

**DRC**

中国国务院发展研究中心

# China's Automobile Industrial Development and Opportunities

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## Content

- 1. Overall review**
- 2. Future trends**
- 3. Opportunities for cooperation**

# Before China's Reform and Opening up

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**1956: FAW was found**

**1958: Annual auto output of China was only 16,000 ;**

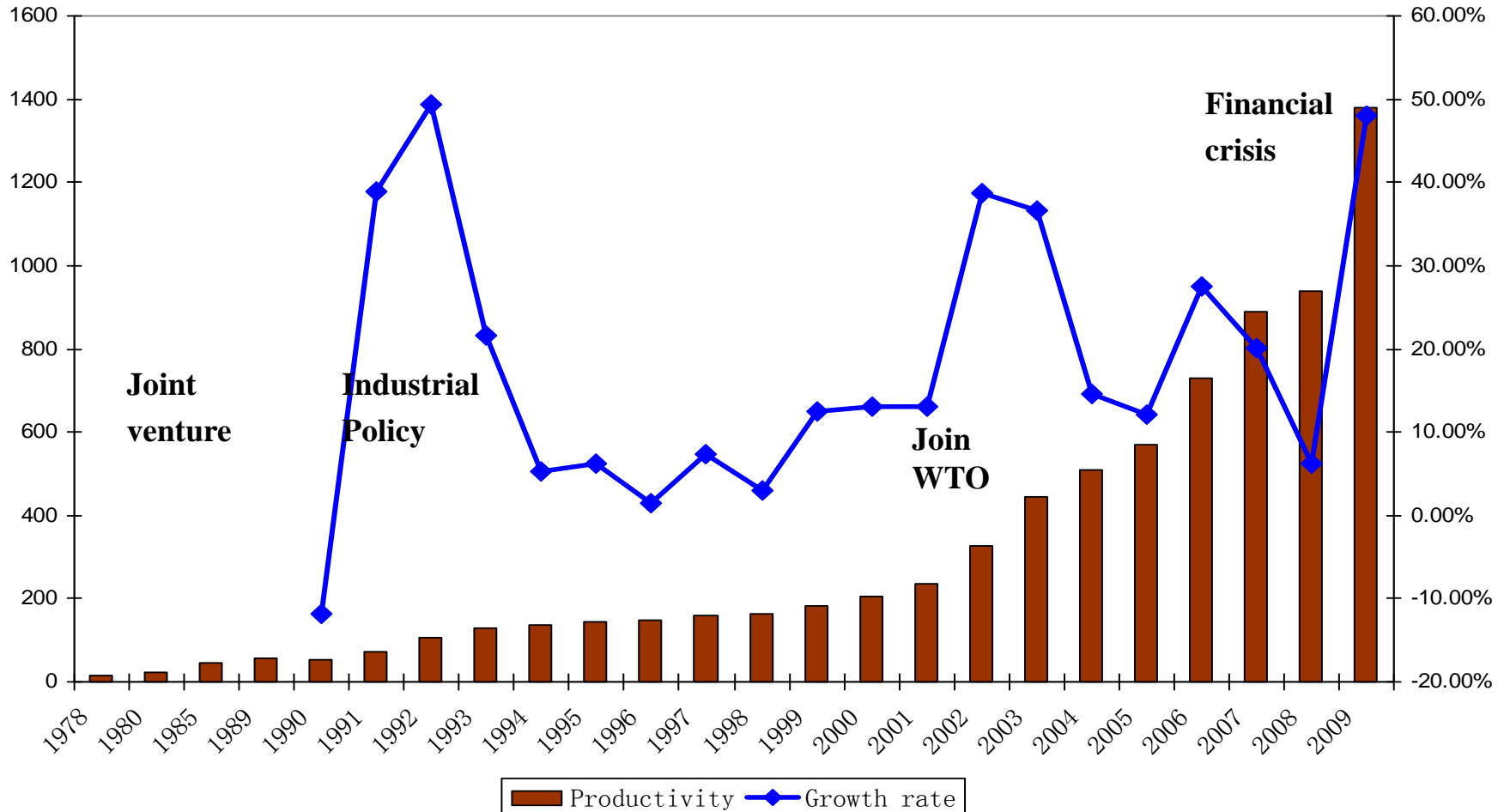
**1966: The output reached 56,000;**

**1969: DongFeng Motor was found**

**1978: The output reached 149,000.**

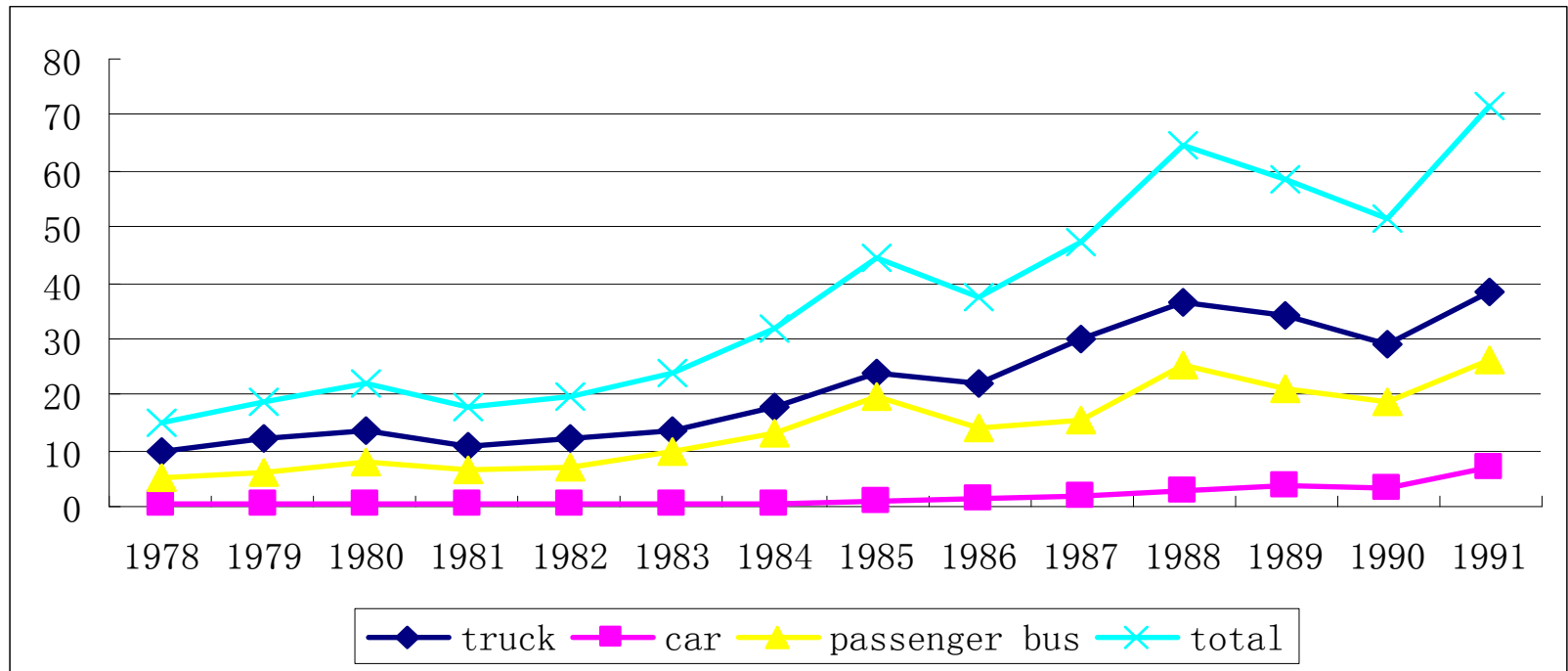
- **All Chinese auto enterprises were state-owned enterprises**
- **Production and distribution were all according to government's plan**
- **Product types were merely trucks while car was almost empty**

