

The Chinese Automotive Industry in 2016

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Foreword

In the last 30 years, China has shifted from a centrally planned to market-based economy and has experienced rapid economic and social development. Particularly since China's admission to the WTO in 2001, China's economy has grown rapidly and has attracted worldwide attention. China is now the second largest economy in terms of GDP and is also a leading producer and consumer of many different product categories. Automobiles are a good case in point.

In the last few years, China's economy has been adapting to the so-called new normal conditions, but its auto market has grown more vigorously and is expected to maintain stronger growth powered by SUV and electric vehicle sales. China outstripped the United States in 2010 to become the world's largest market for new vehicles. The penetration rate of the auto market in China is still quite low and offers great potential for the future, in spite of the limitations imposed on some cities. Urbanization and the emerging middle class will drive the development of China's auto industry. New technologies, such as the development of the electric vehicle, strongly supported by the Chinese government, can be developed much faster in China and have a greater impact than in other parts of the world.

As discussed in the foreword of the previous edition of this book by then CEIBS President Professor Zhu Xiaoming, Industry 4.0 presents a golden opportunity for smart transportation and China's auto industry. The concept, which originated in Germany, aims to improve the competitiveness of industries using new manufacturing and digital technologies and enable them to become the first movers in this new industrial revolution.

In October 2015, during German Chancellor Angela Merkel's visit to China, Premier Li Keqiang agreed with her on the need to strengthen coordination of economic strategies, given that China is pursuing similar programs to integrate conventional industry and information technology.

Opportunities and challenges go together. Competition among players in the Chinese auto industry has become much fiercer in domestic and global markets. Although there are still gaps between Chinese and leading international automakers, they are steadily being reduced each year and Chinese automakers' learning ability, marketing capability, flexibility and determination to join the global competition certainly cannot be underestimated.

Professor Jaume Ribera has been teaching at CEIBS for almost 30 years and has observed the Chinese market as a foreign expert. The rest of the authors, experts from IESE, CEDARS and Roland Berger, join Prof. Ribera in offering their insightful observations and sharing their knowledge of the industry.

If you're interested in knowing what's happening in the auto industry in China, this book is worth reading. It provides foreign readers with insights into China's auto industry and also highlights many great learning opportunities for Chinese automakers.

Prof. Li Mingjun

President and Professor of Management, CEIBS



Foreword

More than 30 years ago, I started organizing one of first major auto industry events at IESE Business School with the support and now with the leadership of Marc Sachon. In 1994, I invited a Chinese businessman in the industry, Mr. Ma Yue, the President of Dongfeng Motor Group, to the event. But it wasn't because I had grasped the impact China would have on the industry. It was more because China had started manufacturing automobiles at a steady rate and it was necessary to see this as an opportunity and study it.

The automotive industry is one of the most important drivers of the economy. It creates jobs, stimulates technological development and has a positive impact on other sectors of the economy such as raw materials, logistics, finance and consulting. But the auto industry is also full of difficulties because it is cyclical in nature and so fiercely competitive. Parts of its value chain are highly capital intensive and the entire industry is often shaken by major upheavals that weed out the players with slow reaction times.

A quick look at the Chinese industry shows that these difficulties have caused many companies to merge, sell out or be taken over. Examples include companies such as Nissan-Renault, Fiat Chrysler (Fiat is now made up of Alfa Romeo and Lancia, which were originally independent), Geely-Volvo and many more.

Another relevant aspect of the Chinese auto industry is its market development, which has led China to become the world's leading market in terms of the number of vehicles. But there are other market developments involving consumers that will determine how the industry develops in important areas such as the purchasing decision (with potential buyers visiting dealerships, shopping online and doing a combination of the two), the kind of vehicle (with a growing choice of conventional, electric, hybrid and soon self-driven vehicles), and the options of buying, sharing and renting. Global use of information and communication technologies makes these options more accessible in a society that is evolving rapidly, especially in countries such as China, which has experienced rapid, sustained changes in its economic, cultural and social progress.

Marc Sachon and Jaime Ribera both have extensive knowledge of the automotive industry and China. Since the 1980s, Jaime Ribera has been a member of the team that was able to launch CEIBS, an outstanding business school in China. CEIBS now boasts contacts all over the world, such as its strong alliances with IESE and Harvard Business School. Marc Sachon honed in on the automotive industry several years ago as one of his chief areas of academic and professional interest and he also accepted the responsibility of organizing IESE's annual Automotive Industry Meeting, which addresses the challenges facing the industry and the most relevant topics for managers.

