in the EV industry (Graham & Brungard, 2021). Hence, they have implemented various methods to push this as a need starting with their people. One of these methods was subsidies to encourage people to buy EVs instead of traditional gasoline automobiles. The subsidies, however, were only for Chinese EV industries, this, however, is coming to an end, and instead, the subsidies will soon be replaced with mandates on car manufacturers to sell a certain amount of EVs. American companies would no longer be disadvantaged by the subsidies and instead would have a significant advantage in exporting electric vehicles to Chinese citizens that will soon be near obligated to buy one! China is the United States' largest importer, and the United States is China's largest importer. The difference is that the amount the United States imports vastly outnumbers China's imports of United States goods. It would not be suitable for American companies if China became the lead EV supplier; therefore, they need to control the Electric Vehicle industry by exporting more to China. Maintaining control over EV sales will help even the playing field by maintaining the American EV industry's competitive advantage over China's market growth wishes!

Situational Analysis

Product to Export

The focused product that we will export is Electric Vehicles (EV). According to the scholarly journal *Smart Cities*, the current benefits of EVs over other traditional gas vehicles are: Zero emissions, simplicity due to cheaper maintenance, reliability due to fewer breakdowns, more affordability due to maintenance and electricity costs being cheaper than fuel costs, comfort due to fewer vibrations and noise, more efficient, however, the authors note this depends on power plant efficiency and accessibility to low emission zones. The current disadvantages are that EVs have is a limited driving range due to battery charge, charging times take longer than fueling up a gasoline vehicle, and battery costs are expensive (Sanguesa et al., 2021)! There are six distinct types of EVs; Battery Electric Vehicles (BEVs), Plug-In Electric Vehicles (PEVs), Plug-In Hybrid Electric Vehicles (PHEVs), Hybrid Electric Vehicles (HEVs), Fuel Cell Electric Vehicles (FCEVs), and Extended-range EVs (ER-EVs) (Sanguesa et al., 2021). Although it is recommended we eventually export all the different types of EVs to meet consumer demand. The type we will focus first on exporting is BEVs, this is because according to Statista, BEVs are the number one selling EV on the Chinese market (*Electric vehicle market in China - statistics & facts*). One important thing to discuss when it comes to EVs, is what bears the most cost within our product: the battery. According to Nikkei Asia, owned by Nikkei Newspaper, the world's largest financial newspaper, battery unpredictability in failure is one of the number one reasons EVs have trouble retaining value on the market. EV batteries can easily be affected by the environment and haven't been on the market that long, causing data on worth, performance, and recyclability to be challenging to quantify! According to China Automobile Dealers Association (CADA), "Battery quality, range, and the manufacturer's warranty are the three critical factors

that determine a used EVs value” (Writer, 2022). Therefore, we will use Lithium-ion batteries because although there are many different types of batteries being used in EVs, Lithium-ion batteries perform the best and therefore will help reduce the unpredictability of failure (Sanguesa et al., 2021).

Trade History

Origin Story behind China’s Powerhouse of International Trade

The Chinese government has seen trade as an essential tool to increase modernization to further its economic development goals. In 2020, China imported 2.056 trillion US dollars’ worth of goods worldwide! A 29.4% increase since 2016 and is about \$1,500 of product demand a year for every person from China (Workman). However, trade in China did not become the powerhouse it is today until about the end of the 1970s, after China had begun to set and implement multiple reforms to upgrade its economy. By then, global trade from China stood at less than 1 percent, according to the United Nations Conference on Trade and Development (UNCTAD). In the 1990s, advancements in information and communication technologies, as well as transport logistics, enabled production to be split across the globe. In 1995, the World Trade Organization (WTO) was founded and provided a more regulated and structured environment for international trade. This led to international dispute settlement and lower transaction costs from lower tariffs and restrictions on non-tariff barriers. However, it was not until 2001 when China joined the WTO before global value chains (GVCs) sought to become partners with China due to low-cost production allowing the GVCs to ramp up their operations. When this happened, it started the chain reaction of growth seen in China’s ever fast-growing economy it is now. By 2009, it had become the leading exporter of goods around the globe and was the only classified developing country in the top 10 world exporters (Nicita & Razo, 2021).

According to Worldstopexports.com, ranking #6 in China's top 10 imports was vehicles coming in at \$74 billion (Workman).