# After Reform and opening up, China's automobile industry development in three stages



- 1978-1991** period of Joint venture
- 1992-2000** period of industry reorganization
- 2001-** period of rapid growth

## 1978-1991 Period of Joint venture



**1978** Xiaoping Deng approved joint venture policy of automobile industry

**1979** Volkswagen set up the first joint venture company - Shanghai Volkswagen Automobile in China.

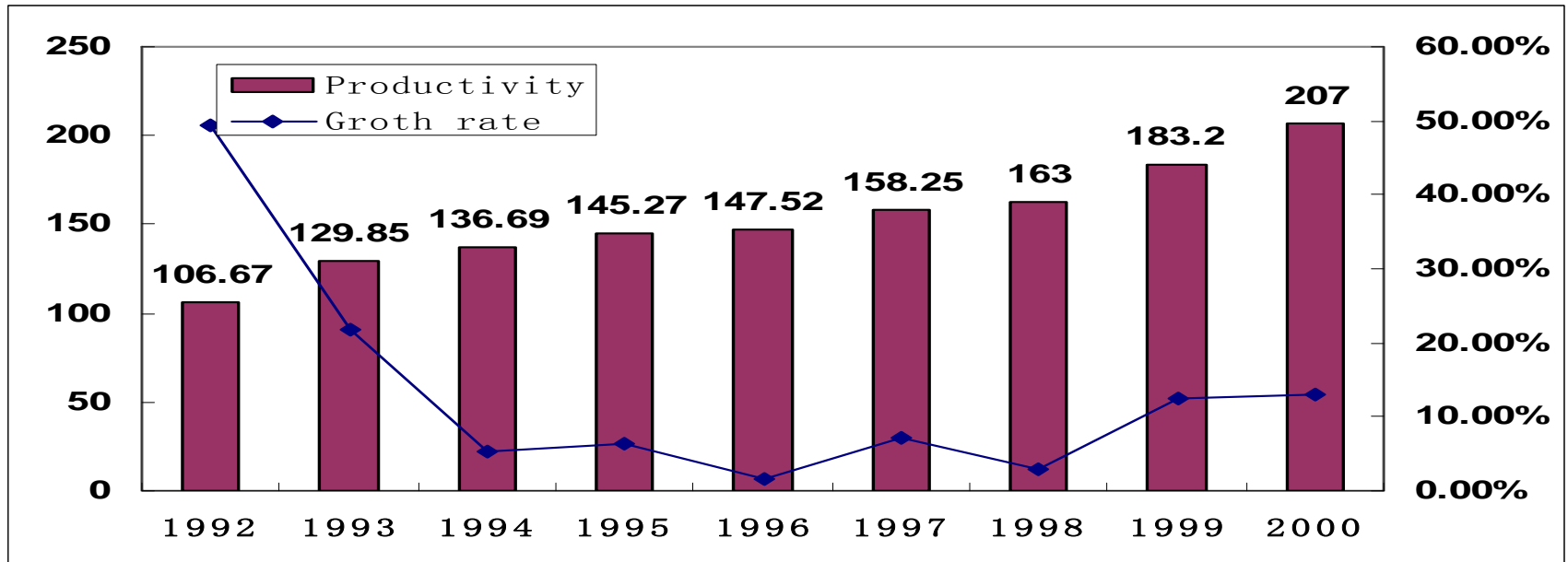
**1983** the first Santana was successfully assembly.

**1991** FAW-Volkswagen was found; in the same year, the first Jetta was produced.

**During early 90s, there were 9 joint ventures of automobile and 4 joint ventures of auto-parts. Car brands included Cherokee, Santana, Audi, Jetta, Peugeot, Citroen. Due to the demand of cars, the auto products structure changed from trucks to cars.**

# 1992-2000 Period of Industry Reorganization

auto output( 10,000 units)



**1992** The auto output exceeded 1 million, the auto manufacturers reached 124.

**1994** Automobile Industry Policy was enacted.

By the directing of Automobile Industry Policy, China's automobile Industrial concentration improved step by step. More than 80% investments went to the top13.

To the year of 2000, producing concentration of the top 13 enterprises reached 90%. Producing concentration of FAW, DongFeng and Saic Group reached 44%. Producing concentration of cars exceeded 70%.

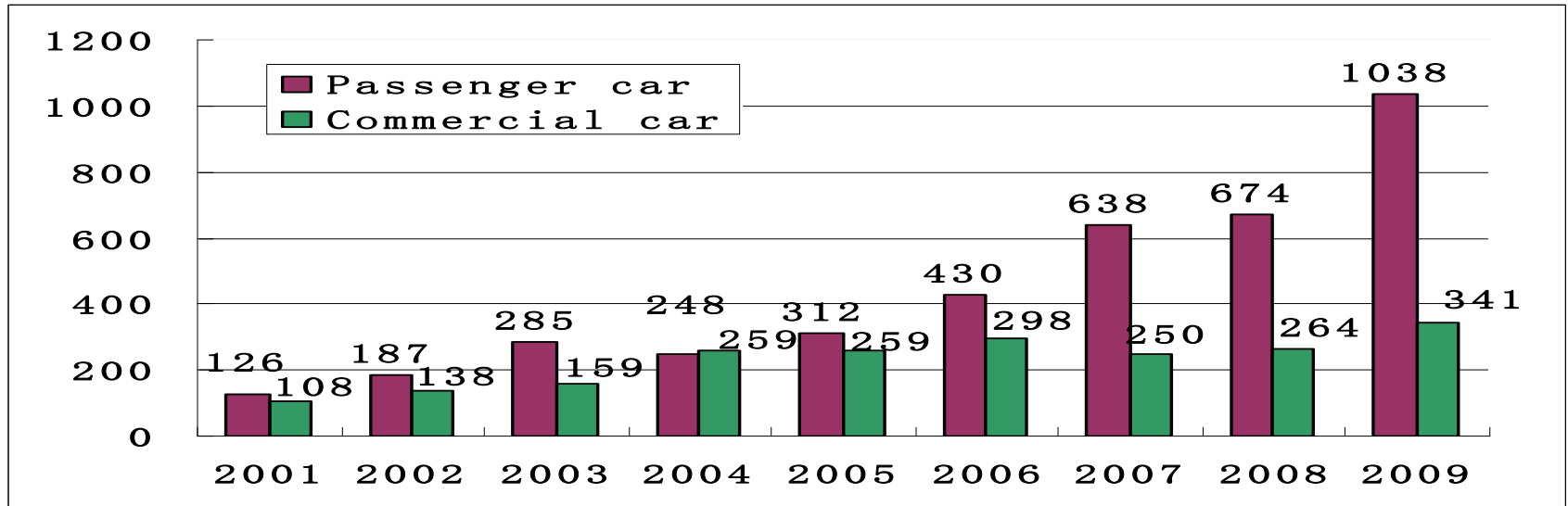
## 2001- Period of rapid growth

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- 2001 China joined WTO
- About customs taxes, the import tax of auto decreased from 70% in 2001 to 25% in 2006. Auto parts average custom tax decreased from 25% in 2000 to 10% in 2006.
- About foreign investment, abolished the limitation of foreign investment percentage for engines manufacture, allowed foreign investment exceed 50%. Canceled the requests of percentage of production localization and technique transfer.
- About service trading fields, allowed foreign investment to involve into the sale of auto and setup branches. Also allowed foreign investment to involve into loan for cars.