This study on the auto industry in China by Marc Sachon and Jaime Ribera is a highly valuable contribution by people with the know-how and experience to do it.

I can only express my appreciation for a job well done.

Prof. Pedro Nueno

President and Professor of Entrepreneurship, CEIBS
Professor in the Department of Entrepreneurship, IESE



China Europe International Business School



The China Europe International Business School (CEIBS) is a non-profit joint venture established in 1994 with the financial and political support of the Chinese government and the European Commission. Ranked eighth worldwide (MBA ranking by *Financial Times*, 2009) and first in Asia for eight consecutive years, CEIBS is the leading center in the region for organizing industry forums that bring together industry leaders, senior government officials and renowned academics in an open, neutral environment to discuss and debate the hot issues facing China and the world.

Website: www.Ceibs.edu

Website: www.Ceibs.edu/ccar

CEDARS



CEDARS is a provider of market intelligence, consulting services and solutions on the Chinese automotive industry. We are an ISO 9001:2015 certified company by SGS.

CEDARS' Unique Features:

1. Chinese local brands
2. Export market oriented
3. Independent (only serving overseas distributors and the like)
4. Solutions (China agent; auto parts; RORO shipping)

CEDARS' Services:

- Providing leading consulting services in the Chinese automotive industry
- Recommending the best Chinese brands and liaising for overseas distributors
- Building long-term partnerships through integrity in business practice

Website: www.cedars.hk

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IESE Business School



IESE Business School, the graduate school of the University of Navarra, with over 50 years of history, has been at the forefront of management education and research, developing and inspiring business leaders who strive to make a deep, positive and lasting impact on the people, companies and society they serve.

The IESE faculty is made up of over 100 full-time professors and around 70 external collaborators who represent almost 30 countries and hold PhDs from the world's top business schools. Their dedication to teaching, the impact of their research and their experience working with companies around the world are central to IESE's continued success in providing excellence in management education. IESE pioneered automotive industry research in Europe through its annual Automotive Industry Meetings (now preparing the 30th edition), where researchers and industry executives discuss the future and changing trends in this exciting sector.

IESE programs are ranked among the top in the world in *Financial Times*, *Economist* and *BusinessWeek* lists. IESE alumni make up an international community of more than 40,000 business and non-profit professionals and entrepreneurs spanning over 100 countries. Every year the Alumni Association organizes hundreds of education sessions and reunions that create links, enable networking and make IESE a valuable, ongoing experience.

Website: www.iese.edu

PORT OF BARCELONA



The Port of Barcelona is a Southern European gateway that provides an extensive network of logistics and transport services to connect international trade routes with the main European and Mediterranean markets and North Africa.

In the automotive industry, the Port of Barcelona is positioned to be Europe's southern hub. The Port's terminals are the biggest car facilities on the Mediterranean and are served by a well-trained and motivated workforce and management. The Port's unique rail connection to Europe and strategic geographic location make it suitable for distributing cars throughout Europe and North Africa and for shipping exports from Southern and Central Europe overseas. Spain is the second biggest carmaker on the European market.

The Port enjoys good sea connectivity and is making progress towards establishing regular services with the Far East to avoid the extra sailing days involved in taking vessels to Northern Europe. The Port's aim is to consolidate itself as the Southern European hub for Asian markets. The Port of Barcelona is the sponsor of the Chair of Logistics at CEIBS, which was created in December 2000 with the goal of promoting relations between Chinese and European researchers and practitioners, and fostering research on logistics aimed at top-management decision making. Due to its origins and location, the Chair has its main focus on companies in Europe and China with trade in the other region.

Website of the Port of Barcelona: <http://www.portdebarcelona.cat>

Website of the Chair of Logistics: <http://www.ceibs.edu/barcelona>

Roland Berger



Founded in 1967, Roland Berger is one of the world's leading strategy consultancies. With 50 offices in 36 countries and over 2,400 employees, the company has successful operations in all major international markets and has built its expertise on its extensive experience working with clients for over 40 years.

