

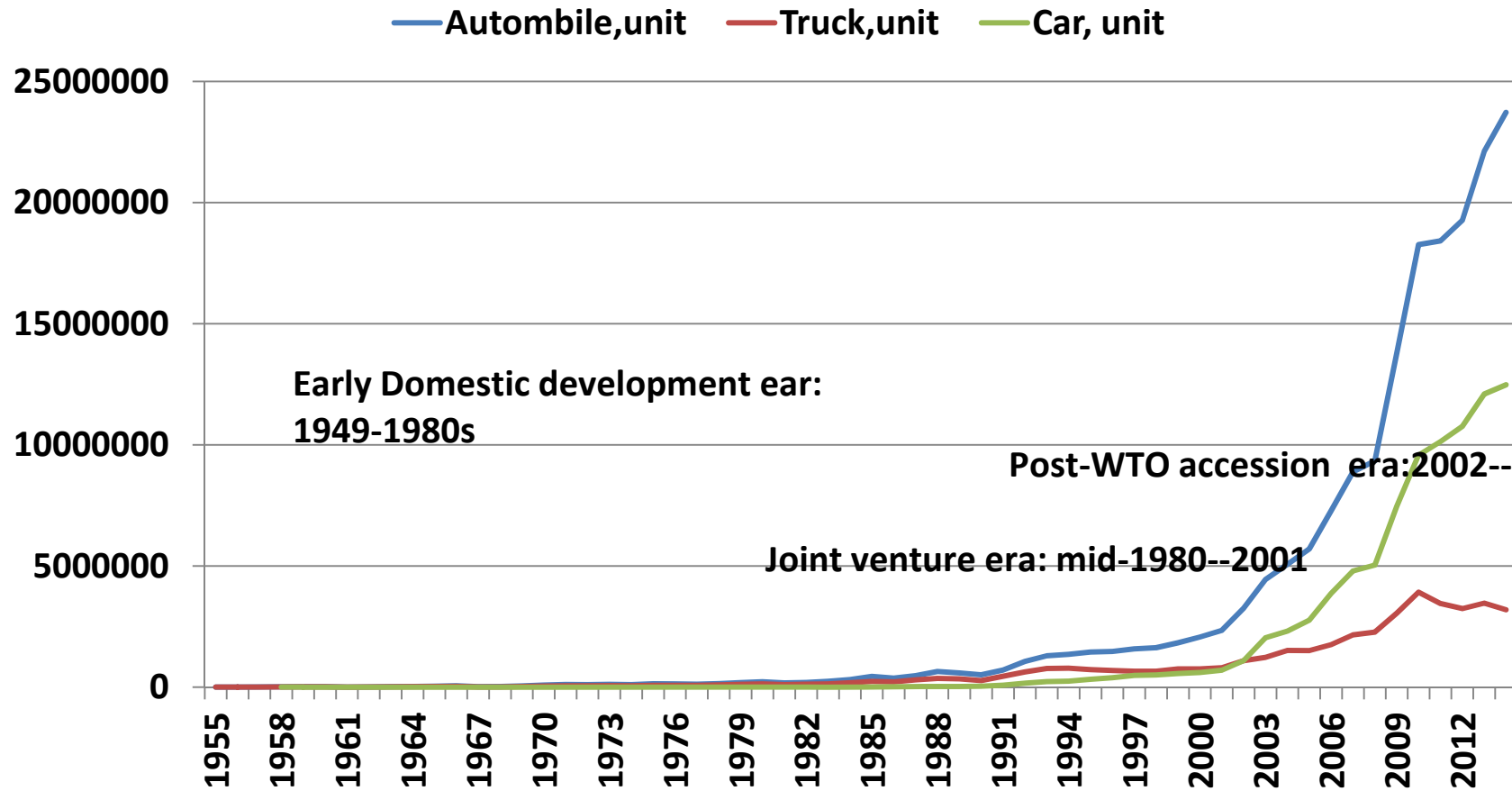
China's development in the Auto parts-Automobile chain

**Song Hong, Senior Fellow/Professor
Institute of World Economics and Politics(IWEP),
Chinese Academy of Social Sciences (CASS)
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The outline of this presentation

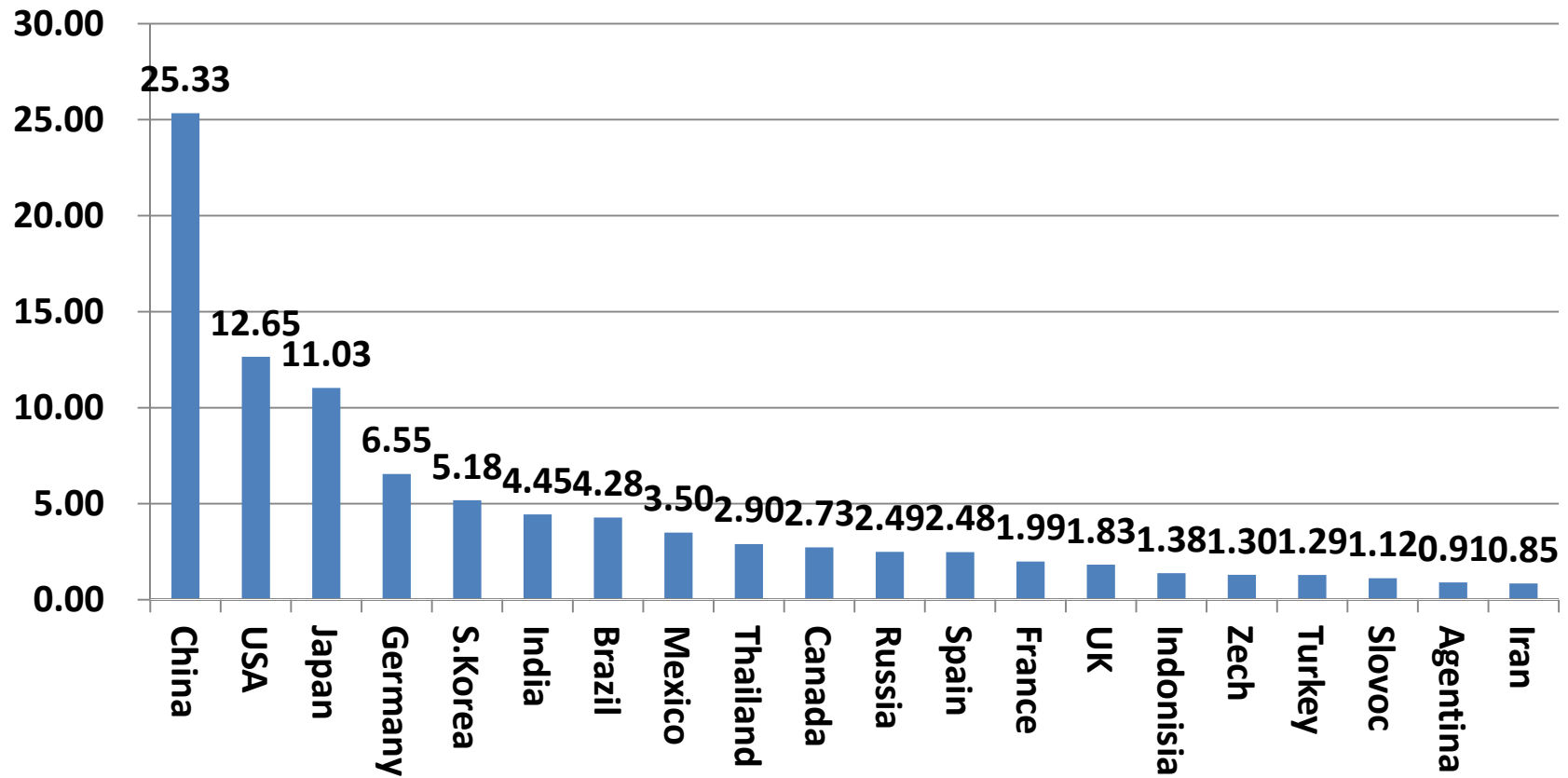
- **Key elements of China's automobile industry;**
- **The development history of China's automobile industry;**
- **Localized supply of China's car industry;**
- **A emerging sourcing of auto-parts supply**
- **Some comments on this industry development**