Cultural Overview

China's culture norms, practices, and social beliefs in relation to Electric Vehicles

In the *Global Journal of Management and Business Research*, the authors give some insight into Chinese culture. They explain that Chinese people view their country as superior and as the center of the world! Back in the 1920's car ownership was marketed as the staple of the "American Dream" and had no established competition. The Chinese government envies the success of what foreign auto manufacturers have done for countries like the United States, Japan, and South Korea. China failing to be able to compete globally with gasoline and diesel vehicles, China made a strategic decision to try to skip ahead of its competition in the "future automobile market," more specifically, the EV market. China has committed itself to this plan by doing a number of things to promote EV purchases, such as offering large subsidies for each EV purchase from Chinese EV automakers. According to an article by The Conversation, the authors claim that many believe China has already won the "EV race" (Tyfield, 2022). The cultural viewpoint examined by the *Global Journal of Management and Business Research* authors emphasizes the great potential for growth in the EV market. How? Well, because it blinds the Chinese government to some of the critical factors for the reason of foreign nation's automobile success like in the United States. During the discovery of automobiles, it was also when oil seemed to be boundless, and concern for pollution was almost nonexistent. None of these factors are true for Electric Vehicles! Chinese EV makers would have to compete with already successful established companies (Tyfield, 2022). This is where we come in to provide that

competition. Because for the Chinese government to become successful in their plan to become the world leader in EVs, they will have to spend quite a lot of money on infrastructure, promotion, and automobile expertise to make that possible to achieve such a thing faster than countries with already well known preferred name brand established automobile industries.

However, some negatives could hinder EVs' sales through exporting, particularly with EVs' drawbacks. According to *Consumer adoption of plug-in electric vehicles in selected countries*, the EV industry's biggest problem penetrating the Chinese market is that risk-averse consumers are not usually the early adopters. Early adopters of the automobile industry are generally wealthy enough not to have to worry about the risks regarding EVs' disadvantages (Graham & Brungard, 2021). However, the *Global Journal of Management and Business Research* brings to light some of China's rising opportunities for foreign businesses as well. For instance, China joined the World Trade Organization (WTO) in 2001, China's education and literacy rates are incredibly high, and incentives for foreign investors such as tax benefits. They state that the middle class is growing and becoming wealthier, increasing spending and driving market growth! Therefore, current issues in penetrating the Chinese market as with early adopters may not be present in the near future. The journal also warns of other issues involving Chinese culture regarding intellectual property rights and copyrights. The authors also state that in 2016, China limited how much can be withdrawn from an ATM and how much could be moved out of the country. Chinese Communist Party placing restrictions has caused issues with foreign businesses and has also led to civil unrest increasing up to 400%. Lastly, companies often experience bribery or interference when acquiring public services and dealing with the judicial system in China (Sharfuddin & Nesha, 2016). All of the interference from either Chinese companies or the Chinese government does pose a real problem that must be conquered to be

successful; however, it also gives a golden opportunity to export EVs and profit from the Chinese cultural war mindset.

Chinese Consumer attitudes toward Electric Vehicles

It is mentioned above how the Chinese government has placed subsidies to encourage Chinese consumers to purchase EVs, but how do they feel about them? In a study called “*Linking Chinese cultural values and the adoption of electric vehicles: The mediating role of Ethical Evaluation*,” the authors conducted a nationwide online survey in China. The survey was created to explore Chinese Cultural Values such as Human-nature relationships, Long-term Orientation (LTO), and Face Consciousness and looked at how they relate to the Chinese people’s decisions to adopt Battery electric vehicles (BEVs) and Plug-in hybrid electric vehicles (PHEVs). They also examine how these cultural values align with deontological ethics, or another way of saying it is, do the Chinese values align with them believing they have a moral obligation to take care of the environment? They then also look at if attitudes of the risk involved in EVs prevent their adoption. The study found that consumers have good reasons to adopt EVs when compatible with their values and beliefs (Qian & Yin, 2017). According to the Wall Street Journal, EVs have driven up China car sales despite the impacts felt by COVID-19 and the global chip shortage. So much so that EV sales more than doubled! Tesla, an American EV company, sold more than 936,000 vehicles globally in 2021, with over half of that being about 470,000 in China (Kubota, 2022). Therefore, consumer attitudes about EVs do not only seem to be positive, but they also indicate that the positive attitude about EVs will continue to rise.

