

China's Automobile Industry Boom

a report by

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China's automobile production volume reached 3.25 million units in 2002 – a 38.5% increase over the same period of 2001. This increase represents the first growth peak in the last 10 years, with China ranked fifth in the world for production volume in 2002. Passenger car production numbers surpassed the one million mark for the first time and reached 1.09 million units – a 55% increase over the same period of 2001. The growth rate of production and volume of China's automotive industry during the past 10 years are shown in *Table 1* and *Figure 1*.

It took more than 40 years for China to first reach the one million mark in 1992 since the establishment of its automotive industry in the early 1950s. However, it took only eight years – from 1992 to 2000 – to reach the two million mark and then only two more years – from 2000 to 2002 – to reach the three million mark. The very high growth rate in 2002 indicates that China's automotive industry has entered a stage of rapid growth.

Rapid Growth Factors

It has been concluded that the industry's rapid growth, experienced in 2002, was due to several external/environmental and internal factors.

External and Environmental Factors

- market demand;
- improved environment for consumers; and
- China's membership of the World Trade Organization (WTO).

Market Demand

China's rapid economic growth provides a stable market and plenty of scope for rapid growth of China's automobile industry.

China has maintained an economic growth rate of 7% since 1991 and an 8% growth rate in 2002. Gross domestic product (GDP) surpassed 10 trillion renminbi (RMB\$) in 2002. The steadily increasing purchasing power of consumers provides enormous market potential for passenger car manufacturers. China's per capita

GDP has increased from RMB\$1,000 in 1991 to more than RMB\$8,000 in 2002. The increased purchasing power of the individual formed a huge market potential for passenger cars. Private ownership is currently the main trend of vehicle purchase, especially passenger cars. More than 50% of vehicles were sold to private individuals in 2002. During the past 10 years, the percentage of private ownership has increased annually from 16% in 1991 to more than 45% in 2002. That is to say that about half of the 21 million vehicles owned in China are owned privately.

A prosperous economy, development of a high-grade motorway network and increased domestic and foreign investments also provide a solid foundation for a rapid growth of commercial vehicles.

For the past 10 years, China's road and expressway system has maintained a growth rate of more than 20%. Investment in fixed assets has increased steadily and the increase rate in 2002 was 8.4%. This will also facilitate the growth of cargo and passenger vehicles.

Improved Environment

The improved environment effectively liberated consumer purchasing power, with central and local governments cancelling many of the taxes and fees involved in vehicle trade, such as number-plate application fees and consumer taxes, in 2002. For example, the 4% value-added tax for second-hand vehicles was cancelled. Preference policy was implemented for environmentally friendly vehicles. The introduction and promotion of credit loans paved the way for automobile consumers when buying vehicles. Currently, around 30% of vehicle buyers in Beijing pay their sellers by way of loans. All of these policies facilitate an easier and less burdensome situation for automobile consumers.

WTO Membership

China's membership of the WTO did not have a great impact on the industry, though it promoted the restructuring of the industry and its products and WTO membership has had a positive impact on the industry in general.

Table 1: Growth Rate of Production Volume (1992–2002)

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Output (millions)	1.062	1.297	1.353	1.453	1.475	1.585	1.629	1.832	2.068	2.347	3.251
Growth Rate	49.8%	22.1%	4.3%	7.4%	1.5%	7.5%	2.8%	12.5%	12.9%	13.2%	38.5%

As China entered the WTO, the nation's automotive industry experienced unprecedented pressure as there are large gaps in some areas, including a limited product/model range offered, high prices, poor aftersales service, etc. This resulted in the manufacturers speeding up the introduction of new products, improving aftersales service and trying their utmost to lower sales prices, all of which aided the rapid growth in 2002. On the other hand, since China still implements an import quota system and has a relatively high import duty barrier, the imagined huge impact after China's entrance to the WTO was not realised. China imported 127,184 vehicle units in 2002, which represented only 3.9% of the total production volume – hardly a substantial impact.

Internal Factors

- a reduction in prices; and
- increased product range.

Reduction in Prices

A reduction in prices of various types of vehicles in 2002 effectively promoted and stimulated the demand for vehicles, especially the demand by private consumers. This expanded the numbers of consumers and triggered a rapid growth in sales. The percentage rate of the price reduction varies from 5% to 20% for passenger cars. Among them, there was an average 15% price reduction for mini-cars such as Xiali, Changan-Suzuki and Sail and an average price reduction of 7% for economy cars such as Shanghai Volkswagen (VW), Shenlong Fukang, Shanghai Buick and Guangzhou Honda, etc.

Increased Product Range

A largely increased product models offering enabled vehicle manufacturers to meet the demands of different types of consumers.

As China entered the WTO, international automobile giants paid a great deal of attention to the development of China's automobile industry, increasing their investments and production capacity, and offered their most recent products and latest technologies when embarking upon a co-operative project. On the other hand, major Chinese automobile groups, with the involvement of international automotive companies and by means of restructuring, joint production and

Figure 1: Chinese Automobile Production Volume (1991–2002)

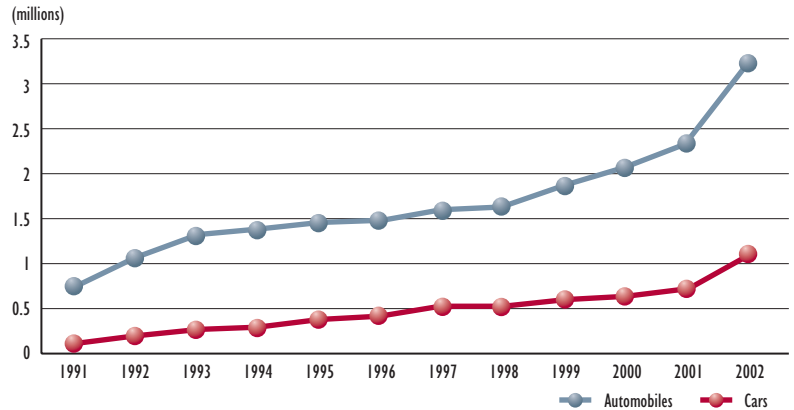


Figure 2: Automobile Registration in China (1991–2002)

