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Growth and development of automobile industry in china

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Abstract
The origins of the Chinese car industry can be dated back to 1978, when the only two car manufacturers were First Automotive Works and Shanghai Automobile Assembly Plant (today: Dongfeng Motor Corporation). This changed after the Chinese government implemented new economic reformations in 1978. Especially the automobile industry benefited from these new regulations and a lot of chances and opportunities arose. The Chinese government simplified the market entrance during the first years. As a result, a lot of new car manufacturers including Chery, Geely and Brilliance Auto were established. In a second step, the government established an aid scheme for the automotive industry to support innovation and to increase the product quality of Chinese cars. It also allowed joint ventures with foreign car manufacturers, which was another important step towards growth and internationalization. Thus, China is the leading car manufacturer in the world nowadays. It is expected that the Chinese automotive market will continue to grow in the next ten years, becoming as big as the ones of Europe and the US together. Apart from the high demand and continuous growth, there is also a high potential for electric cars, as the Chinese government plans to reduce its CO2 emissions until 2020 about seventeen percent. This paper focuses the growth and development of the Chinas automobile industry.

Keywords: Automobile, China, Industry, Commercial Vehicles, Export.

Objectives of the study:
1. To analyze the recent trends in Automobile industry in China
2. To know the Government policy in the develop the industry
3. To understand the present scenario of production and sale of car and commercial vehicles

Research tools: The prepared paper is an exploratory study in nature. The secondary data and information have been analyzed for preparing the paper extensively. The secondary information has been collected from different articles published in different journals, periodicals, working paper, automobile manufacturer data and websites.

1. Introduction
This paper focuses on the automotive industry in China, and assesses the factors that have shaped its development historically and the development policies currently being pursued by the Chinese state. Until about 1975, there was virtually no passenger car production in China. Cars were the prerogative of a relatively small number of high-ranking officials, and most vehicle production comprised trucks, and to a lesser extent, motorcycles. Yet by 2004, China, with domestic passenger car sales of 2.3 million units, rivaled Germany for the position of third-largest market in the world, only superseded by the size of the US and Japanese markets. The recent growth in China follows a long-term trend in the motor industry, whereby industrializing countries increasingly feature local production capabilities, as opposed to importing vehicles from the developed world (Hong and Holweg, 2005) [1]. As in many other sectors, China, India and Latin America are seen as major market opportunities in an otherwise stagnant industry. With growing domestic demand, the establishment of manufacturing facilities in these countries is part of the global presence of the vehicle manufacturers. Some manufacturers have had operations in China for many years. The last 30 years can be described as decades of rapid growth and international establishment for the Chinese automobile industry. Eventful, the number of manufactured cars increased from 222,000 in 1980 to more than eighteen million in 2011. On one hand, the Chinese market offers several opportunities for European and American car manufacturers. On the other hand, international automotive companies aiming to compete in China also face significant challenges. From an economic perspective, the weakness of the Chinese Yuan compared with the US-Dollar gives local players a significant trading advantage. In addition, the high inflation rate is causing rises in the cost of labor and capital. It is questionable whether international automotive manufacturers will be able to pass these rises on to its Chinese customers. In the Chinese market, intellectual property deriving from R&D as well as relating to distribution and sales strategies is constantly at risk.

2. An overview of the development of China's auto industry

The development of China's automotive industry has clearly been shaped by the circumstances of China's wider political economy. To understand its growth, it is important to understand its evolution in the wider context of China's industrialization, which, unsurprisingly, has been centrally driven and shaped under very distinct industrial policies. The Chinese market for automobiles was protected by high tariffs– a situation that was only eased by China's accession to the World Trade Organization (WTO) in 2002. A legacy of central planning was that the government decided the price of automobiles; this absence of a market mechanism to mediate between demand and supply enabled small-scale auto factories to survive. However, these small-scale, scattered, manufacturing operations spread capital and other resources thinly, thereby hindering the development of large-scale automobile plants capable of competing with foreign automakers.