China Educational Levels and Electric Vehicle Comprehension

The importance of learning and education is highly valued in Chinese society. Chinese associate a high standard of education with higher social status. Because of this and China’s one-child policy, most parents have high expectations and make great sacrifices in ensuring their

child receives the best education, according to The Open University based in the United Kingdom (*Chinese education: How do things work?*). Chinese culture's high expectations of education have even caused the Chinese government to step in and place a law that forbids businesses from offering classes to students on anything other than weekdays and limits the hours of tutoring. According to CNBC, the Chinese government's goal of this policy are to ease the burden and anxiety on Chinese parents and students (Ye, 2021). However, although the Chinese place a high value on education, China's fast-growing economy has left a massive gap between the educational levels of urban and rural children. In cities, children finish high school at about a 90 percent rate, but in the villages in the countryside, only about 24 percent finish high school! According to Bloomberg, this leaves China with the least educated workforce of any middle-income country. This is a big problem for China's economy to continue growing in the technology-driven world; therefore, the government has started focusing on rural education (Browne et al., 2019). More specifically, their focus is on preschool education in the rural areas and has resulted from enrollment rates of about 20 percent in 1949 to now being over 98 percent in school-age child enrollment (*Chinese education: How do things work?*). American EV companies have also seen the importance of creating education and developing interest in EVs early. Electrek, an American news website, stated that Tesla has been opening their doors within its service centers for Chinese kindergarten students to learn about EVs and the technological differences between EVs and traditional gasoline cars. Tesla made this move to help combat its previous difficulties penetrating the Chinese car market. Difficulties that they believe stem from poor educational knowledge about electric vehicles causing misconceptions (Lambert, 2016). Chinese workers' ability to comprehend EV technology and its importance may be a current issue in exporting EVs to the rural areas of China. However, the Chinese government has

identified the problems with their education system and is constantly working on improving it. Car manufacturers have begun proactively to work on this issue; therefore, the measures taken to increase Chinese student education and understanding of EVs emphasize a positive future for the growth of this market.

Languages of China

The official dialect in China is Mandarin, with over 70 percent of the Chinese people speaking Mandarin. Mandarin is also the language taught in Chinese schools. However, there are six other considerable dialects: Yue, Wu, Xiang, Gan, Kejia, and Min, used by 55 different national minorities living in China. (Lin, 2020).

Political Environment

The Chinese Government Structure Overview

The Chinese government is run by the Chinese Communist Party (CCP). The President of China is currently Xi Jinping, and he is the general secretary of the CCP. The CCP controls every government department, military force, court, and parliamentary gathering. The Chinese system is managed in a pyramid construct. At the top and with six other politicians, Xi Jinping forms the inner circle of the Communist Party's Politburo Standing Committee. Eighteen other members make up the broader circle of the Politburo. China's congress comprises 3,000 delegates, and although not all members are Communist Party members, the CCP overshadows the congress. The state council is similar to the US government's cabinet, which enacts policy. The Communist Party chief heads the military commission, although the military reports to the congress in theory. The Central Political and Legal Affairs Commission heads the judiciary and

prosecutors. The Communist Party enforces discipline and loyalty in its members through the Central Commission for Disciplinary Inspection (CCDI). In the past, their power was limited, but it now has the power to go after senior party members. The Central Organization Department is like the HR Department of the CCP and can assign government roles to its party members (*A simple guide to the Chinese government* | SCMP).

China Compulsory Certification label requirements

The majority of the products imported to China must first receive a China Compulsory Certification (CCC) marking before the product can be sold on the Chinese market. All products must also be marked in Chinese (*China - Labeling/Marking Requirements*). CCC certification for product quality standardization was introduced in China in 2002 and applied to imported goods and products manufactured in China. Complete passenger automobiles, as well as specific automotive parts, such as fuel tanks, brake hoses, seats, and interior trimming parts all, must be approved for the Chinese market through CCC certification. There are three options: obtaining the full CCC certification, a non-mass production certificate, or a low-volume CCC exemption. However, there are limitations to both the non-mass production certificate and the low-volume exemption. Automotive suppliers must submit a complete application with supporting documentation to the Certification and Accreditation Administration of China (CNCA). Then the product is tested at an accredited Chinese laboratory. Chinese Auditors then must perform on-site factory inspections. And lastly, if approved, the application will be marked with the CCC logo. Follow-up inspections must then be conducted on the product every 12-18 months until sold, as car manufacturers are mandated to keep their CCC status valid. To avoid high costs and penalties, one should monitor any changes to current CCC requirements as they do change quite frequently to ensure automotive manufacturers remain compliant (Busch, 2016). Proper CCC

labeling has been identified as one of the significant reasons for noncompliance reports (*China - Labeling/Marking Requirements*)!