The production of Automobile in China, 1955-2014



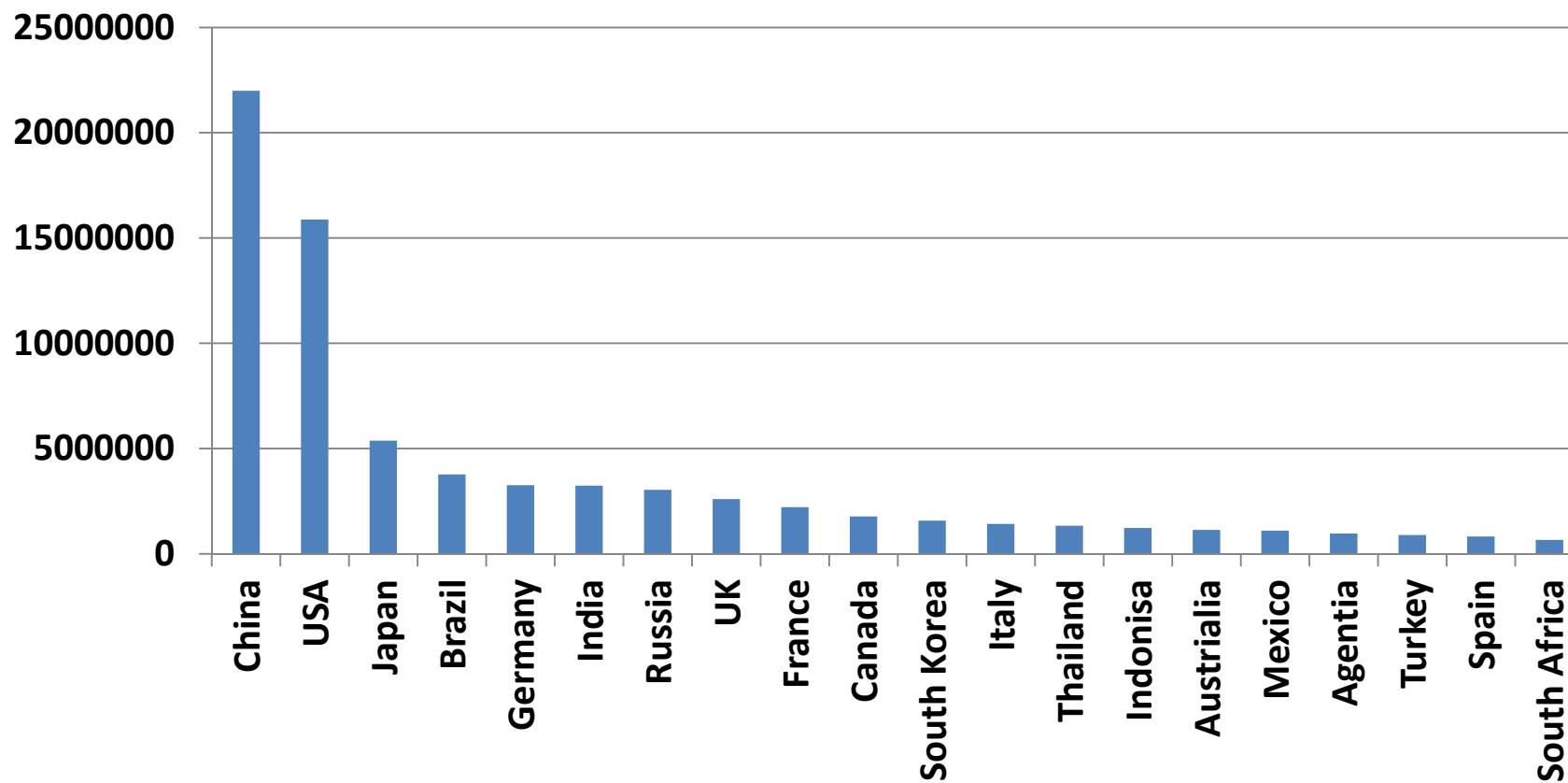
The leading producer of world automobile, 2013,%

Share of world automobile production,%



World Top 20 markets of automoblie,2013,unit

Top 20 sale market of automoblie,2013,unit



Automobile firms in Global 500, 2013(6/24)

2013, order	2012, order	Company	Revenue	Profits
8	10	Toyota	265701.8	11586.6
9	12	Volkswagen	247613.3	27909.1
22	19	GM	152256	6188
23	21	Mercedes-Benz	146886.3	7832.9
26	45	EXOR Group (Fiat)	142226.4	511.5
28	27	Ford	134252	5665
45	64	Honda	118952.4	4421.3
47	42	Nissan	115961.4	4123.8
68	69	BMW	98759.5	6549
103	130	SAIC	76233.6	3289.1
104	117	Hyundai	74998.5	7601.8
121	85	Pigeon	71255.2	-6438.5
141	165	FAW	64886	2622.4
146	142	DongFen	61721.9	1333.6
161	205	China bingqi group	58027.8	675.2
184	158	Renault	53037.2	2277.2
227	208	Volvo	44850.6	1630.5
252	266	Kia	41945.8	3431.4
316	314	TATA	34705	1818.3
336	-	Beijing Hyundai	33374.5	1074.4
367	350	Suzuki	31048.7	968.1
440	428	Mazda	26556.3	413.1
477	475	Geely	24550.2	52.4
483	-	Gongzhou Automoblie group	24144.8	66

The development process...