In 1994, the Chinese government designated a number of industries as 'Pillar Industries' intended to drive the national economy; the automotive industry was chosen as one of these industries. The reasons for this are not difficult to see – an automobile is composed of more than 10,000 parts and components; the automotive industry is related to many other industries such as metallurgy, petroleum, chemistry, coal, light industry, electronics and textiles, and it was reasoned that the development of an automotive industry would encourage Chinese enterprises in many sectors to specialise and coordinate their efforts better. These conditions provided the background for the Chinese government's Automotive Industry Policy. The State Planning Commission, State Economy, Trade Commission and the Ministry of Machinery Industry submitted the policy proposal in February 1994; the State Council approved it in March that year and published it in July 1994. The policy proposal had four key objectives: (1) to establish large-scale groups of saloon and light truck producers (to replace the small-scale, scattered manufacturers); (2) to improve the components industry; (3) to create automotive product development capabilities and (4) to encourage individual car ownership. As well as the four objectives listed above, the policy addressed issues of local content requirements, pollution and environmental considerations, conditions for the approval of foreign investment and others.

China joined the WTO in 2002 and from this followed a number of steps to open up the market, including tariff reductions and eliminating local content requirements. These actions rapidly advanced the growth of China's automotive market. The government continues to look to the automotive industry to drive growth throughout the entire economy, including a variety of basic and service-related sectors such as machinery, rubber, petrochemicals, electronics, textiles, auto financing, aftermarket distribution channels and automotive repair services. After China's entrance into the WTO the automotive industry began to grow faster than ever. Overall production increased by 38.8% and 36.7% in 2002 and 2003, respectively, making China the fourth largest auto producer and third largest auto market in the world. The growth in the automotive industry, in particular in 2002 and 2003, attracted considerable foreign investment. This included those manufacturers that already had operations in China and were seeking to expand their capacity and production, and also those that had not previously established operations there. A secondary effect of this was that the capacity installed exceeded demand, this overcapacity increased competition considerably. To address this, from the beginning of 2004 the government started to implement selected economic cooling-down policies, including discouraging bank lending and slowing approval for investments. In addition to these macro-adjustments, consequent lower lending from the banks and frequent price cuts reduced demand, with many price-sensitive Chinese consumers delaying buying cars as prices continued to fall. Despite these conditions, total auto output still climbed by 14.1% year-on-year in 2004 to 5.07 million units.

3. New Automotive Industry Policy

In 2004, to adapt to changes in the Chinese automotive industry, to China's economic boom since the late 1990s, and to face the challenges emerging in the automotive industry after China's entry to WTO, the National Development and Reform Commission released the New Automotive Industry Policy. The new policy had several objectives above and beyond the 1994 policy. These included: (1) to promote the harmonious development of the automotive and associated industries; (2) to drive industrial structural adjustment; (3) to encourage self-reliant product development and local brand development, with a view to building up a few famous brands and globally competitive (top 500) automotive groups by 2010; (4) to encourage independent research and development and production on a large scale for key components and parts, and to foster the local suppliers and their international operations and (5) to promote light duty vehicles and new energy-efficient vehicles.

4. Present scenario of Automotive Industry

Chinese Automotive Technology & Research Center was more confident for auto market in 2015 and thought the growth rate would be 9% due to subsidy policy quitted and new energy vehicle accepted. Many securities dealers also thought the growth rate would be between 7% and 9%. Auto enterprises are also cautious about the growth. Many research institutions forecast the growth rate of Chinese economy will keep 7% which is the lowest during past few years. Auto market enters into stable stage due to slow GDP growth. Customers tend to be more rational due to structural adjustment of macro economy, low demand and continuous deflation, which is a bad news for auto market. Auto enterprises will use all skills to response, among which new cars are most useful. As reporters analyses, there had been 36 new cars during past January. There will be more than 30 important SUV models and China Automotive Industry Association forecasts the sales volume of SUV will be 5,100,000 and the growth rate will be 25%. The effect of policy won't be as big as past few years. The following table shows the production and sale of commercial vehicles from Aril 2014 to May 2015.