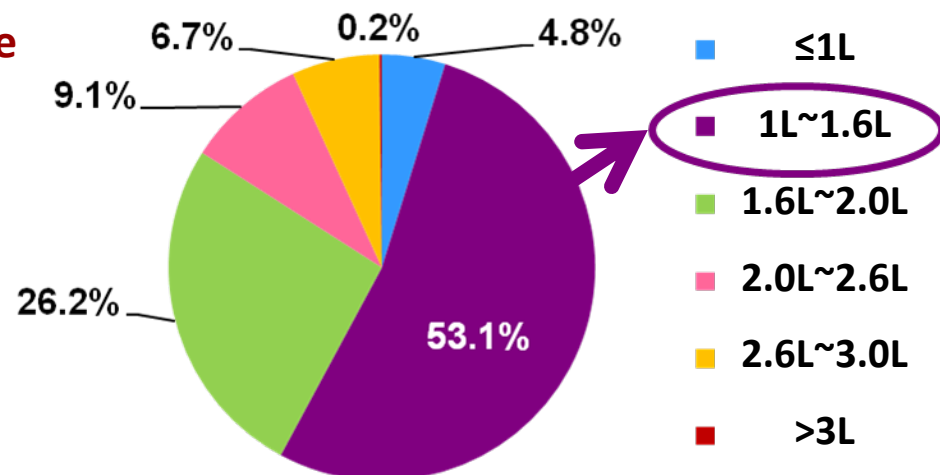
# Products proportion is getting in line with the consumption characteristics of China

auto sales ( 10,000 unit)



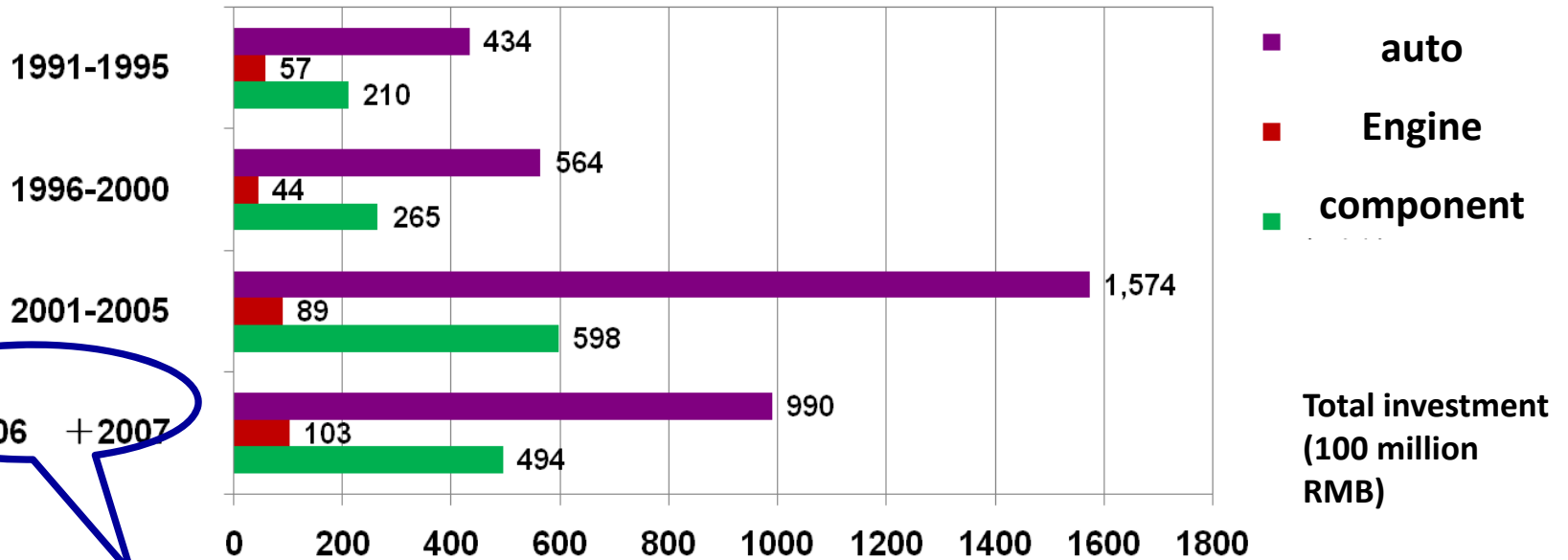
✓ Cars entering the families has drove the fast growth of passenger auto production

✓ vehicle with the displacement capacity between 1L to 1.6L dominated the car market in 2008

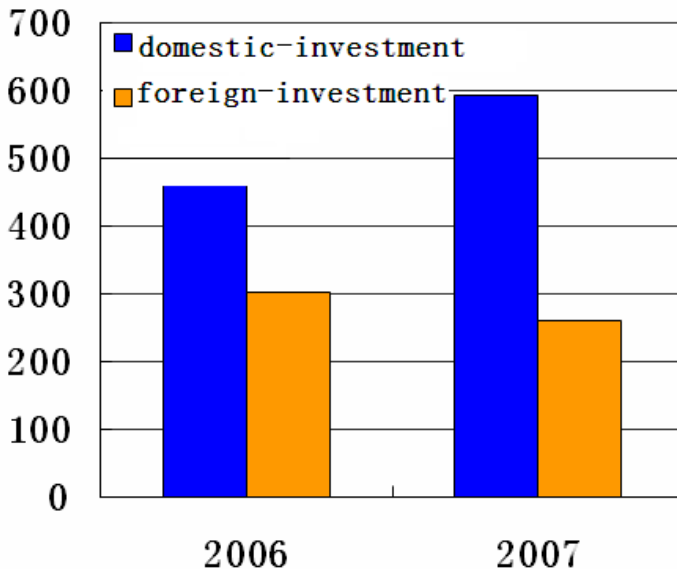




# Investment scale of China automotive industry grows rapidly



Total investment (100 million RMB)



In the recent 20 years, the confidence of Chinese market results in expanding investment scale, especially in the tenth five year planning. In **2006 to 2007**, total investment reached **164 billion RMB**, which accounts for **70% of total investment of last five year**, with higher increment in domestic-investment.