- **1955-1978: Truck development is the top priority of China, Car is only for the official use;**
- **1979-2000: Car production is only developed after mid 1980s, with the new joint ventures were set up; before that the car production in China is mainly semi-man made, not mass production product;**
- **2001-2015: big explosion of car production...**

Early stage:1955-1978

	Auotombile, unit	Truck	Car	
1955	61	61		
1956	1654	1654		
1957	7904	6228		
1958	16000	12865	57	
1964	28062	20755	100	
1978	149062	96103	2640	

The first truck factory in 1957, the first truck in 1958



The first China's car 1958: Hongqi



- A 1955- version Chrysler sedan;
- 1958 was produced in FAW in Changchun, Jilin Province;
- The revised version of car became the high-level officials car since then in China, has very important impact on the follow-up development of this industry

Another Chinese car, 1963: Shanghai

- a Benz 220S car
- Shanghai Car



The second auto factory was built in 1960s, and finished in 1970s:1978, new truck



Car production and demand in early stage

- Car is only for officials use, not for family; and while Hongqi is for high level official, Shanghai is for low level official;**
- The production of those cars were mainly hand-made, not mass production line without scale economy;**
- For the truck subsector, China already built up the mass production capacity.**

Joint Venture initiatives in 1980s

- **1984, the first car joint venture was set up in Shanghai between Shanghai automobile factory and Volkswagen of Germany, and Santana model was introduced;**
- **1990, the second car joint venture was set up in Changchun between China's Auto first factory and Volkswagen, and Jetta model was introduced;**
- **1992, the third car joint venture was set up in Wuhan between China's Auto second factory and Citroen, and Fukang model was introduced**

Xiali

www.jiauto.com.cn

▶ 1986年
CKD组装开始



第一车网

Audi 100

Preis vom Audi: Edel und luxuriös Audi 100 quattro.

Audi wenn Sie gerne sportlich fahren, muß der Komfort nicht auf der Strecke bleiben. Denn der exklusivste Audi 100 quattro vereint die Vorteile beider Konzepte. Er ist eine sportlich komfortable Limousine mit hervorragender Motorleistung und dem quattro-Antrieb der größten Sportwagen. Und er glänzt mit einer exklusiven Ausstattung, die Sie in noch nicht gesehen haben. Man könnte sagen, dieser Audi markiert eine Revolution in der Audi 100 Reihe.

Der neue Audi 100 quattro ist ein Meisterwerk der Technik. Er verfügt über einen V6-Motor mit 170 PS und 200 km/h Höchstgeschwindigkeit. Die vier Räder sind durch das quattro-System miteinander verbunden, was für eine hervorragende Stabilität und einen sportlichen Fahrstil sorgt. Die Ausstattung ist ebenfalls sehr hochwertig und umfasst unter anderem Lederpolsterung, Alufelgen und eine Klimaanlage. Der Audi 100 quattro ist ein Auto, das Sie in jeder Hinsicht überzeugen wird.



Fukang



Santana



Jetta



Daihatsu technologies and the ‘Xiali Model’

- **In 1984, Tianjin Automobile Industry Company signed an agreement with Japan’s Daihatsu on the introduction of a set of complete technologies for manufacturing the Hijet850, a kind of minibus, and Charade 1.0, a mini two- box car.**
- **The Chinese name, *pinyin* ‘Xiali’, is used to name the car model. Xiali- brand cars were one of the most sold vehicle brands in China in the late 1990s, ranking second only to Santana. The annual sale volumes of Xiali- brand cars reached 100,000 in 1998 and 1999, and production capacity reached 150,0000 cars and 200,000 engines.**
- **This had become a modern car manufacturing plant with a certain scale.**

Audi 100 technologies and the 'Hongqi Model'

- **FAW signed an agreement with Volkswagen on May 17, 1988, on the transfer of Audi products and technologies to update its Hongqi- brand car.**
- **It stipulated that FAW would introduce third-generation Audi 100 cars from Volkswagen, and start from SKD (semi- knocked down) and CKD (completely knocked down) car assembly, before gradually raising the local content level.**
- **After reaching certain standards, these introduced products will be allowed to use their own Hongqi brand.**

Joint venture development, 1979-2000

Year	Automobile,unit	Truck	Car	
1979	185700	119501	4152	
1985	443377	236934	5207	
1986	372753	218863	12297	
1992	1061721	626414	162725	
1993	1296778	774868	229697	
1996	1474905	688614	391099	
1998	1627829	661701	507103	
1999	1831596	756312	566105	
2000	2068186	751699	607445	