Table 1: Production and Sale of Commercial Vehicles – 2014 (April)-2015 (May)

Month & Year 2014-15	Production (in units)	% Change	Sales (in units)	% Change
April	400,100	-11.8	395,200	-13.9
May	326,200	-18.5	320,800	-18.8
June	256,600	-21.3	281,700	-12.2
July	247,500	-3.5	260,200	-7.6
August	233,400	-5.8	247,400	-4.9
September	282,700	21.1	287,600	16.3
October	286,400	1.3	278,300	-3.2
November	326,100	13.9	315,600	13.3
December	270,045	-18.8	543,488	53.0
January	317,700	8.5	281,600	-19.3
February	219,000	-31.1	196,600	-30.2
March	355,000	62.1	370200	88.3
April	325,600	-8.3	325,700	-12
May	287,300	-11.8	294,500	-8.3

Source: CAAM

In April 2014, the production and sales of commercial vehicles were 400,100 and 395,200 units respectively, down 11.8% and 13.9% than that of last month. Comparing with last April, the production and sales were down 0.2% and 1.3% respectively. No matter in monthly or yearly comparison, the sales and production of commercial vehicles witnessed a decline to some extent. From the perspective of auto type, both buses and trucks declined comparing with last month, especially trucks, over 10% of decrease. For yearly comparison, buses and trucks declined slightly in production. However in sales, buses were up while trucks were down. In May, the production and sales of commercial vehicles were 326,200 and 320,800 units respectively, down 18.5% and 18.8% than that of last month. In June, the production and sales of commercial vehicles were 256,600 and 281,700 units respectively, down 21.3% and 12.2% than that of last month. Comparing with last June, the production and sales were down 17.6% and 19.7% respectively. In July, the production and sales of commercial vehicles were 247,500 and 260,200 units respectively, down 3.5% and 7.6% than that of last month. Comparing with last July, the production and sales were down 13% and 6.7% respectively. The sales and production of commercial vehicles continued to decline.

In August, the production and sales of commercial vehicles were 233,400 and 247,400 units respectively, down 5.8% and 4.9% than that of last month. Comparing with last August, the production and sales were down 19.4% and 16.4% respectively. In September, the production and sales of commercial vehicles were 282,700 and 287,600 units respectively, up 21.1% and 16.3% than that of last month. Comparing with last September, the production and sales were down 19.3% and 16% respectively. In October, the production and sales of commercial vehicles were 286,400 and 278,300 units respectively, up 1.3% in production but down 3.2% in sales than that of last month. In November, the production and sales of commercial vehicles were 326,100 and 315,600 units respectively, up 13.9% and 13.3% than that of last month. Comparing with last November, the production and sales were down 7.1% and 9.2% respectively.