## Production is further concentrated in main enterprises

In recent years, the leading 10 enterprises in auto sales has a stable market share of more than 80%

**2009:**

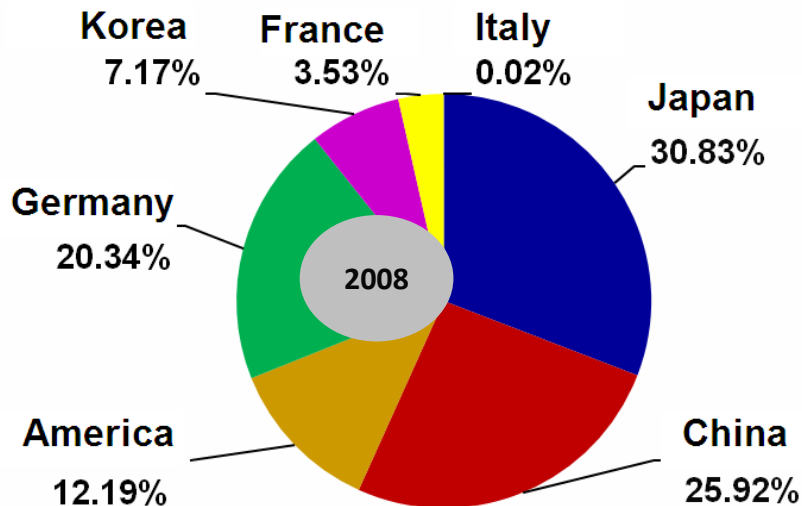
- ✓ 5 enterprises reached 1 million auto sales
- ✓ Market share of the leading 10 enterprises in auto sales measured up to 87%

**First ten enterprises in auto sales in 2009**

<b>Enterprise</b>	<b>Sale</b>	<b>Enterprise</b>	<b>Sale</b>
<b>Saic Group</b>	<b>270.6</b>	<b>Guangzhou Automobile</b>	<b>60.7</b>
<b>FAW</b>	<b>194.5</b>	<b>Cherry</b>	<b>50.0</b>
<b>Dong Feng Motor</b>	<b>189.8</b>	<b>BYD</b>	<b>44.8</b>
<b>Chang An</b>	<b>186.9</b>	<b>Hua chen</b>	<b>34.8</b>
<b>BAIC</b>	<b>124.3</b>	<b>Geely</b>	<b>32.9</b>

(10,000 units)

## Passenger car: Severe competition between different countries



### Market share comparison between 2008 and 2001 in China, of auto brands of different countries

Korea: ↗ 800.0%  
 Japan: ↗ 97.4%  
 America: ↗ 54.4%  
 China: ↗ 34.2%  
 Europe: ↘ 57.6%

### Sales of foreign auto brands produced in China in 2008

VW	98.9
Toyota	53.8
Honda	51.6
GM	48.6
Hyundai	43.7
Nissan	36.2
Suzuki	18.3
Peugeot Citroën	17.8
Ford	15.6
Mazda	11.3

(2008, 10,000 units)

# Commercial vehicle: domestic-funded enterprises dominate the market

## Enterprise scale:

Output and sale scale of the truck and bus producing enterprises of China has leaped into the front ranks of the world, including FAW Jiefang, Dongfeng Auto, Sino Truck, Yutong, King-long, and Golden Dragen.

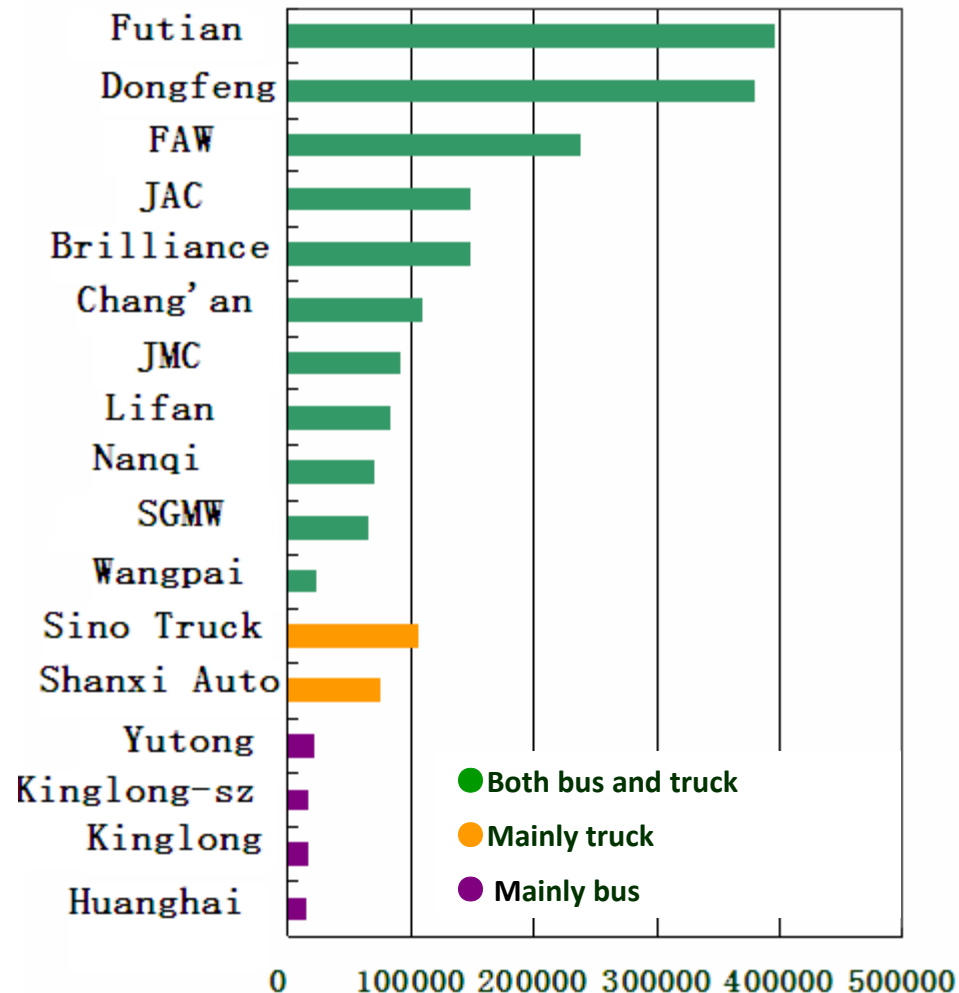
## Truck market:

Market share of Chinese brands exceeds 95%. Foreign truck brands are mainly in light-duty truck market.

## Middle-duty and large-duty bus market:

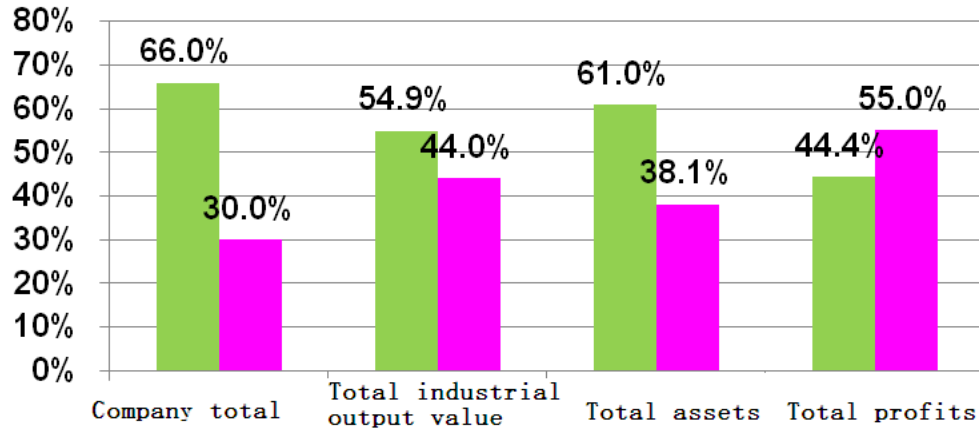
Chinese brands has almost monopolized the market, while foreign brands are completely marginalized.