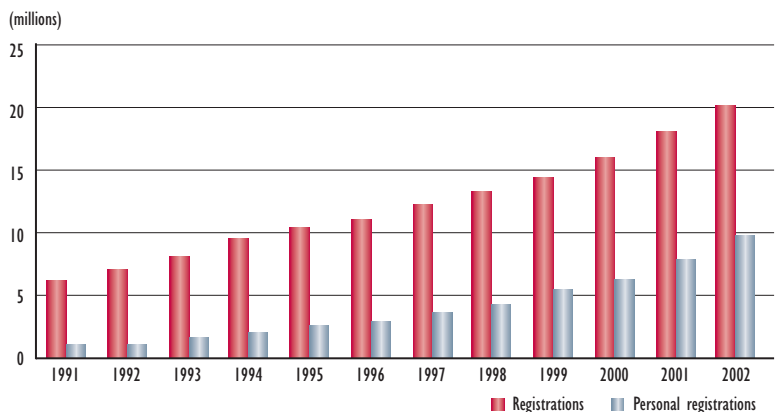
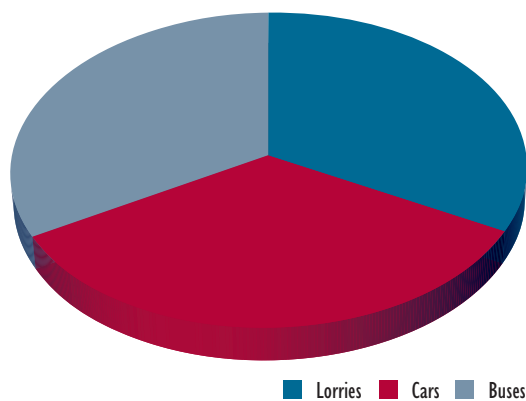


Figure 3: Automobile Output in China by Vehicle Type (2002)



merging, etc., have enhanced their ability in areas such as total production scale, product offering and product quality.

Total production volume of the three major Chinese automobile groups in 2002 was 565,493 units. This constituted an increase of 53% over the same period

in 2001 for the First Automobile Works (FAW); 415,748 units and an increase of 45% over 2001 for the Dongfeng Motors Corporation; and 591,704 units and an increase of 59% over 2001 for the Shanghai Automobile Industry Corporation (SAIC).

The growth rate of these three automobile groups is much higher than the national average. They also have a much stronger ability to introduce new models and thus played an important role in the rapid growth of the industry. Many new models were introduced in 2002 and more than 10 new passenger car models were introduced, including: Bora (FAW-VW), Sail (General Motors), Palio (Fiat), Polo (Shanghai VW), Bluebird (Nissan-Fengshen), Vios (Toyota) and Sonata (Hyundai). These new products provided consumers with more alternatives and satisfied potential market demands. The sale of 250,000 units of new models represented 50% of the 500,000 units increased sales volume in 2002, which indicates the vital role that new products had played in the growth of the industry.

Problems

The continued and stable development of China's economy is the primary force for the continued growth of China's automobile industry. As the world's economy has experienced a recession in recent years, a key factor and precondition for China's automobile industry to maintain a continued and high speed development will be if China, as a developing country, could maintain a relatively stable economic growth rate on the whole.

Faced with the impact of imported products, China's automobile industry could develop its own competitiveness based on its own advantages

According to China's WTO agreement, China will eliminate import quota and import licensing for imported vehicles in 2005. Imported products will present a definite impact on domestic production. It is estimated that the growth of the domestic industry will gradually slow in the next five to ten

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Predictions for Future Development

Rapid Growth

Since China has accumulated its potential purchasing power over quite a long period of time, its potential is still to be fully realised, therefore the automobile industry will maintain a rapid growth rate over the next three to five years. The sales of automobiles were concentrated in large cities such as Beijing, Shanghai, Tianjin, Guangzhou, etc. in 2002 and will expand to Zhejiang, Sichuan and Guangdong provinces in 2003, gradually expanding to other provinces.

This consuming potential accumulated over the years will be released nationwide over the next few years. Due to this potential and improved environment for consumers, China's automobile market will maintain a 25% growth rate for the next three to five years. Since vehicle imports will not exceed 8% of the market share for the next few years, China's automotive industry, which is mainly based on the domestic market, still has much room for future development and will maintain a (very high) 20% growth rate. The growth rate for major automotive groups could be even higher.

years and China's automobile manufacturers will face heavier pressure from imported products. China's automobile manufacturers will not generate enough profit if they only copy or assemble foreign models, while major international automobile companies will also reconsider their policies regarding the import of built-up vehicles and investment in the local industry to ensure their interest. Therefore, China's automobile industry must find a way to compete, based on the advantages that can be used, which will be the key point for future development.

It will be a necessary condition for the development of China's automobile industry to explore the global market. In the long run, as the domestic market grows slowly, there will be fiercer market competition. In order to survive and maintain healthy and stable growth, and if they have already established themselves solidly in the domestic market, China's automobile companies must develop an industry that could offer its own products that are competitive in the international market. This is an inevitable future for China's automobile industry and is an issue that the industry should seriously address. ■