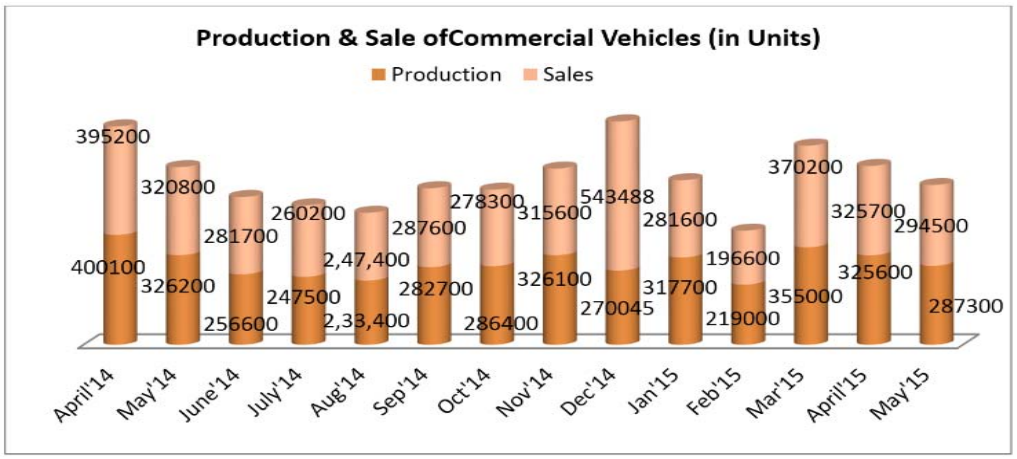

Fig 1: Production & Sale of Commercial Vehicles – April 2014-May 2015 (in Units)
Source: CAAM

In the month of January 2015, the production and sales of commercial vehicles reached 317,700 and 281,600 units respectively, down 8.5% and 19.3% than that of last month, and down 6.8% and 9% year on year. In January 2015, the sales and production of commercial vehicles witnessed decline both on monthly and yearly comparison, which mainly affected by the drop of trucks. In February, the sales and production of commercial vehicles witnessed a dramatic decrease both monthly and yearly, of which the drop of trucks was the key factor. This month, the production and sales were 219,000 and 196,600 units respectively, down 31.1% and 30.2% than that of last month. In March, the sales and production of commercial vehicles enjoyed growth monthly, but still witnessed a dramatic decrease comparing with the same period of last year, of which the drop of trucks was the key factor. Besides, buses also declined slightly. This month, the production and sales were 355,000 and 370,200 units respectively, up 62.1% and 88.3% than that of last month. Comparing with last March, the production and sales were down 21.7% and 19.4% respectively. In April, the sales and production of commercial vehicles enjoyed decline than that of last month, and still witnessed a dramatic decrease comparing with the same period of last year. It is no obvious change of the decline situation, of which the drop of trucks was the key factor. Besides, buses enjoyed a slightly increase of production, while sales decreased than the previous year. This month, the production and sales of commercial vehicles were 325,600 and 325,700 units respectively, down 8.3% and 12% than that of last month. Comparing with last April, the production and sales were down 18.6% and 17.6% respectively. In the month of May the production and sales were 287,300 and 294,500 units respectively, down 11.8%

and 9.6% than that of last month. Comparing with last May, the production and sales were down 11.9% and 8.3% respectively. (Such figures in April were down 18.6% and 17.6% than the previous year). For the first five months, the production and sales of commercial vehicles reached 1,503,800 and 1,463,100 units respectively, down 17.4% and 17.3% year on year. As seen by type, the production and sales of buses were up 3.5% and 1.8% respectively than the previous year; while such figures for trucks were down 20.3% and 20.1%. The following table shows the production and sale of passenger car from April 2014 to May 2015.

Table 2: Productions and Sale of Passenger Car – 2014 (Aril) -2015 (May)

Month & Year 2014-15	Production (in units)	% Change	Sales (in units)	% Change
April	1,667,400	-4.6	1,609,000	-5.9
May	1,649,600	-1.1	1,590,400	-1.2
June	1,599,000	-3.1	1,564,100	-1.7
July	1,472,700	-7.9	1,357,900	-13.2
August	1,481,000	0.6	1,468,200	8.1
September	1,724,300	16.4	1,696,000	15.5
October	1,757,800	1.9	1,708,900	0.8
November	1,834,600	4.4	1,775,300	3.9
December	1,941,730	5.67	2,060,418	14.8
January	1,969,300	1.4	2,038,000	-1.1
February	1,412,800	-28.3	1,396,700	-31.5
March	1,928,500	36.5	1,870,400	33.9
April	1,754,100	-9	1,668,800	-10.8
May	1,676,900	-4.4	1,609,300	-3.6