## Output of commercial autos in China, 2008



# Foreign enterprises gained a lot in engine and components markets

## Share in auto engine in China(2007)

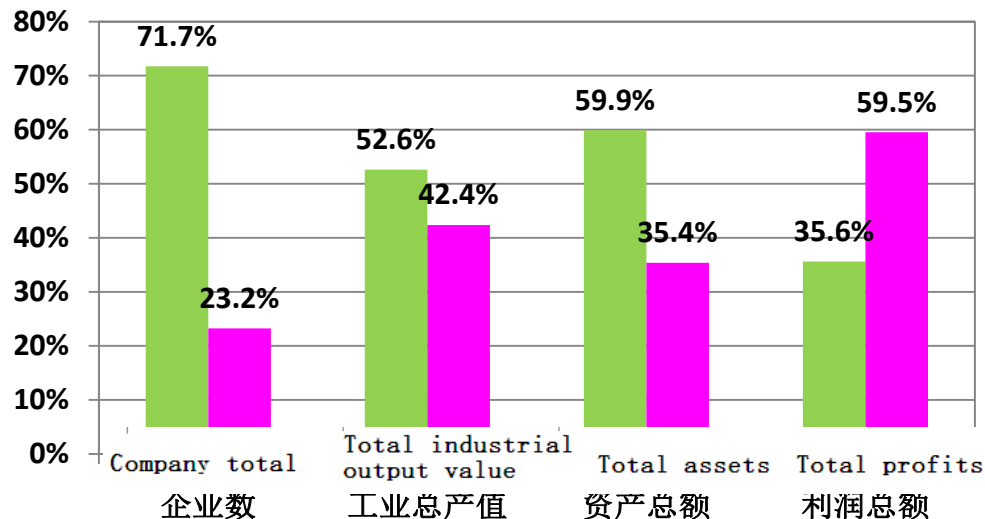


■ Domestic-funded company

■ Foreign-funded company

In both engine and component industry, domestic-funded company account for more than 2/3 in company total and 60% in total assets.

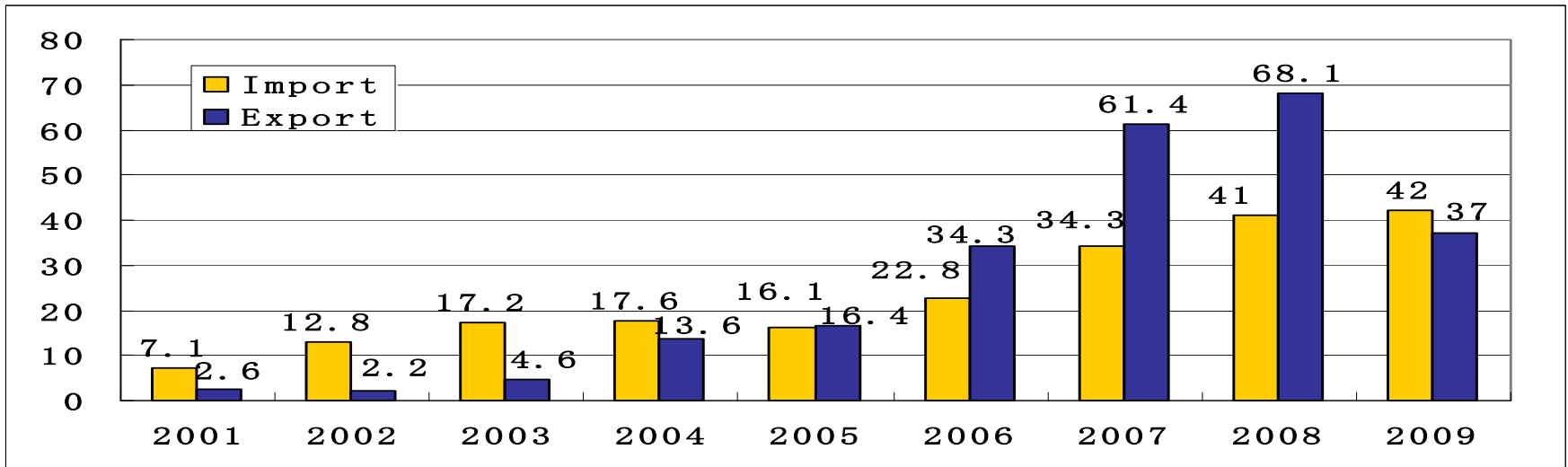
## Share in components of auto and motorcycle in China(2007)



Foreign-funded companies contributed more than 40% in total industrial output value and more than half of the total profits, with less than 30% of the company total.

# Vehicle export of China continually increase

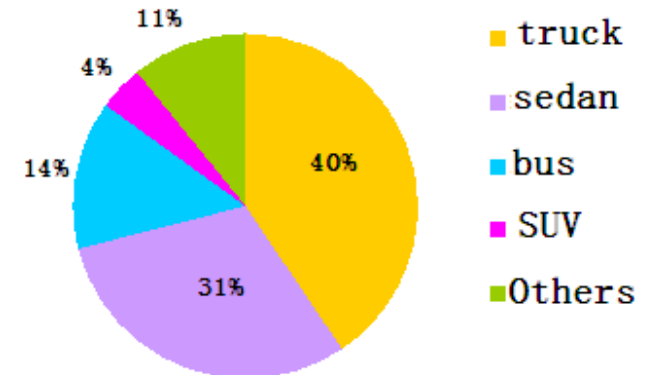
vehicle export and import (10,000 units)



- ✓ **2005 is the turning point from surplus to deficit**
- ✓ **Export of buses and passenger cars increases every year, while commercial auto is still the main auto type of the export**
- ✓ **2009, Exports decreased significantly by the financial crisis**