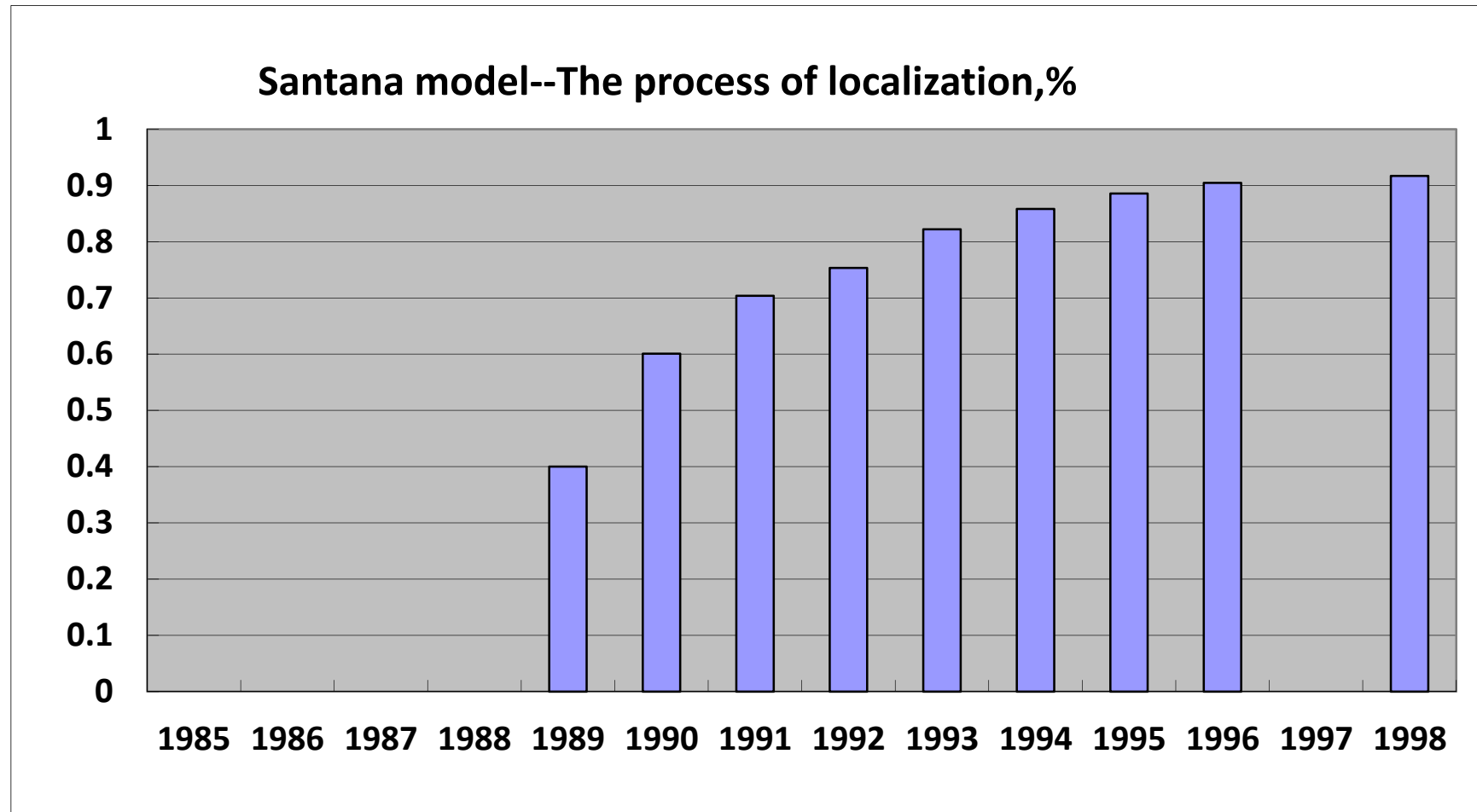
Joint venture projects in 1980s,1990s

- ***Shanghai- Volkswagen: Santana*** In October 1984, Shanghai Automotive Industry Corporation (SAIC) set up a joint venture with Germany's Volkswagen for the manufacturing of the Santana, with both holding 50 percent of shares.
- ***FAW- Volkswagen: Jetta*** In 1991, the FAW signed an agreement with Volkswagen for the production of Jetta vehicles, with FAW holding 60 percent of shares and Volkswagen 40 percent. Later, the proportions were adjusted to 50 percent each.
- ***Shenlong Fukang: Fukang vehicles*** On May 18, 1992, the Dongfeng Automobile Company and the French Citroen Automobile Company set up the joint Dongfeng Peugeot Citroen Automobile Company Ltd in Wuhan, Hubei province, with a 70 percent to 30 percent share- holding proportion between the Chinese and French sides.

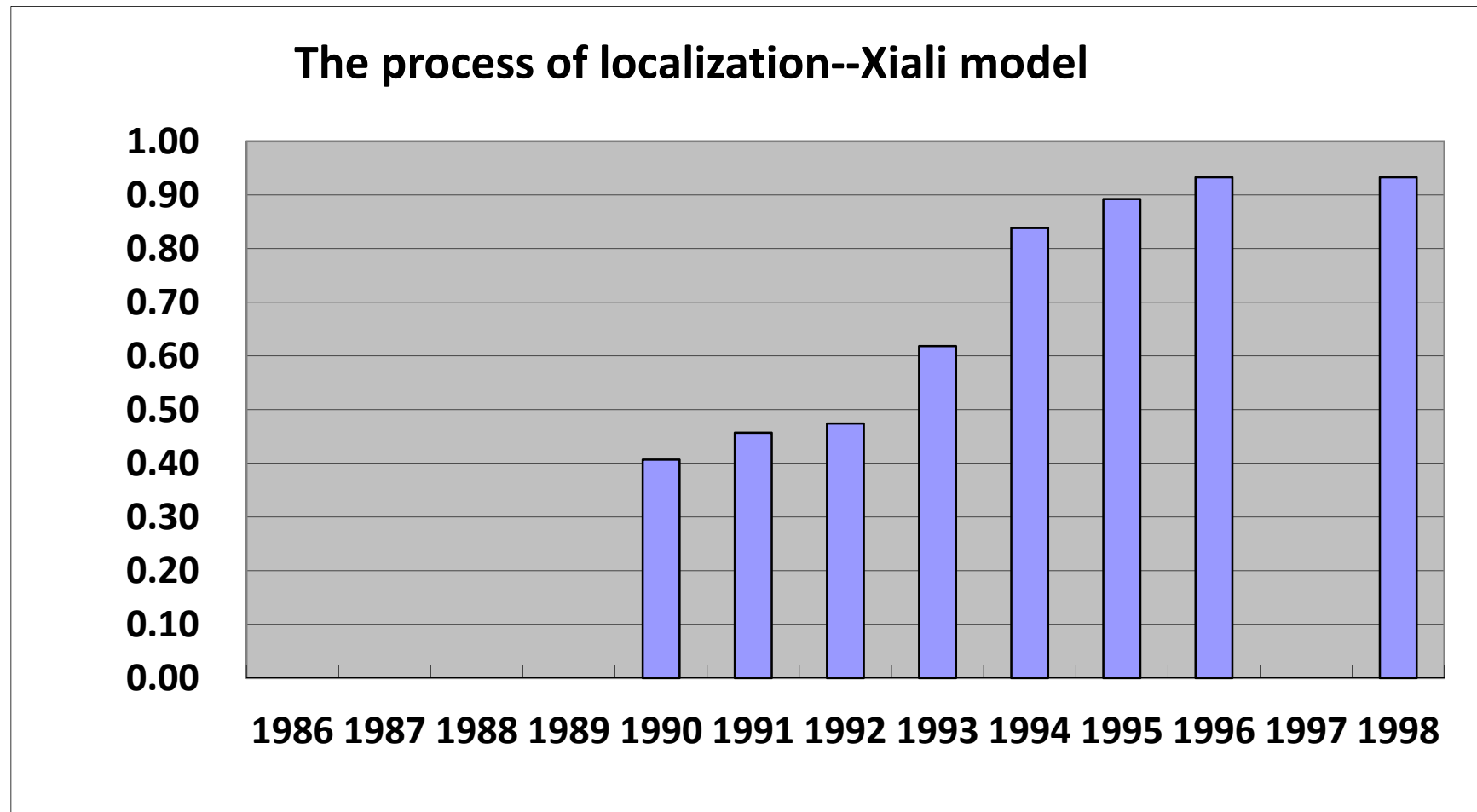
The difficult process of localization in the late of 1980s in China

- **After the establishment of Shanghai Volkswagen in 1984, it carried out SKD and CKD assembly for three years and the localization rate reached only 2.7%.**
- **As the localization rate was unable to improve, the state began to limit the amount of SKD or CKD import, thus forcing Shanghai to accelerate the process of localization.**
- **In order to realize as soon as possible the localization rate, Shanghai local government gradually reduced the import of parts to conserve foreign exchange and set up a special localization office for Santana.**
- **Virtually all parts producers underwent thorough improvements, either importing technology to improve product quality or entering into joint ventures with foreign companies or carrying out technical cooperation to develop products jointly.**
- **The efforts paid off. The localization rate rose steadily until it reached over 40% by 1989 and 60% by 1990 and 90% by 1996, basically realizing local production.**

The process of localization —Santana model



The process of localization —Xiali model



Major brands and their market shares in 2000

Brand	% in total sales(not including import and export)	Market share %
Santana, Volkswagen	31.38	30.88
Jetta, FAW	15.51	15.26
Xiali,	13.86	13.64
Fukang, Shenlong	8.49	8.35
Changan Alto(including sales networks of other assembling plants)	7.63	7.51
Honda Accord	5.26	5.18
Shanghai GM Buick	4.98	4.90
Passat, Volkswagen	4.91	4.83
Audi, FAW-Volkswagen	2.64	2.60
Red Flag, FAW	2.5	2.46
Cherokee,	0.75	0.74

Market opening and international competition

- **The competition between different MNEs----
The new entrants and the old ones; Japanese, Korean firms and those of EU and USA;**
- **All the MNEs, for the major model and car, the “local sale and local production” strategy was pursued.**

Market opening and international competition, 2001--

	Auotomobile, unit	Truck	Car
2001	2341528	803076	703525
2002	3253655	1092546	1092762
2003	4443491	1228157	2037865
2004	5070452	1514869	2312561
2005	5707688	1509893	2767722
2006	7279726	1752973	3869494
2007	8882456	2157335	4797688
2008	9345101	2270207	5037334
2009	13790994	3049170	7471194
2010	18264667	3920363	9575890
2011	18418876	3450972	10137517
2012	19271808	3241730	10767380
2013	22116825	3468501	12100772
2014	23722890	3195901	12481052

The local new entrants

- **Chery Automobile Co, the first car was produced in 1999;**
- **Geely Holding Group Co: In the 2001, the first car was made, and in 2009, purchaed Volvo car branch;**
- **Great Wall Motor Company Limited: mainly focus on SUV market, and are one of leading supply of SUV;**
BYD: in 2003, BYD entered the car market.