China tariffs, bans, and other requirements

According to the LA Times, China plans to ban new vehicles powered by gasoline and diesel engines in the near future. Currently, the Chinese government requires foreign auto manufacturers to enter into 50/50 joint ventures with Chinese companies if they wish to sell their automobiles in the Chinese market. This can be a huge issue, as automobile manufacturers will be pressured into sharing intellectual property with their Chinese counterparts without being compensated for it. This would allow Chinese EV companies the ability to utilize the technology they did not develop or pay for to compete globally (Mitchell & Meyers, 2017)! China did have a 25% tariff on imported vehicles causing problems for foreign vehicle manufacturers to turn a profit from sales; however, China reduced the tariff to 15% in late 2019 (*China - automotive industry*).

Economic Development

China: Developed or Developing?

The World Bank determines countries with less per capita income of \$12,535 as developing countries (Nada et al., 2021). According to statista.com, China's per capita income has risen significantly in two decades and has doubled within the last decade from about \$1045 in 2001 to \$5,554 in 2011 to \$12,359 GDP for 2021 (Statista, 2022). Although China may still be considered a developing country by the World Bank, it soon will not be! Nevertheless, China's consideration of if it is a developed or developing country has been up for much debate for quite

some time. With over 97 percent of Chinese having access to tap water, over 95 percent over the age of 15 having the ability to read and write, and 95 percent owning mobile phones, many would consider these signs of a developed country. However, according to the Mercator Institute for China Studies Vice President, the number of doctors per capita and the low percentage of the agriculture sector's workforce would make some think China is still a developing country.

Jeremy Wallace, an Associate Professor from Cornell University, stated that most Chinese people are poor; however, because China is so huge, the number of wealthy people in China outnumber the total amount of people in the United Kingdom (China Power Team, 2020). In terms of GDP and income, China's economy is on the fast track when it comes to growth. Therefore, the affordability for EVs in China looks to be one of the most promising areas for future EV sales markets!

China's Wages and Mandatory Contributions

Wages across China is a difficult thing to assess as wages are set not on a nationwide basis but respective to the local governments of provinces and individual cities. The wages are also divided into a number of wage classes, where minimum wages vary according to socio-economic circumstances then is differentiated between minimum monthly and hourly wage. In China, there are three work hour systems adopted by employers: standard, comprehensive, and non-fixed work hour systems. Overtime is paid depending on the work hour system. One thing to note, about China's minimum wage is that it is increased at least once every two years. The average wage in China continues to increase every year. One major benefit/cost to the Chinese wage outcome depends on the mandatory contribution to the five social welfare funds; these are pension, unemployment, medical, occupational injury, and maternity funds. One other fund that is also mandated although not a social welfare fund is the housing fund as well (*Wages and*

benefits in China)! However with all that being said, salaries for those working in urban areas have almost tripled in the last decade with average income in 2010 amounting to about \$5,620 to in 2021 the average income was about \$15,000 (Statista, 2021).

China's Purchasing Power

China's purchasing power has been rapidly increasing over the last decade. According to McKinsey & Company firm, in 2000, about 1.2 billion Chinese people did not have enough income to spend \$11 in purchasing power parity (PPP) terms. That, however, is changing, and China is steadily becoming a substantial market for products and services geared toward higher-income consumers. It's estimated that by 2030, 400 million households, roughly as many as Europe and the United States combined, will have upper-middle and higher incomes. In the next five years, due to the rising incomes, it is predicted that the number of millionaires in China will double! According to the management consulting firm, EVs stand out as one of the over-represented discretionary items being spent in China, partly due to China's policies enacted in supporting EV sales. China's EV consumption accounts for 40 percent of global EV sales; it is also growing more than seven times faster than the global rate (Zipser et al., 2021)!

