



GROUPINGS OF REGIONAL CITIES IN THE AUTOMOTIVE SECTOR

Category 1 – A large market with clear aims and objectives

Category 2 – A large market with growing aims and objectives

Category 3 – An emerging market with growing aims and objectives

Category 1

Changchun	Nanjing	Wuhan
Chengdu	Shenyang	Zhengzhou
Hangzhou	Tianjin	

Category 2

Changsha	Hefei	Weihai
Changzhou	Jinan	Wuxi
Dalian	Ningbo	Xiamen
Dongguan	Qingdao	Xi'an
Foshan	Shijiazhuang	Yantai
Harbin	Suzhou	

Category 3

Baotou	Quanzhou	Wenzhou
Dongying	Shaoxing	Zibo
Nantong	Tangshan	
Ordos	Weifang	

The family car, previously the preserve of China's wealthy minority and government officials, is now no longer a luxury household item. Over the next few years, as the Chinese government commits itself to increasing domestic consumption and levels of disposable income in both urban and rural regions, automotive sales and the demand for after-sales services will continue to grow at a substantial rate across the country.

In 2010, 18 million vehicles were sold in China, making it the world's largest automotive market. Annual sales of 30 million units are projected by 2020.

China is also the world's largest market for automotive after-sales services, component supply, imports of luxury marques and the adoption of technological innovation.



ELECTRIC VEHICLES (EVS)

The Chinese are investing heavily in electric and hybrid cars. As Western and Japanese manufacturers and their joint venture operations in China dominate the automotive sector with combustion-engine driven cars, the country's domestic industry sees opportunities in the transition to firstly hybrid and eventually full electric vehicles.

In June 2010, five cities – Shanghai, Changchun, Shenzhen, Hangzhou and Hefei – were established as pilot cities for the EV purchase subsidy. The subsidy was set at RMB50,000 for plug-in hybrids and RMB60,000 for fully electric vehicles. This pilot project has now been extended to 25 cities. In Beijing, the goal is to have 30,000 EVs on the road by the end of 2012: 23,000 pure electric cars and 7,000 plug-in hybrids.

It is believed that details of the 12th Five Year Plan related to EV include advances in key electric-vehicle technologies, such as batteries, electric motors and electric control systems, with a focus on the development of light pure electric vehicles over the next five years. The Plan aims to:

- Reduce production costs of batteries by 50 per cent
- Have one million EVs on China's roads by 2015

- Expand the country's annual production capacity of power batteries to 10 GW
- Establish a system standard for EVs
- Increase the number of model EV cities to more than 70 by 2015
- Install over 2,000 charging stations and 400,000 charging bays in the model cities

For batteries, the Plan dictates power battery modulation as the solution and advocates moving towards mass production capability.

It also establishes a goalpost for the development of whole-vehicle integration technology to achieve a breakthrough in the performance and price ratio of hybrid vehicles to gain greater market share.

Another goalpost includes the innovation of the technology support infrastructure with advances in light electric vehicle technology platforms and electric vehicle standard systems, focusing on battery recharging and replacement technology.

In addition to EV sales subsidies, cities are subsidising construction costs for charging stations and other elements of EV infrastructure.

These moves are likely to be welcomed by Chinese auto manufacturers who have launched EVs including BYD (HQ and R&D facilities in Shenzhen, R&D sites in Shanghai

and two manufacturing plants in Xi'an); Zotye (Yongkang, Zhejiang Province) and Chery (Wuhu, Anhui Province). Current EV sales have been hampered by higher sales costs compared to conventional cars. The sales subsidy programme, publically visible infrastructure and the rising cost in petrol are all factors likely to help sales of EVs within the next five years.

Although Chinese domestic companies such as BYD are at the forefront of battery and motor technology, there are a number of significant areas where the UK can support the ongoing development of the EV market. They include the utilisation of composite and lightweight materials; the development of vehicle to "X" communications; vehicle to grid; traffic management/vehicle guidance; car-to-car accident avoidance; and interactive entertainment and productivity systems.

MOTOR INSURANCE

Motor insurance makes up almost 70 per cent of the non-life insurance industry in China. Regulations heavily restrict foreign firms' activities in this area, particularly in the compulsory third party liability

insurance market. Access to this segment is expected to liberalise in the coming years, and will open up an enormous potential market for firms with the capacity to provide such services.

THE AFTERCARE MARKET

Chinese customers are increasingly focused on car care and maintenance, leading to the expansion and development of the automotive aftermarket. This includes areas such as: repair and maintenance equipment, parts and components, remodeling, care and maintenance, aftermarket electronic products, second-hand sales, and training for technicians.