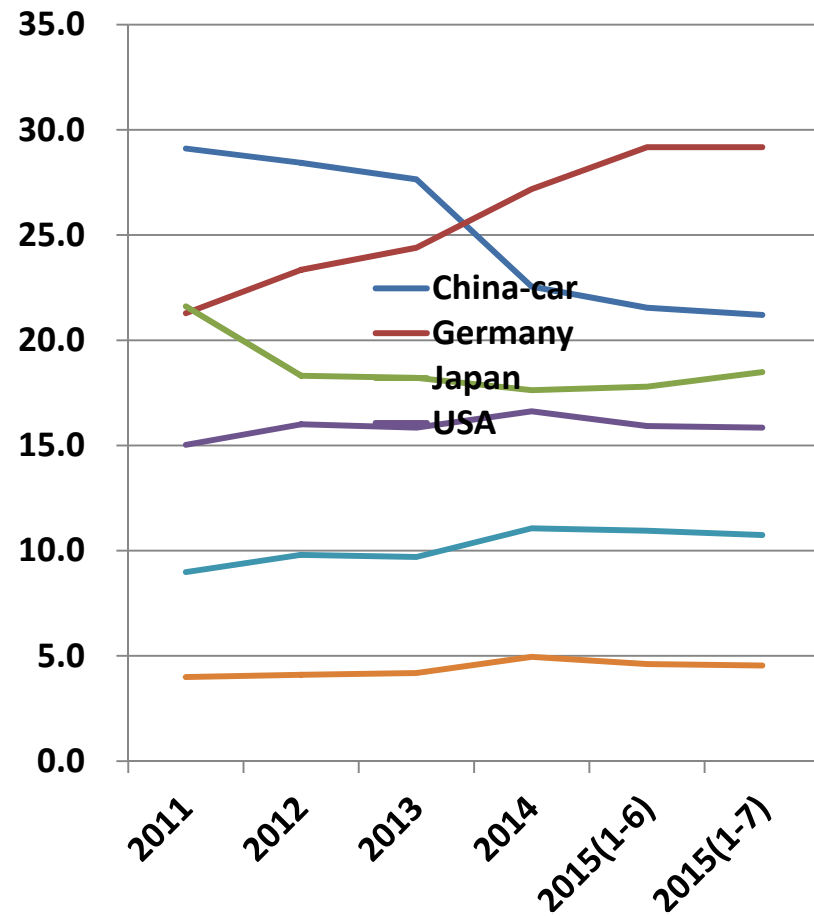
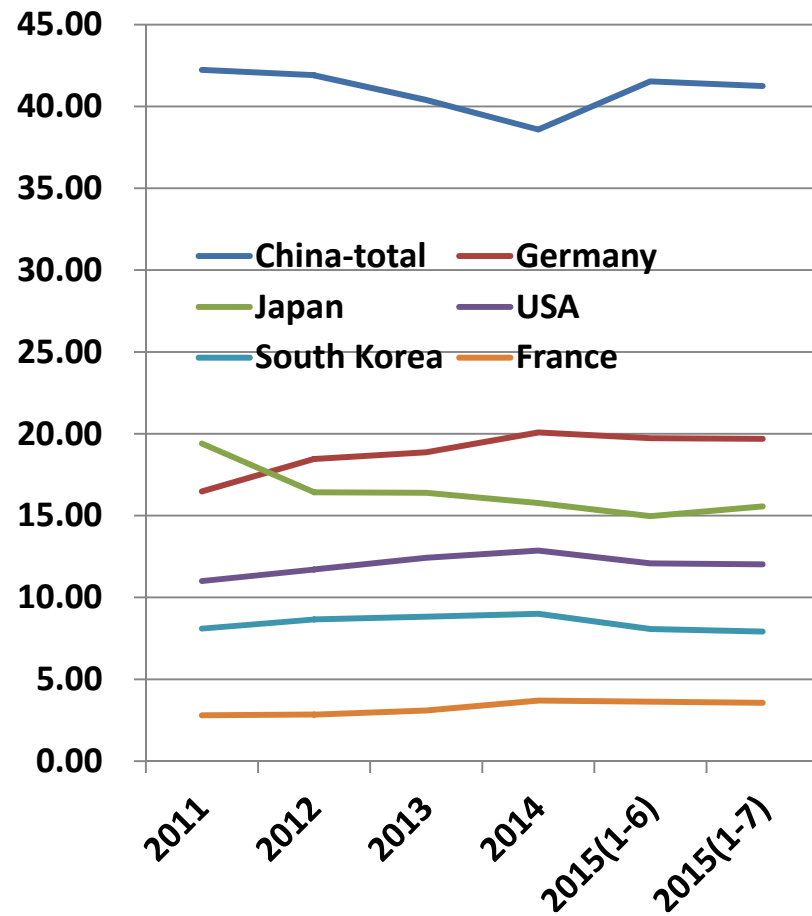
Copy, imitation and innovation of local new entrants

- **Copy of the foreign popular model. So, there are a lot of lawsuit with MNEs during 2001-2004;**
- **Joint development with professional car design firms in the west;**
- **The indigenous development of new models, mainly base on reverse engineering firstly, then gradually base on indigenous engineering...**

The major brand of car in Chinese market in 2013,%

	Brand	Production	sale	Share of production	Share of sale,%
Jetta	凯越1.5	294110	296183	2.43	2.47
	捷达1.6	262836	263408	2.17	2.19
	新福克斯1.6L	237529	238317	1.96	1.98
	新朗逸1.6L	231217	226976	1.91	1.89
	新宝来1.6L	223386	221333	1.85	1.84
	朗动1.6L	203754	204595	1.68	1.70
	瑞纳1.4	202237	198525	1.67	1.65
	帝豪EC71.8	192791	193210	1.59	1.61
	雪佛兰科鲁兹1.6L	179024	185773	1.48	1.55
	NMS1.8T	185253	183111	1.53	1.52
	悦动三厢1.6L	172849	171490	1.43	1.43
	速腾1.6L	170346	166269	1.41	1.38
	新轩逸1.6	163202	162142	1.35	1.35
	迈腾1.8T	154877	149331	1.28	1.24
Santana	花冠1.6	147418	147921	1.22	1.23
	英朗GT1.6L	142727	138767	1.18	1.16
	K3 1.6L	139435	134613	1.15	1.12
	新赛欧三厢1.2L	133454	134580	1.10	1.12
	全新桑塔纳1.6L	131991	132186	1.09	1.10
	新骐达1.6L	138427	128903	1.14	1.07
	新赛欧三厢1.4L	128456	128583	1.06	1.07
	长城C301.5	123317	126036	1.02	1.05
	宝马5系3.0	126888	123852	1.05	1.03
	速锐1.5	123065	123643	1.02	1.03
		4208589	4179747	34.78	34.80