Source: CAAM

In April 2014, the production and sales of passenger cars were 1,667,400 and 1,609,000 units respectively, down 4.6% and 5.9% than that of last month, but up 11.3% and 11.6% year on year. From the perspective of auto type, except for SUV, others all fell back comparing with last month. In May, the production and sales of passenger cars were 1,649,600 and 1,590,400 units respectively, down 1.1% and 1.2% than that of last month, but up 16.2% and 13.9% year on year, generally running well. In June, the production and sales of passenger cars were 1,599,000 and 1,564,100 units respectively, down 3.1% and 1.7% than that of last month, but up 17.4% and 11.5% year on year. In July, the production and sales of passenger cars were 1,472,700 and 1,357,900 units respectively, down 7.9% and 13.2% than that of last month. In August, the production and sales of passenger cars were 1,481,000 and 1,468,200 units respectively, up 0.6% and 8.1% than that of last month, and up 6.7% and 8.5% year on year. The yearly increase rates fell obviously comparing with last month. In September, the production and sales of passenger cars were 1,724,300 and 1,696,000 units respectively, up 16.4% and 15.5% than that of last month, and up 9.4% and 6.4% year on year. The growth in production were 2.7 percentage points higher than that of last month, while sales fell 2.1 percentage points comparing to last month. In October, the production and sales of passenger cars were 1,757,800 and 1,708,900 units respectively, up 1.9% and 0.8% than that of last month, and up 10.4% and 6.4% year on year. The growth in production were 1 percentage point higher than that of last month, while sales in line with last month. Generally speaking, a stable growth was witnessed. In November, the production and sales of passenger cars were 1,834,600 and 1,775,300 units respectively, up 4.4% and 3.9% than that of last month, and up 2.9% and 4.7% year on year. The growth rates slowed down than last month.