Roland Berger supports leading international corporations, non-profit organizations and public institutions in all management issues. The company is based on global Competence Centers organized along functional and industry lines. This allows the company to offer customized, creative solutions devised by our experts at different Competence Centers.

Providing support in the implementation phase is particularly important to Roland Berger, the only consulting firm of European origin among the global Top 5. All Berger employees strive to adhere to our three core values: excellence, entrepreneurship and empathy.

The Chinese market is a key pillar of Roland Berger's international expansion. Since its first project in China in 1983, the consultancy has grown rapidly: the five Chinese offices (Shanghai, Beijing, Hong Kong, Taipei and Guangzhou) currently have 360 consultants dedicated to working extensively with both leading Chinese and international companies, and helping them successfully master their unique challenges.

Team Members

Professors



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Prof. Jaume Ribera holds the Port of Barcelona Chair of Logistics at CEIBS. He is also a professor of Production and Operations Management at CEIBS in Shanghai and IESE in Barcelona. Prof. Ribera received his PhD in Industrial and Systems Engineering from the University of Florida, and his Doctor of Engineering degree in Spain.

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Junyi Zhang joined Roland Berger in 2004 and focuses on the automotive industry and related value chain business. Junyi is responsible for OEM operation topics, including supplier business, IPE (innovation, product, engineering), e-mobility, and investor support-related topics in Greater China. He has a broad client portfolio that includes many SOEs, MNCs, and listed companies.



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Table of Contents

I. EXECUTIVE SUMMARY AND METHODOLOGY	- 13 -
II. MACRO ANALYSIS OF THE FINISHED VEHICLE INDUSTRY	- 17 -
1 History of the Automotive Industry in China	- 17 -
2 Current Market Situation	- 21 -
2.1 Capacity	- 24 -
2.2 Production and Sales	- 26 -
2.3 Exports	- 28 -
2.4 Imports	- 33 -
3 Legal Environment and Market Requirements	- 35 -
3.1 Legal Environment in China	- 35 -
3.1.1 Government Guidelines and Incentives	- 35 -
3.1.2 Past Government Guidelines and Incentives	- 36 -
3.2 Legal Environment Abroad	- 42 -
3.2.1 Legal Environment in Europe and the United States	- 42 -
III. MICRO ANALYSIS OF THE FINISHED VEHICLE INDUSTRY	- 43 -
1 The Main Players on the Chinese Market	- 45 -
2 Chinese Companies	- 49 -
2.1 The 15 Main Chinese Players	- 54 -
2.2 SWOT Analysis of the 15 Main Chinese Players	- 57 -
2.3 2020 Plans and Strategies of the 15 Main Chinese Players	- 63 -
2.4 History of the Main Chinese Players	- 67 -
2.5 Location of the 15 Main Players	- 71 -
2.6 The 15 Main Players: Ownership	- 73 -
2.6.1 State-Owned Companies	- 73 -
2.6.2 Private Companies	- 74 -
3 Current Market Situation	- 77 -
3.1 Domestic Sales	- 77 -
3.2 Exports	- 78 -
3.3 Passenger Vehicle Imports	- 80 -
3.4 Listed Companies (Sales and Profits)	- 82 -
4 Main Professional Predictions for Chinese Companies	- 87 -
IV. ANALYSIS OF CHINESE BRANDS	- 89 -
1 Top Ten Chinese Brands	- 91 -
2 Chinese Brands vs. Global Brands	- 95 -
2.1 Total Market Share	- 95 -
2.2 The Passenger Vehicle Market	- 96 -
2.3 The Commercial Vehicle Market	- 98 -
3 Exports	- 99 -
3.1 Exports by Type	- 100 -
3.2 Top Ten Brands	- 101 -
3.3 Top Five Brands by Segment	- 101 -
4 Analysis of Typical Chinese Brands	- 103 -