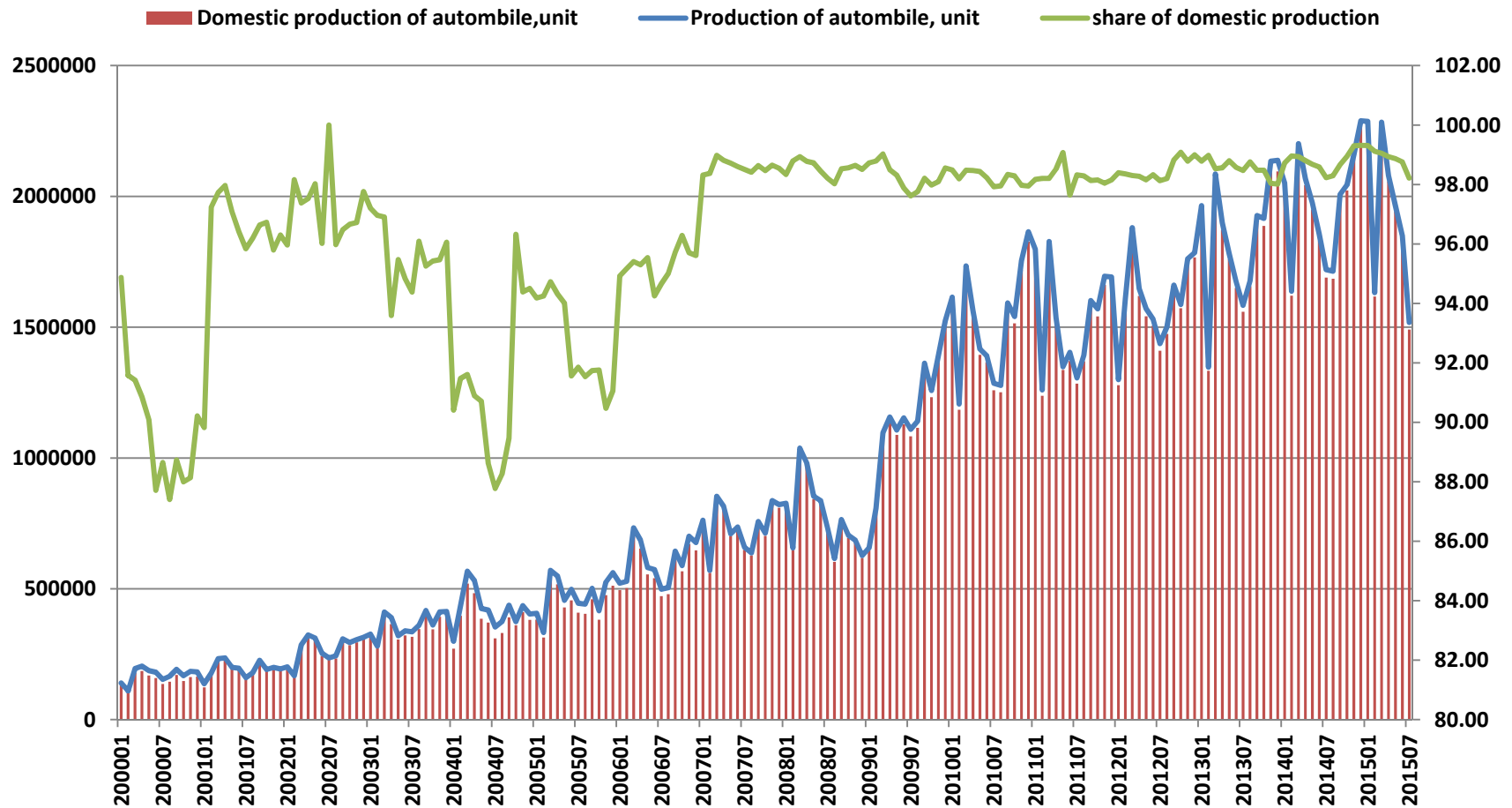
The foreign share of Chinese market



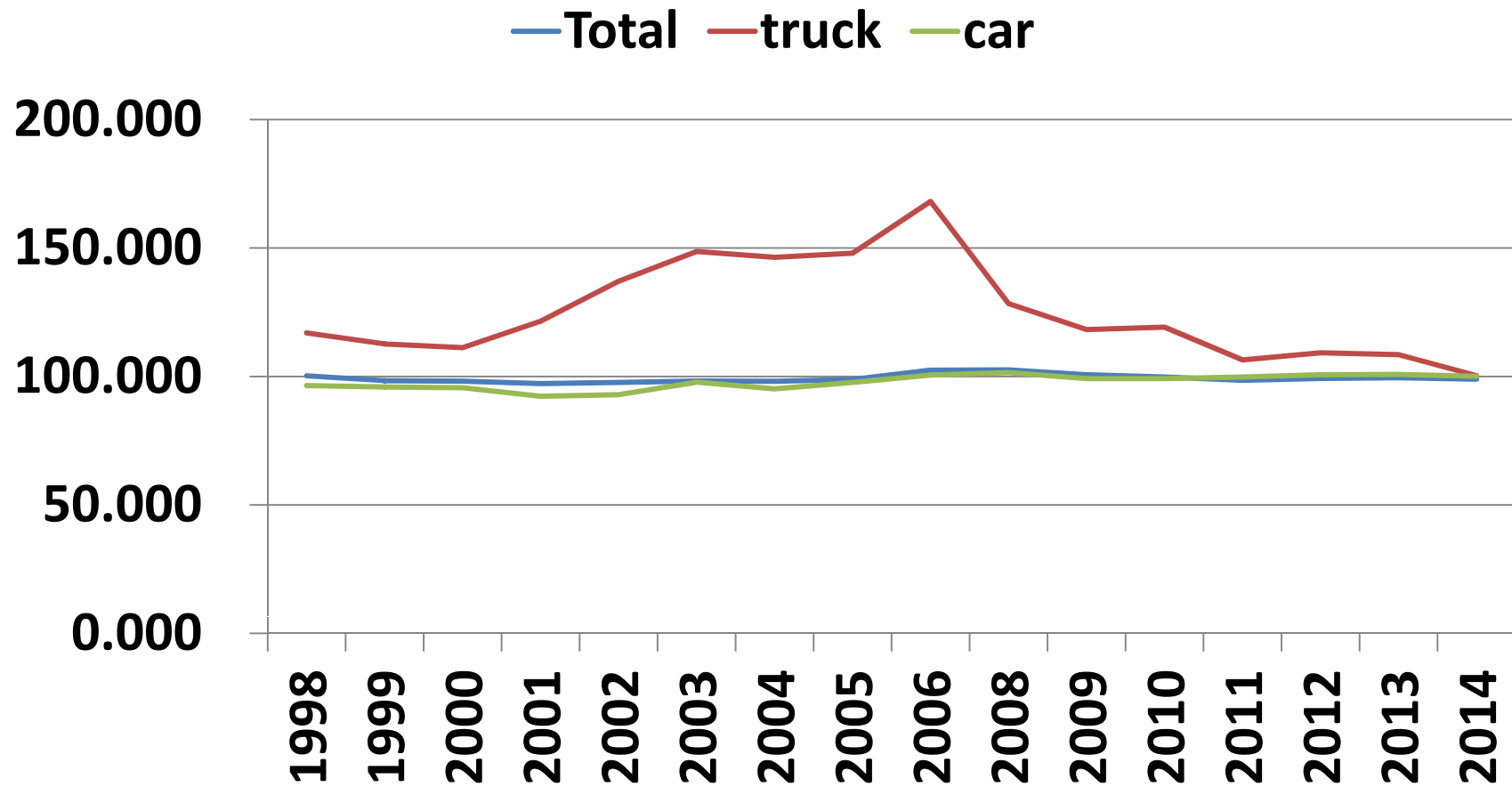
The leading firms in Chinese market, 2013