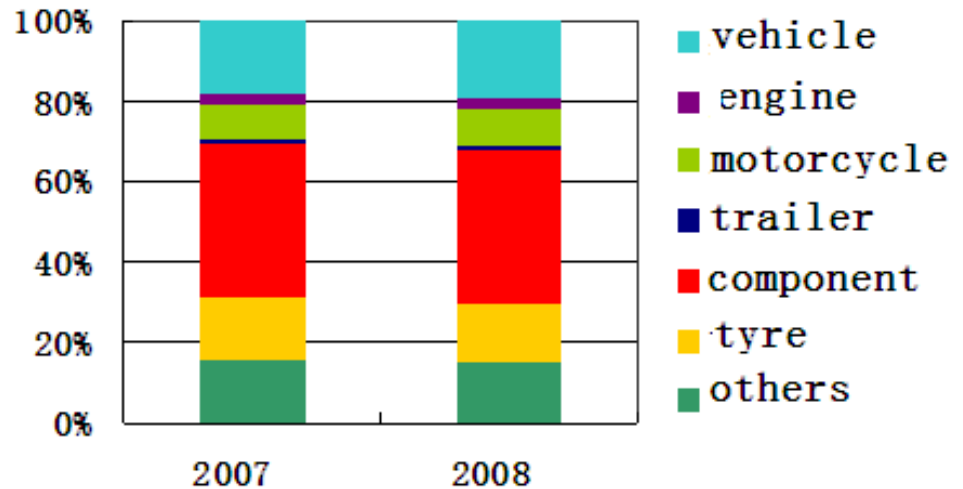
Proportion of various auto type

of the export in 2007

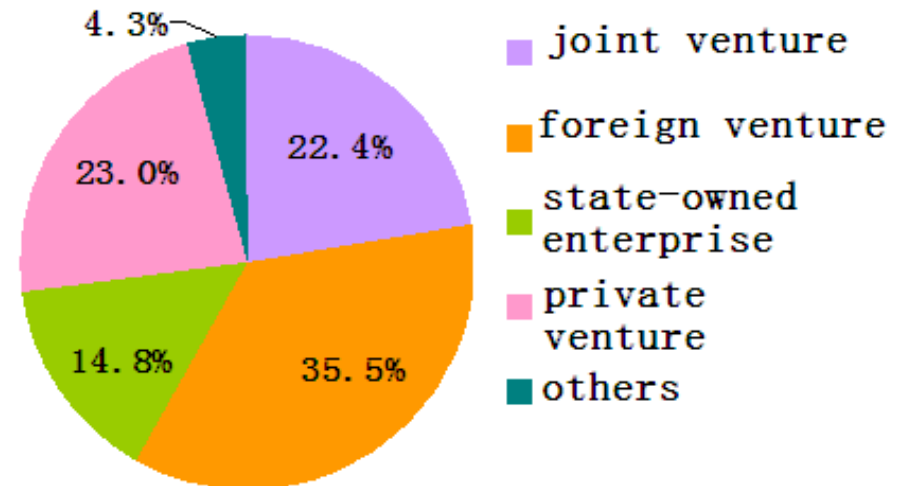


## Vehicle components are main export

According to export amount, auto components take the main part, accounting up to 38%



Foreign-invested ventures are the main force in components export, accounting up to 58%, which is distinct from auto export.



## Content

1. Overall review
- 2. Future trends**
3. Opportunities for cooperation



# Several factors decide the future of China's auto industry

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Experience and discipline  
help the posterity to judge  
the future better, for those  
who extract lessons can  
develop faster

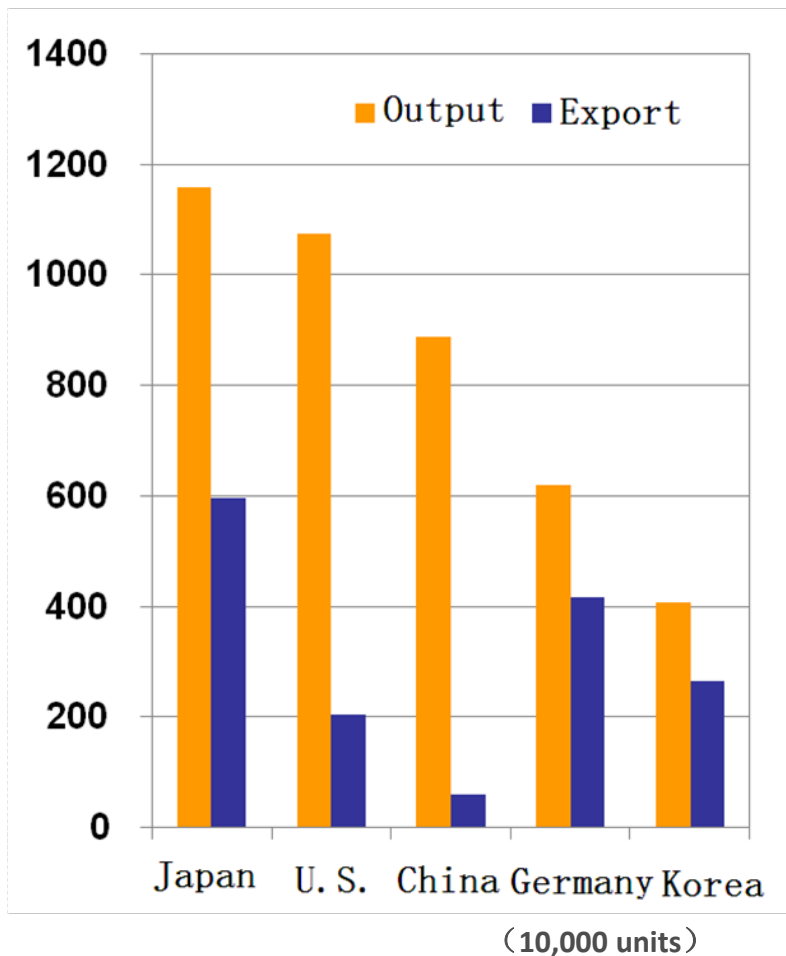
National economic  
development  
decides the domestic  
rigid demand scale and  
the dependence on  
foreign trade.

## Future development of auto industry

Special factors  
offset the negative  
effect, relying on  
the guiding policy  
of the government

## Low dependence on foreign trade: Stabilizing domestic demands is the most important

### Auto output and export volume of partial countries in 2007



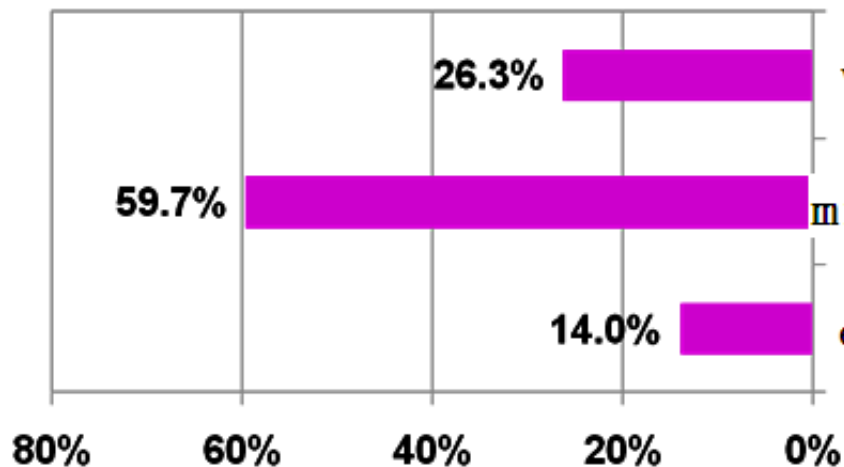
Different from the other countries, auto export of China only accounts for 7% of the total output, which means:

- ✓ In a long period from the past to the future, China auto industry development mainly relies on domestic demands.
- ✓ The auto export slide from the last half of 2008, has not affected the whole industry thoroughly.
- ✓ Stabilizing domestic demand could effectively ease the negative effect of world financial crisis to Chinese auto industry

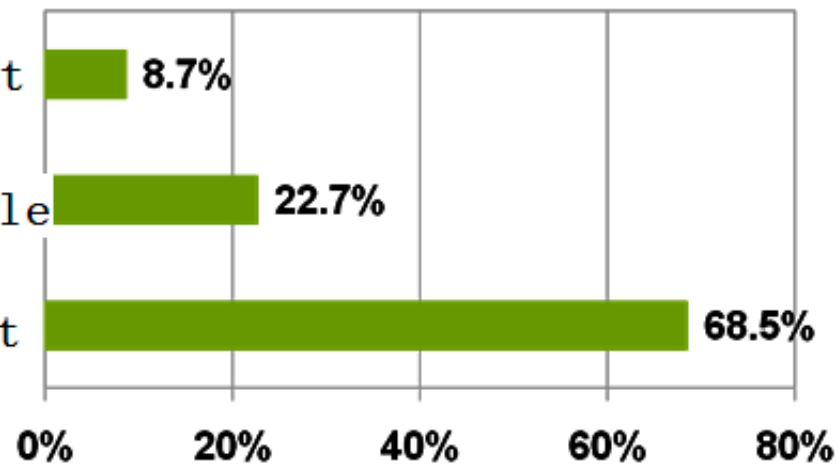
## National economic development: Leading to sustained demand to commercial vehicles

- ✓ Experience shows that annual growth rate of commercial auto output and sales is keeping on the same level with that of GDP. It's predicted that China would accelerate developing steps of industrialization and urbanization until 2020, with annual GDP growth rate of 9%.
- ✓ China is wide in region and uneven in resource distribution, which leads to a high demand both in transportation and commercial autos.