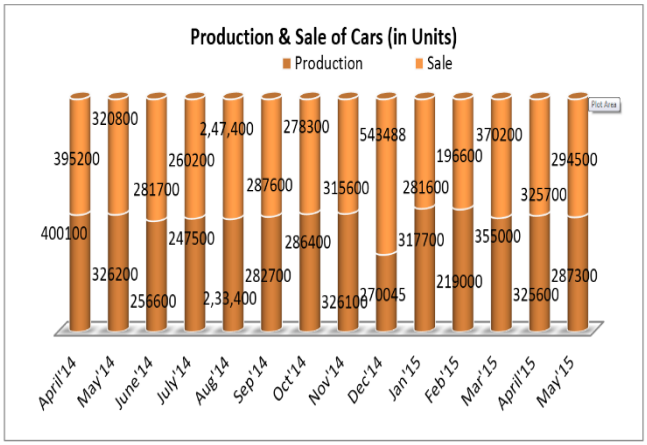

Fig 2: Production & Sale of Cars – April 2014-May 2015 (in Units)
Source: CAAM

In January 2015, the passenger cars kept a good momentum to drive the overall growth, of which the monthly production hit another record after last December. This month, the production and sales of passenger cars were 1,969,300 and 2,038,000 units respectively, up 1.4% in production but down 1.1% in sales than that of last month, and up 15.1% and 10.4% comparing with the same period of last year. As for the month by type, SUV and MPV continued a high-speed growth, of which the production and sales of SUV were up 50.7% and 51.1%, and such figures for MPV were up 30.1% and 17.3%. The growth rates of the production and sales of cars were 7.8% and 2.2%. However, the production and sales of crossed passenger cars decreased by 26.1% and 24.3%. In February, the sales and production of passenger cars enjoyed a growth comparing with the same period of last year, driven by the high-speed growth of SUV and MPV. This month, the production and sales were 1,412,800 and 1,396,700 units respectively, down 28.3% and 31.5% than that of last month, but up 5.5% and 6.4% year on year. In March, the sales and production of passenger cars enjoyed a 10% of growth, in line with the same period of last year. This month, the production and sales were 1,928,500 and 1,870,400 units respectively, up 36.5% and 33.9% than that of last month, and up 10.3% and 9.4% year on year. In April, the sales and production of passenger cars kept decrease compare to last month, but still kept increase year on year. This month, the production and sales were 1,754,100 and 1,668,800 units respectively, down 9% and 10.8% than that of last month, and up 5.2% and 3.7% year on year, the growth rate declined 6.1 and 7.9 percentage points respectively. In the month of May the production and sales were 1,676,900 and 1,609,300 units respectively, down 4.4% and 3.6% than that of last month, but up 1.7% and 1.2% year on year. However, their growth rates decreased 14.5 percentage points and 12.7 percentage points than the previous year. For the first five months, the production and sales of passenger cars reached 8,740,500 and 8,583,200 units respectively, up 7.8% and 6.4% year on year. But their growth rates decreased 3.3 percentage points and 4.7 percentage points than the previous year. As for the passenger cars by type, comparing with the same period of last year, SUV continued a high-speed growth, of which the production and sales were up 49.1% and 47.7%. MPV also enjoyed a double-digit growth, with an increase of 17.8% and 17.9% in production and sales respectively, both exceeding 15%. As for cars, the production and sales witnessed decline, down 3% and 4.2% respectively. Moreover, the situation of crossed passenger cars was even worse, of which such figures decreased by 15.2% and 18.5%.

5. Export Trends of Passenger Car and Commercial vehicles

According to the statistics made by CAAM, the auto export was 78,100 units in April 2014, down 8.6% than that of last month, and down 12.6% year on year. The auto export continued to decline on a yearly basis. Among different types, the passenger cars were 46,500 units, down 4.1% than that of last month, and down 13.3% year on year; and the commercial vehicles were 31,600 units, down 14.5% than that of last month, and down 11.7% year on year. Auto export was 76,300 units in May, down 2.3% than that of last month, and down 12% year on year. The auto export continued to decline on a yearly basis. Among different types, the passenger cars were 42,900 units, down 7.9% than that of last month, and down 17.2% year on year; and the commercial vehicles were 33,400 units, up 5.9% than that of last month, but down 4.2% year on year. Export was 81,000 units in June, up 6.1% than that of last month, but down 4.5% year on year. The auto export continued to decline on a yearly basis. Among different types, the passenger cars were 47,300 units, up 10.3% than that of last month, but down 2.2% year on year; and the commercial vehicles were 33,700 units, up 0.8% than that of last month, but down 7.6% year on year. In the month of July, the auto export was 71,700 units, down 11.5% than that of last month, and down 10.7% year on year. The auto export continued to decline on a yearly basis. Among different types, the passenger cars were 39,600 units, down 16.3% than that of last month, and down 21.5% year on year; and the commercial vehicles were 32,100 units, down 4.7% than that of last month, but up 7.4% year on year. Auto export was 68,100 units in August, down 5.1% than that of last month, and down 3.5% year on year. The auto export continued to decline on a yearly basis. Among different types, the passenger cars were 40,900 units, up 3.4% than that of last month, but down 1.1% year on year; and the commercial vehicles were 27,200 units, down 15.5% than that of last month, and down 7% year on year. In the month of September, the auto export was 78,100 units, up 14.7% than that of last month, and up 0.03% year on year. The auto export recovered on a yearly basis, for the first time higher than a-year-ago level. Among different types, the passenger cars were 48,400 units, up 18.2% than that of last month, and up 1.1% year on year; and the commercial vehicles were 29,700 units, up 9.3% than that of last month, but down 1.7% year on year.