Firms	Sale, 2013, unit	Growth rate, %	Share of 2013, %	Growth of share, %	Order, 2013	Change of order
SAIC-GM	1376445	8	11.44	-0.4	1	0
FAW-VW	1371822	11	11.41	-0.2	2	0
SAIC-VW	1285826	20	10.69	0.7	3	0
DF-Nissan	785936	22	6.53	0.5	4	1
BAC-Hyundai	746803	9	6.21	-0.2	5	-1
Changan-Ford	525817	7	4.37	-0.2	6	0
ShenLong-Fukang	497689	13	4.14	0	7	1
Geely	486583	6	4.05	-0.2	8	-1
DF-KIA	413529	14	3.44	0	9	3
FAW-Toyato	411398	10	3.42	-0.1	10	0
GAC-Honda	407550	38	3.39	0.6	11	2
BYD	406500	10	3.38	-0.1	12	-1
Cherry	338951	-18	2.82	-1	13	-4
Changan group	311545	40	2.59	0.5	14	0
SAIC	219513	14	1.83	0	15	1
Geat Wall Auto	202146	1	1.68	-0.2	16	-1
FAW Car	196830	9	1.64	0	17	1
GA-Toyato	190784	21	1.59	0.1	18	2
Huachen-BMW	180240	27	1.5	0.2	19	2

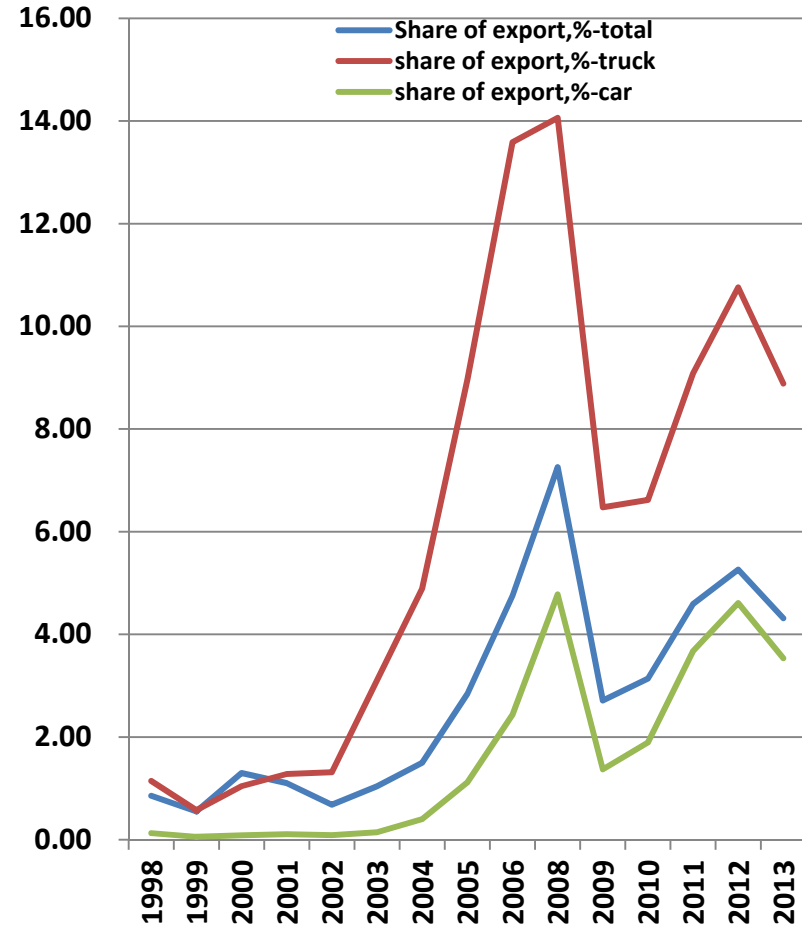
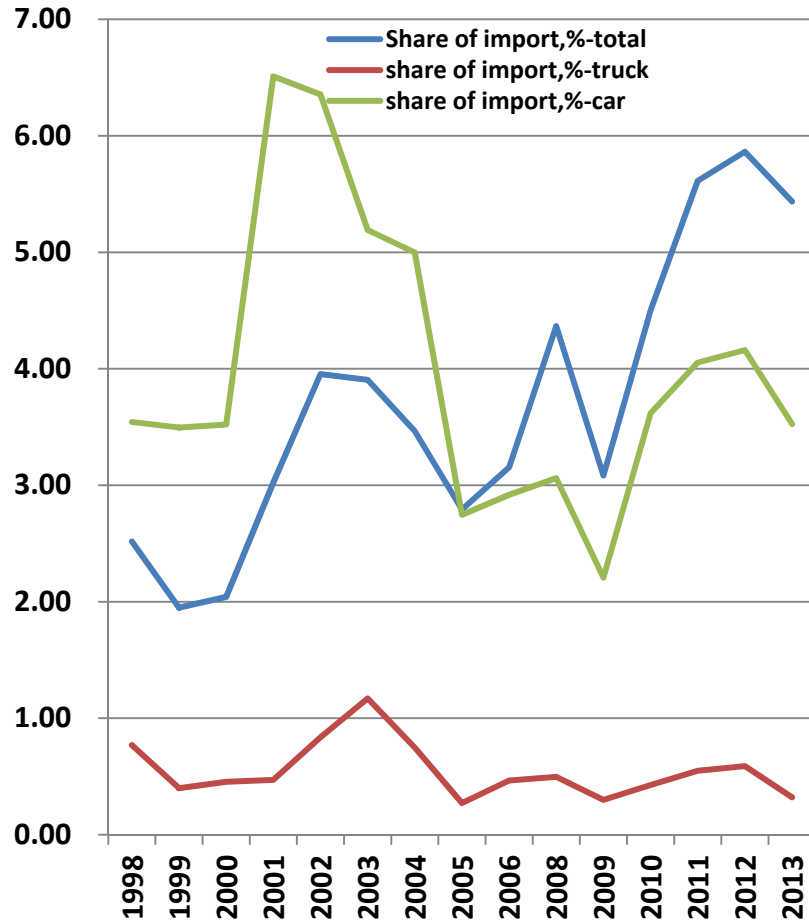
Domestic production vs. CKD production, 2000-15(July)