4.1	Geely in the Light Vehicle Market	103 -
4.2	Sinotruk in the Truck Market	107 -
4.3	Yutong in the Bus Market	110 -
V.	MACRO ANALYSIS OF THE CHINESE AUTOMOTIVE PARTS INDUSTRY	115 -
1	Development of the Parts Industry	117 -
1.1	The History of the Chinese Parts Industry	117 -
1.2	The Contribution to the National Economy	117 -
1.3	Parts Sales	118 -
1.4	Exports and Imports	119 -
2	Characteristics of the Parts Industry in China	123 -
2.1	Life Cycle	123 -
2.2	Regional Cluster Analysis and Market Concentration	123 -
2.3	Industry Structure	124 -
3	PEST Analysis	127 -
3.1	Political Environment	127 -
3.2	Economic Environment	128 -
3.3	Social Environment	130 -
3.4	Technological Environment	131 -
4	Porter's Five Forces Analysis	133 -
4.1	Industry Rivalry	133 -
4.2	Threat of New Entrants	134 -
4.3	Threat of Substitutes	134 -
4.4	Bargaining Power of Suppliers	135 -
4.5	Bargaining Power of Customers	135 -
VI.	ANALYSIS OF THE DIFFERENT PARTS SEGMENTS	137 -
1	Powertrain--Engine	139 -
1.1	Classification of Engines and Engine Companies	139 -
1.2	Production and Sales	139 -
1.3	Exports and Imports	143 -
2	Powertrain---Transmission	147 -
2.1	Transmission Classification	147 -
2.2	Production and Sales	147 -
2.3	Exports and Imports	149 -
2.4	Industrial Development Features	151 -
3	External Parts---Tires	155 -
3.1	Classification of Tires	155 -
3.2	Production and Sales	155 -
3.3	Exports	157 -
3.4	Industrial Development Features	158 -
4	Internal Parts---Seats	161 -
4.1	Production and Sales	161 -
4.2	Market Structure	161 -
4.3	Exports and Imports	162 -
4.4	Market Features	164 -
5	The Automotive Electronics Industry	165 -
5.1	Classification of the Automotive Electronic System	165 -

5.2	Market Figures	- 166 -
5.3	Market Features.....	- 168 -
VII.	ELECTRIC VEHICLES	- 171 -
1	Classification of Electric Vehicles.....	- 173 -
2	The Electric Vehicle in China: Why?.....	- 177 -
3	Development of the Chinese EV Market	- 181 -
4	Government Initiatives	- 185 -
5	Automotive OEM Initiatives.....	- 191 -
6	Infrastructure Construction in China	- 199 -
7	Case Analysis	- 203 -
7.1	Foreign Brand---Tesla	- 203 -
7.2	Joint Brand---Denza.....	- 208 -
8	Challenges for the EV Market in China	- 213 -
9	Future Perspectives	- 215 -
10	Box: Worldwide Comparison	- 219 -
VIII.	STRATEGIC SHIFTS TOWARDS E-MOBILITY	- 225 -
1	Autonomous Driving.....	- 227 -
2	Car Sharing	- 233 -
IX.	CONCLUSIONS.....	- 237 -
X.	ANNEXES	- 241 -
Annex I.	Relations Between Foreign and Chinese Automobile Manufacturers.....	- 241 -
Annex II.	Brands Produced by the Main Chinese Manufacturers	- 241 -
Annex III.	SWOT Analysis of Each of the Ten Main Players	- 241 -
Annex IV.	Overview of the Location of the Production Centers/Offices of the Main Chinese Players	- 241 -
Annex V.	Overview of the Main Auto Export/Import Ports in China	- 241 -
Annex VI.	An Atlas of Pollution: The World in Carbon Dioxide Emissions.....	- 241 -
Annex VII.	Green Energy Vehicles.....	- 241 -
Annex I.	Relations Between Foreign and Chinese Automobile Manufacturers.....	- 242 -
Annex II.	Brands Produced by the Main Chinese Manufacturers.	- 255 -
Annex III.	SWOT Analysis of Each of the Ten Main Players.	- 265 -
Annex IV.	Overview of the Location of the Production Centers/Offices of the Main Chinese Players.	- 285 -
Annex V.	Overview of the Main Auto Export/Import Ports in China.	- 295 -
Annex VI.	An Atlas of Pollution: The World in Carbon Dioxide Emissions.	- 296 -
Annex VII.	Green Energy Vehicles.	- 296 -
	Pure Electric Vehicles (EVs)	- 297 -
	Fuel Cell Vehicles.....	- 299 -
	Hybrid Vehicles.....	- 302 -
	Acronyms	- 305 -
	Figure Index.....	- 306 -
	Acknowledgements	- 311 -