China's Infrastructure

China has improved a great majority of its infrastructure within the last century to develop the nation's economy. However, China's trade access was mostly concentrated in the coastal regions; therefore, access to the interior and remote border areas provided issues for China's growing economy. Therefore, to improve the situation, China has spent even more resources to speed up its railway and highway creation and improve existing networks since 1990. All of China except specific parts of Tibet are accessible by rail, road, water, or air. Now,

railways have been constructed throughout China, linking major vital trade areas of China. A rural road network and thousands of miles of multilane express highways have been constructed. China has also established a national network of waterways allowing vast improvements in water transport through various ports. Speaking of ports, China has about 20 deep-water harbors along its vast 8,700-mile coastline. Air transport may be another suitable option for China with its immense territory and varied terrain, which has also seen significant growth within the last century. Motor vehicle use has expanded faster than road construction can keep up with. Although China has made vast improvements to its road network, many roads remain unpaved or badly need reconstruction! In exporting Electric Vehicles to China, infrastructure no longer seems like it would be much of an issue in shipping and transport. However, because construction and maintenance of the road network cannot keep up with China's automobile car ownership, infrastructure problems could decelerate the growth of EV sales (*Trade of China*).

Export Marketing Plan

Long and short-term goals associated in the exportation of Electric Vehicles with the current understanding of market conditions and target market within China

The ideal market conditions surrounding the product Electric Vehicles consist of the following two key features: the battery pack due to its direct link to the failure rate of EVs and the engine technology used in the EV. Electric Vehicle prices are determined based on the products used in the development of the vehicle; the big-ticket item that raises EV cost is the battery. Therefore, the target battery chosen for the EVs we sell will include Lithium-ion batteries based on their current examined performance. Currently, Lithium-ion batteries perform the best in low temperatures and second best when it comes to life cycles and have seen cost

drop throughout the years (Sanguesa et al., 2021). However, their performance declines over time and can be unsafe when high temperatures are reached (*Advantages and disadvantages of lithium-ion battery*). Therefore, we plan for this to be a short-term goal with the optimism that improved future technologies will change this in the long-term outlook.

All the current EVs rely on a battery pack, but the difference is what the engine runs off of, battery usage, battery charging, and the pros and cons of it all. Although all the different EVs are currently sold in the Chinese market, we have determined that the best option in the short-term prospect would be to start with Battery Electric Vehicles (BEVs). BEVs are 100 percent powered by electric power, do not contain an internal combustion engine, and do not require any kind of liquid fuel. This will help stem costs by focusing on the singularity of an electric engine instead of having to source products to compliment dual engines like seen in hybrid EVs. They also are the number one EV sold currently on the Chinese market. However, the long-term stance should be to export every type of EV to penetrate current demand to maximize profits fully.

The current market conditions involved in the exportation in China present some unique challenges and areas of concern, as mentioned above. Particularly in the dealings with the Chinese Communist Party and their control of the inner working of China determine, an international business plan is a success when implemented in China. Therefore, our short- and long-term goals will be centered on obtaining and building on the relationships with Chinese government officials as well as Chinese auto manufacturing company partners. The outcome desired in this will be to not only enhance our own understanding within the Chinese market but to hopefully encourage government officials to enact policies that would be favorable to our company's mission in exporting EVs to China. In the short run, our goals will be concentrated on urban areas as the target market as currently, the Chinese education, infrastructure, purchasing

power, and language understanding involvement with communication compliments foreign EV exportation. However, the long-term plan is to stretch our exports to the rural areas as well but to do this; our short-term goals must include continuous cultural and market understanding to make accurate responses in the business perspective to encourage market growth. Another short-term goal would be to market our brand through educational visits within Chinese schools and businesses as well as media advertising to enhance desirability. By having these short-term goals, our brand in the EV market within China will cement the value of our product to the Chinese consumer.

According to the Massachusetts Institute of Technology (MIT), researchers project EV sales to reach about 30 million by 2030 (Stauffer, 2021). Although we have determined our product can be sold in the Chinese market, it is a totally different ballgame in forecasting how many EVs we will be able to sell; in the short run, our goal is to match American EV competitor Tesla. However, our long-term vision is to be one of the companies with a significant amount of EV sales reached in the market, factoring in how precise MIT's prediction is on the number of EV sales in 2030.

Summary

It is the perfect time to start exporting electric vehicles to China as they end their subsidies for EVs and begin to mandate them! Although there are many current problems EV automakers and sellers are encountering, the information gathered above proves that most countries agree that the future is EV, China being one of them! China is hoping to take on the world by taking control of the EV market. If the U.S. government and our company have any hope of that plan failing, we must dominate the EV market in China! This will create a

dependence on one of the most significant purchases the Chinese make, which will only help enlarge the United States dollar growth instead of the Chinese Yuan. The American companies successful in pulling off massive EV exports to China stand to become the wealthiest people on the earth!

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