Share of local production(domestic production + CKD) in local sale(local sale + import-export),%



The import and export,%

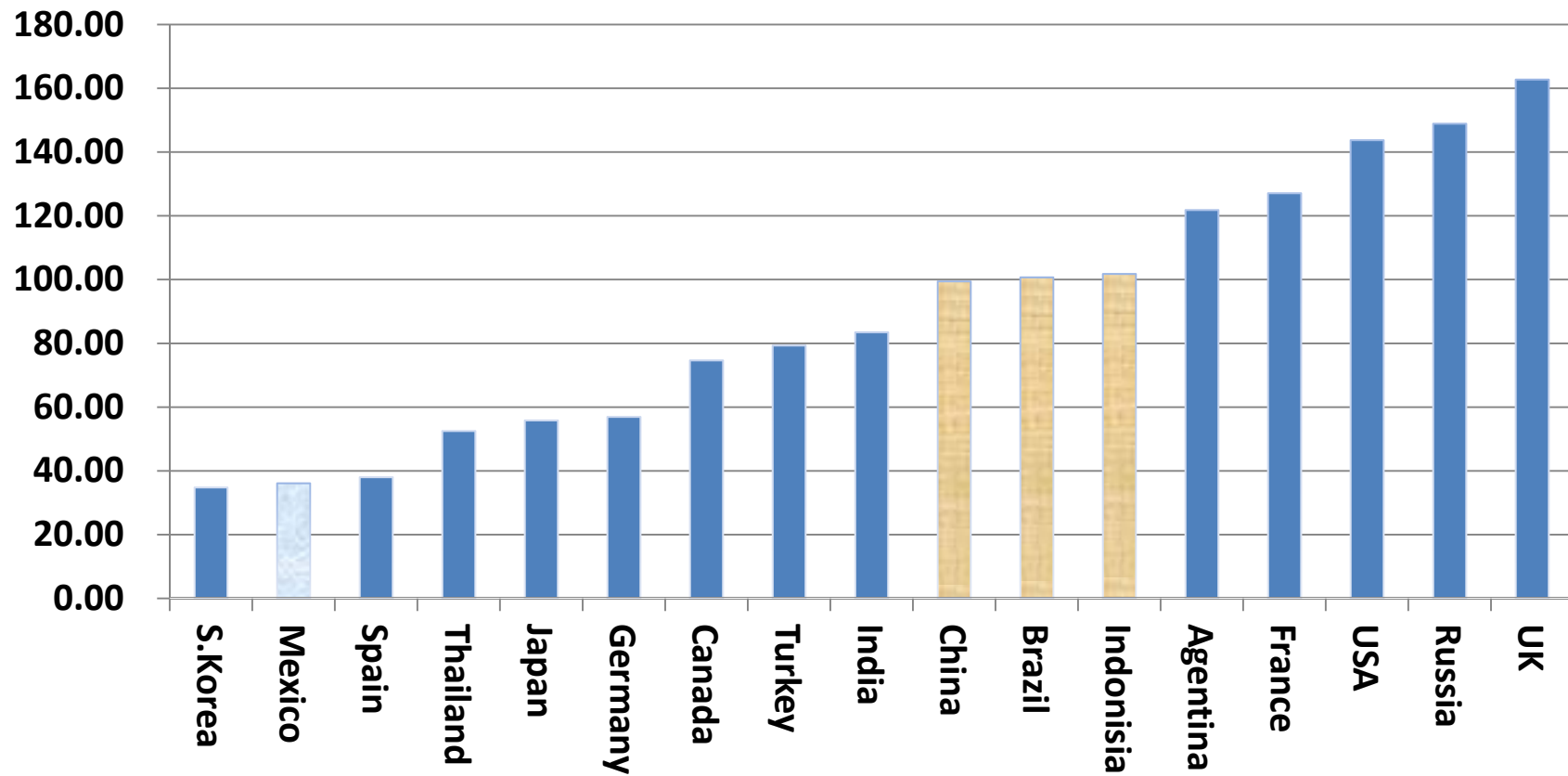


The key features...

- **China, not only the largest producer of automobile, but also the largest market of it in the world;**
- **Local production and local sale model;**
- **There are a very divers and deep local parts supply system;**

China, Brazil and Indonesia

Ratio of local sale to local production,%,2013



A emerging sources of auto-parts supply, 2013

	Import, unit	import, \$10000	Export, unit	Export, \$10000
I. Engine	818178	237632.2	3312488	157463.9
① ≤50mL (gasoline)	608	15.8	132264	2636.2
② 50mL- 250mL (gasoline)	4651	125	2576780	33267.9
③ 250mL- 1000mL (gasoline)	4270	1149.2	34252	3254.8
④ 1000mL- 3000mL (gasoline)	780106	210659.8	457992	62174.9
⑤ >3000mL (gasoline)	16535	10428.3	546	449.2
⑥ P ≥ 132.39kW (diesel)	4614	11721.7	17280	20623.6
⑦ P < 132.39kW (diesel)	7394	3532.3	93374	35057.4
II. Parts	-	3277993.4	-	6459160.7
Parts of Automobile	-	2836173.5	-	5505252.6
Parts of engine	-	437914	-	614645.3

- **In 2013, there are 202 main auto-parts, and there are 2151 firms. Of which, 412 is foreign firms, or joint ventures. That is, in terms of firm number, 19.15% is foreign firms.**
- **In terms of value, 2013 China exported engine \$1.575 bilion, and import \$2.376 billion, with deficit \$0.81 billion;**
- **As far parts are concerned, China had \$31.81billion surplus.**

**Most the car on the way in the city are
foreign brands...**



How and why this model was built?

- **1)The government requirement in the mid-1980s;**
- **The compitition among MNEs in 2000s;**
- **The efforts of the new local entant firms;**
- **2) China is a big country, largest market in the world;**
- **Market's logic----profit and efficiency: local demand and local production;**

Why so bad for car industry?

- **Official goods, not national good or civil goods: the demand is limited, and the quality and varieties of those goods lost their dynamism, can't be changed or updated dramatically;**
- **Joint venture is the priority choice, not joint cooperation, or technology importation; and only that of MNEs and SOEs were permitted, no other local firms, especially private firms were allowed enter into.**

The way forward...

- **Firstly, to become a major supply of parts of automobile, especially the cars;**
- **Then, to become a indigenous brand supply of local market, like that of mobile phone and TV sets and so on;**
- **Lastly, to go to the outside world**

Thank you very much!