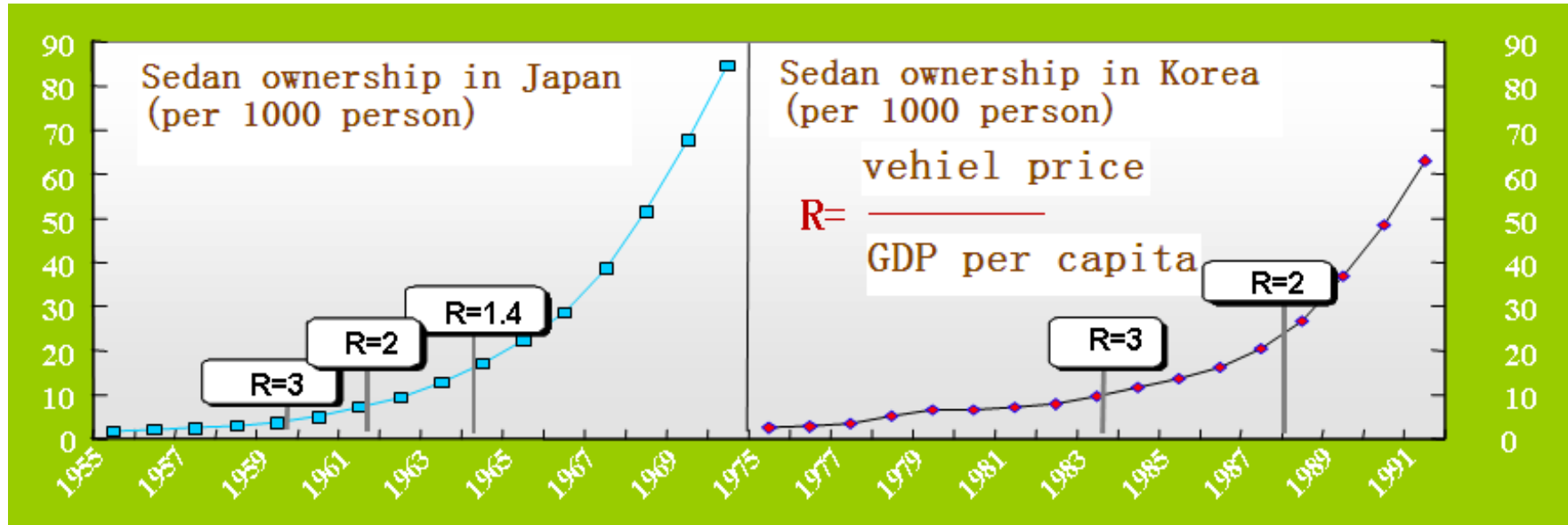
Rate of coal output



Rate of steel output



## Value of R close to 3: Sustained demand to passenger cars



- ✓ Experience in developed countries shows auto popularization grows rapidly with R of 2 to 3.
- ✓ Investigation into the major cities including Shenzhen, Beijing, Guangzhou, Shanghai, shows that China obeys to the R rule similarly.
- ✓ Currently there are more cities with R closing to 3, which provides a foundation to the expansion of auto demand.

**Growth rate of passenger auto market would achieve 1.5 times of GDP growth rate.**

# Pursuing method: Leading to the potential of private consumption

## Up to the end of 2008

residential savings deposit amount	21788.5 billion RMB	
handed out by various financial organizations	auto consumption loan Individual housing loan	158.3 billion 2980 billion
National private auto population	49.75 million (excluding the 14.92 million three-wheeled auto and low-speed trucks)	
Among which	increased private auto population in 2008	6.39 million
	Increased private sedan population	4.25 million

- ✓ Loans ratio of private auto pursuing is quite low, which shows auto consuming has a low dependency on bank supporting.
- ✓ Since 2000, consuming structure of China has upgraded from clothing and food into housing and transports, with auto becoming the most important product.

**China has solid foundation for auto consumption demand releasing rapidly.**



## Chinese government: Several measures to assure growth

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- ✓ Different from other countries, Chinese auto industry develops under strong domestic rigid demand, which is the solid foundation of rapid development.
- ✓ However, in current international and domestic macroeconomic situation, it's not easy to keep stable domestic demand or even keep increasing under the market mechanism.



Since the end of 2008, Chinese government has made Adjustment and Revitalization Plan of the Automobile Industry to assure the growth.

# Adjustment and Revitalization Plan of the Automobile Industry

8 goals	8 tasks	11 policy measures
<ol style="list-style-type: none"> <li>1. Realizing stable growth in auto output and sales</li> <li>2. Improving auto consuming environment</li> <li>3. Optimizing the structure of market demands</li> <li>4. Integrating the structure of automotive enterprises</li> <li>5. Expanding market share of independent brands</li> <li>6. Forming a certain scale of EV output and sales</li> <li>7. Enhancing the auto R&amp;D level</li> <li>8. Owning technology of key components</li> </ol>	<ol style="list-style-type: none"> <li>1. Cultivating auto consuming market</li> <li>2. Promoting reform of automotive industry</li> <li>3. Supporting independent innovation</li> <li>4. Implementing special technology reform</li> <li>5. Implementing new energy auto strategy</li> <li>6. Implementing independent brand strategy</li> <li>7. Implementing auto export strategy</li> <li>8. Develop modern automotive service</li> </ol>	<ol style="list-style-type: none"> <li>1. Reducing passenger auto purchasing tax</li> <li>2. Carrying out “autos send into countryside”</li> <li>3. Accelerating scraping and renewing of old autos</li> <li>4. Clearing the unreasonable rule of limiting auto purchasing</li> <li>5. Promoting and regulating auto consuming credit</li> <li>6. Regulating and promoting used-car market</li> <li>7. Accelerating the construction of urban road transportation system</li> <li>8. Completing policy of automotive enterprises reform</li> <li>9. Increasing investment on technology advance and alteration</li> <li>10. Popularizing energy-saving and new energy autos</li> <li>11. Implementing and completing the Automotive Industry Development Policy</li> </ol>
<p style="text-align: center;"><b>The Plan is a motivation to confirm the enterprise confidence, and has achieved the goal to promote the development of Chinese automotive industry</b></p>		

## Subsidy on new energy autos

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### — Temporary Management Measures on Subsidy for Energy Saving and New Energy auto Demonstration

**Financial source: special funding from central government for energy-reservation and emission reduction**

**Supporting direction: energy-saving and new energy auto demonstration carried out in 13 cities.**

#### Subsidy standard

- ✓ According to the energy-saving rate, subsidy for hybrid passenger autos and light-duty commercial autos is divided into 5 grades, with the highest up to 50,000 RMB, while EV and FCV up to 60,000 and 250,000 RMB separately.
- ✓ Subsidy for fuel cell bus is up to the highest of 600,000 RMB.

#### Subsidy target

- ✓ The auto types subsumed in the Recommended auto Type List for Energy Saving and New Energy auto Demonstration.
- ✓ Energy saving rate of hybrid passenger autos and light-duty commercial autos should reach 5% at least, comparing to the traditional autos of the same type.
- ✓ Energy saving rate of hybrid buses should reach 10% at least.