Table 3: Export Trends of Passenger Car and Commercial vehicles 2014(April)-2015(May)

Month & Year 2014-15	Passenger car (in units)	% Change	Commercial vehicles (in units)	% Change
April	46,500	-4.11	31,600	14.5
May	42,900	-7.9	33,400	5.9
June	47,300	10.3	33,700	0.8
July	39,600	-16.3	32,100	-4.7
August	40,900	3.4	27,200	-5.5
September	48,400	18.2	29,700	9.3
October	43,700	-9.7	29,800	0.3
November	42,800	-2	31,100	4.6
December	56,200	6.7	45,700	9.5
January	35,000	-35.3	26,800	-39.9
February	30,500	-12.9	20,900	-21.8
March	38,900	27.6	30,900	47.6
April	32,000	-17.8	29,600	-4.3
May	38,100	19.4	32,700	10.4

Source: CAAM

The auto export was 73,500 units in October, down 5.9% than that of last month, and down 18% year on year. Among different types, the passenger cars were 43,700 units, down 9.7% than that of last month, and down 25.3% year on year; and the commercial vehicles were 29,800 units, up 0.3% than that of last month, but down 4.2% year on year. The auto export was 73,900 units in November, up 0.7% than that of last month, but down 15.6% year on year. Among different types, the passenger cars were 42,800 units, down 2% than that of last month, and down 23.7% year on year; and the commercial vehicles were 31,100 units, up 4.6% than that of last month, but down 1.3% year on year.

Auto export reached 61,800 units in January 2015, down 37.4% than that of last month, and down 10% year on year. To be specific, the passenger cars reached 35,000 units, down 35.3% than that of last month, and down 23.5% year on year; the commercial vehicles were 26,800 units, down 39.9% than that of last month, but up 16.8% year on year. In the month of February, the auto export was 51,400 units, down 16.7% than that of last month, and down 4.3% year on year. Among different types, the passenger cars were 30,500 units, down 12.9% than that of last month, and down 0.4% year on year; and the commercial vehicles were 20,900 units, down 21.8% than that of last month, and down 9.4% year on year. Auto export was 69,800 units in March, up 35.7% than that of last month, but down 18.4% year on year. The decrease rate enlarged comparing with the first two months. Among different types, the passenger cars were 38,900 units, up 27.6% than that of last month, but down 19.9% year on year; and the commercial vehicles were 30,900 units, up 47.6% than that of last month, but down 16.4% year on year. In the month of April, the auto export was 61,600 units, down 11.8% than that of last month, and down 21.5% year on year. It is the biggest monthly drop since this year. Among different types, the passenger cars export were 32,000 units, down 17.8% than that of last month, and down 31.3% year on year; and the commercial vehicles export were 29,600 units, down 4.3% than that of last month, and down 7.1% year on year. The auto export was 70,800 units in May, up 15% than that of last month, but down 7.3% year on year. Among different types, the passenger cars were 38,100 units, up 19.4% than that of last month, but down 11% year on year; and the commercial vehicles were 32,700 units, up 10.4% than that of last month, but down 2.4% year on year.

6. The sales and production of New Energy Vehicles

According to the statistics made by CAAM, the production of new energy vehicles in China in 2014 reached 78,499 units, 3.5 times of such figure in last year. Among the total, Battery Electric Vehicle (BEV) was 48,605 units and Plug-in Hybrid Electric Vehicles (PHEV) was 29,894 units, 2.4 times and 8.1 times from the previous year respectively. As for the sales, the total volume reached 74,763 units, 3.2 times from a year earlier, of which BEV was 45,048 units and PHEV was 29,715 units, 2.1 times and 8.8 times of that of last year.

The production and sales of new energy vehicles in March 2015, reached 14,328 units and 14,122 units respectively, increasing 2.8 times and 3 times year on year. To be specific, the production and sales of BEV reached 9,504 units and 9,390 units, increasing 4 times and 3.5 times year on year; and such figures for PHEV were 4,824 units and 4,732 units, both increasing 1.9 times year on year. As for the first three months, the production and sales of new energy vehicles reached 27,271 units and 26,581 units respectively, increasing 2.9 times and 2.8 times year on year. To be specific, the

production and sales of BEV reached 16,113 units and 15,405 units, increasing 3.8 times and 3.7 times year on year; and such figures for PHEV were 11,158 units and 11,176 units, both increasing 2.1 times year on year.

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