Chinese domestic companies engaged in the automotive aftermarket, especially in remodeling and electronic products, are usually small scale, lacking their own research, core technology, technical know-how and IPR protection. They are typically Overseas Equipment Manufacturers (OEMs) of international brands or suppliers of low/mid-end products. The key players are and will continue to be global manufacturers. Bosch, for example, operates 855 car service stations in China, making it the largest independent automotive aftermarket service network in the country.

UK companies, such as BP, have already established a presence in China's automotive aftermarket, targeting in particular the medium and high-end market in car care and maintenance. The market remains open for more UK companies to get involved as Chinese consumers increasingly adopt the concept that vehicles need ongoing care and maintenance, and not just repair when they break down.

It is now common to see Chinese consumers turning to the types of products and services, known for superior quality at affordable prices, which UK companies are well-positioned to offer. Although the prices of UK products and services are higher than local prices, most Chinese customers believe that the extra cost is justified. With mass production, lower Chinese tariffs and lower international transportation costs, UK products will also become more affordable.

SUPPLY CHAIN

Shanghai and the neighbouring provinces of Jiangsu, Zhejiang and Anhui (the Yangtze River Delta) are the main centres for component manufacturing within China, accounting for 44 per cent of national production. Other major production centres include Chongqing, Sichuan and Changchun (Liaoning Province).

The world's auto manufacturers have a strong presence in the Chinese market through joint ventures with local companies. Many have expanding operations and partnerships in the cities outside of China's traditional automotive heartlands.

For example, VW, which has production sites in Changchun and Dalian, has announced a new production plant in Foshan and plans to build EVs in China from 2013; GM has production in Liuzhou (Guangxi Province), Qingdao and Yantai and plants in Harbin and Changchun; Peugeot-Citroën has two production plants in Wuhan; Ford has vehicle assembly in Nanchang (Jiangxi Province), engine manufacturing in Nanjing and plans to build a new transmission plant in Chongqing.

Of the Japanese manufacturers, Nissan opened a new SUV plant in Zhengzhou in 2010; Honda has assembly in Guangzhou and Wuhan; while Toyota has plants in Tianjin, Changchun and Guangzhou and is opening a new R&D centre in Changsu (Suzhou, Jiangsu Province).

There are a number of Western companies with strong and geographically expansive Chinese operations in the manufacture of components. GKN, for example, was the first Western firm to invest in the Chinese automotive components industry. It now has 13 operations across the country, including the manufacture of drive shafts in Chongqing and Wuhan. Similarly, Bosch has 11 manufacturing operations and is opening its fifth R&D centre in Changsha in 2012.

Though approaching the market through existing relations with foreign companies active in China is a clear option for UK firms, this does not inhibit approaches to Chinese domestic manufacturers.



LUXURY IMPORTS

Alongside growth in the sales of domestically produced cars, the Chinese market for imported luxury cars continues to expand dramatically. Imports of foreign cars nearly doubled in 2010, reaching nearly US\$31 billion or 813,600 units. Despite very high import taxes, sales have nevertheless exploded because of the prestige attached to foreign car ownership in China. High-end auto manufacturers have identified China as their most important growth market at a time of stalling demand elsewhere, with the annual Shanghai Auto Show now occupying a central place on the calendars of the leading global luxury carmakers.

With the typical purchaser of luxury goods in China being much younger than their counterparts in other countries, it appears

that the market in high-end foreign cars is far from maturing. Rolls-Royce, for example, aims to sell 800 cars in China in 2011 – which would represent an 800 per cent increase on sales of two years ago – and is opening new dealerships in Chongqing, Tianjin and Wuhan. Similarly, China is now Bentley's second most important market outside the US, with 13 dealerships across the country and the Continental Flying Spur – costing some RMB 3-4 million – its most popular model. Moreover, Jaguar Land Rover wants to extend its number of Chinese dealerships to 100 by the end of 2011, including a new flagship store in Beijing, to meet a growing demand that produced sales of 30,000 in 2010. Aston Martin, meanwhile, plans to establish itself in China as a wholly foreign-

owned subsidiary in order to develop further its in-country brand following a 50 per cent increase in sales in 2010.

Alongside increased sales, the growing demand for foreign cars in China also presents opportunities for UK companies engaged in the aftercare market. Replacement parts and components, care and maintenance services, and car accessories and remodelling cannot be readily sourced from domestic companies. With Chinese owners keen to ensure they get the most from their investments in foreign and luxury cars, UK firms will likely find an increasingly receptive market for their high-end aftercare products and services.