## Content

1. Overall review
2. Future trends
3. Opportunities for cooperation

## China's auto market in the view of foreign CEOs

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### ◆ GM Asia Pacific CEO, Nick Relly

For the financial crisis, we will slow down the steps in some region, and even stop investing in some countries, but never in China

### ◆ Dongfeng Nissan Passenger auto CEO, Toshiaki Otani

auto sales in Japan and U.S. are mainly secondary purchase, while in China 80% of the consumers are purchasing their first car, showing a great potential market we are absolutely optimistic with.

### ◆ Nissan China Executive General Manager, Atsuyoshi Hyogo

China will definitely become the biggest market in the world. Honda will treat China market more elaborately, expecting the business increasing could offset the slide in America, Japan and Europe market.

### ◆ Dongfeng Motor Chairman, Kimiyasu Nakamura

◆ Nissan will never slow down the investing steps in China, with continuous new auto types introduced.

➡ China is the most inviting area for the global auto industries

# Developing plan in China of some cross-national enterprises

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## GM

Realizing an accumulative sale volume of 2 million in China in the next 5 years, and commence the “Drive to Green” program with the help of the newest power train system.

## VW

Total auto types produced in China will be increased from 44 to more than 50 in the next 10 years, with annual sales growth of 8%.

## PSA Peugeot Citro

Accelerating the new auto type launch, with Citro C4 and Peugeot 407 being introduced to China in 2009.

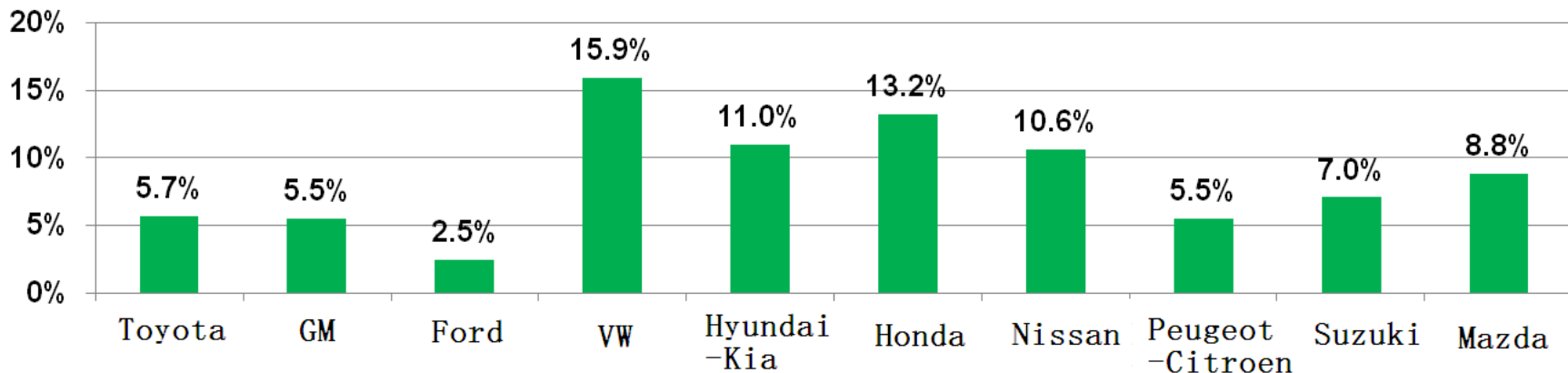
## Toyota

Occupying 10% of the Chinese auto market in 2010, through the strategy of “Three Sustainable Development”, including the sustainable development of products, factories and public activities.

## Basic judgement on future competition

- ✓ The chance brought by the fast economic development in China would be shared globally, while the competition in global auto industry represented in Chinese market would exist consistently.
- ✓ Cross-national enterprises would pay more attention to the study and occupation in Chinese market which has become a very important part of their global layout.
- ✓ Continuous expanding demand in China would bring huge profits for both auto and components producing enterprises, as well as both foreign-funded and domestic-funded enterprises.

**Percentage of output in China compared to the global output, for various cross-national enterprises.**



# Chance and challenges coexists

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- ✓ **China automotive industry has to handle the challenge of resource-shortage and environment-pollution for further development, as well as the other countries. Both tradition and new energy autos has a bright future.**
- ✓ **China automotive industry has to contribute more in enhancing national economic development under the general objective of achieving balanced development between economy and society. Therefore the primary mission in the next period is to strengthen the independent innovation capability and enhance international competitive strength for both domestic-funded and joint ventures.**
- ✓ **The times of high profit margin in automotive industry has pasted. Under the high pressure of cost control, both Chinese and cross-national enterprises would positively push the components production and purchase in China, providing more chance and keen competition to the China automotive component industry.**

## Developing mode of China automotive industry would change

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The developing mode of China automotive industry would **completely change** into **establishing in** technology innovation and higher labor capacity, instead of relying on investment, productive factors including cheap land resource and labor cost, over consuming of resources and energy, and even damaging environment.

The demand of high technology would mostly be supplied through independent R&D and various cooperative study, while simply “Market for Technology” would never repeat. Enterprises with actual R&D on new technology and products would be **supported** in banking, fiscal and taxation from the government, while blindly and repeated introduction would be **limited**, and the enterprises with high pollution and high consumption would be **restricted**.

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## International cooperative mode would be renewed

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**International cooperation is still playing important role in pushing development of China automotive industry, with more extensive partners, more various cooperative forms and contents. Still they all are established in enhanced independent innovation capability.**

- ✓ **Cooperation between foreign-funded and domestic-funded enterprises would not only be continuously strengthened in auto production , but also expand to domains of R&D, marketing and financing, with various organizations as partners.**
- ✓ **More Chinese enterprises would develop in both domestic and foreign markets and actively expand the export business of autos and components.**
- ✓ **More Chinese enterprises would go abroad and establish productive base or R&D institutions in many means.**

## Conflicts should be reconciled by all the cooperators from a long-term sight

<b>Strategic ambitions of foreign capital in China</b>	<ul style="list-style-type: none"><li>✓ To gain Chinese market share</li><li>✓ To make use of abundant and cheap resources in China</li><li>✓ To chase profit maximization</li></ul>
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### Conflicts needed reconciling

- ✓ Conflicts in deciding cooperative projects, developing direction and controlling rights, which are leaded by different developing destination and strategy thinking.
- ✓ Conflicts in over-seeking economic profits for itself by any of the investors.
- ✓ Conflicts caused by corporate culture difference.
- ✓ Conflicts brought by changing in policy-guided investment environment and cooperative partnership function.
- ✓ .....



## Suggestions for enterprises with investment in China

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**Actively seek for common benefit and win-win with Chinese economic development through competition and cooperation, with accurate positioning and orientation to the future**

- ✓ **More research and application of new technologies in accordance with China national developing strategy.**
- ✓ **Establish R&D system within Chinese territory, and actually carry out R&D work.**
- ✓ **Pay attention to the product applicability in China, and enhance the quality while reduce the price.**
- ✓ **Cooperate with more Chinese enterprises in a strategic view, and develop new technology and products jointly.**
- ✓ **Exploit international market and expand export actively .**

**China is unable to develop without the world, and the world cannot be prosperous and stable without China.**

**Wish that Mexico and China auto industry could achieve mutual benefit and win-win situation in more extensive communication and cooperation.**

# Thank you!

