



Economic Briefs

CHINA

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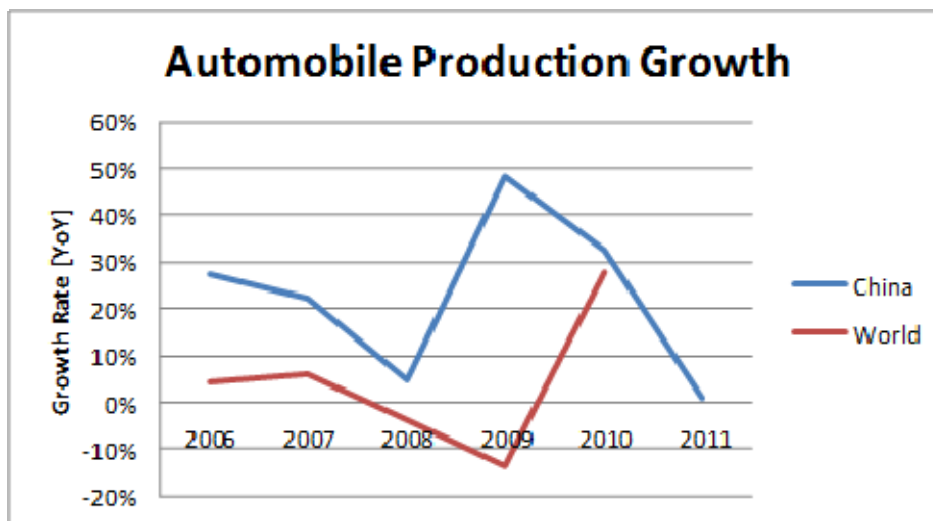


Sectoral Snapshot

Automobile Production in China: Laying off the Clutch

In 2010, 23% of the cars produced in the world were produced in China. The second largest economy in the world has been the world’s largest automobile producer since 2008. In 2010, China manufactured 18.3 million vehicles, almost doubling Japan’s annual production of 9.6 million units, the world’s second automobile producer. After enjoying positive growth prior to 2011, the Chinese automobile industry, not unlike India (see India Economic Brief Issue 2, October 2011), was stagnant last year (fig 1).

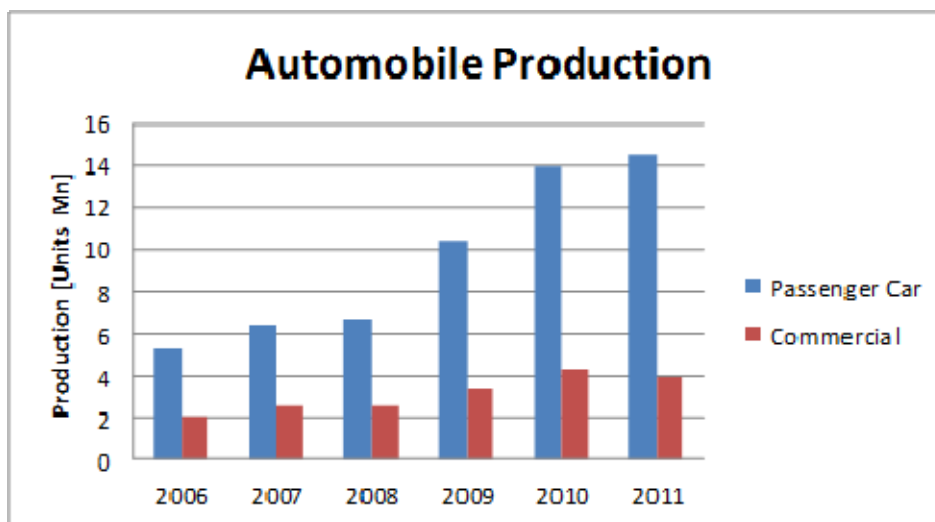
Fig 1



Source: CEIC Data

A lot of this decline has been in commercial vehicles production. The production of passenger cars, which accounted for 79% of the total auto production, actually increased by 4%, from 13.9 million in 2010 to 14.5 million in 2011 (fig. 2). The production of commercial vehicles experienced a negative growth, from 4.4 million in 2010 to only 3.9 million in 2011 (fig 2).

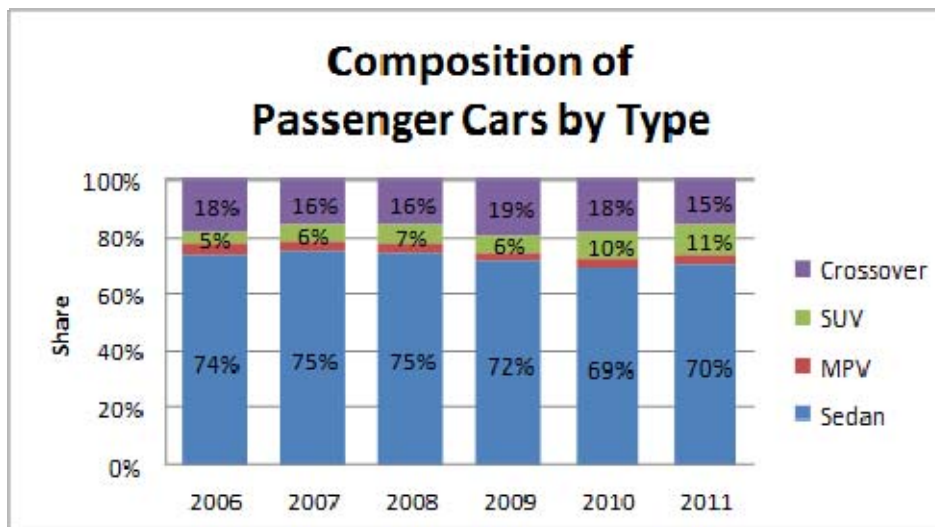
Fig 2



Source: CEIC Data

In the passenger cars category, of the 14.5 million units produced in 2011, 70% were sedans. Interestingly, SUVs had become gradually more popular, doubling its share from 5% of the vehicles produced in 2006 to 11% in 2011 (fig 3).

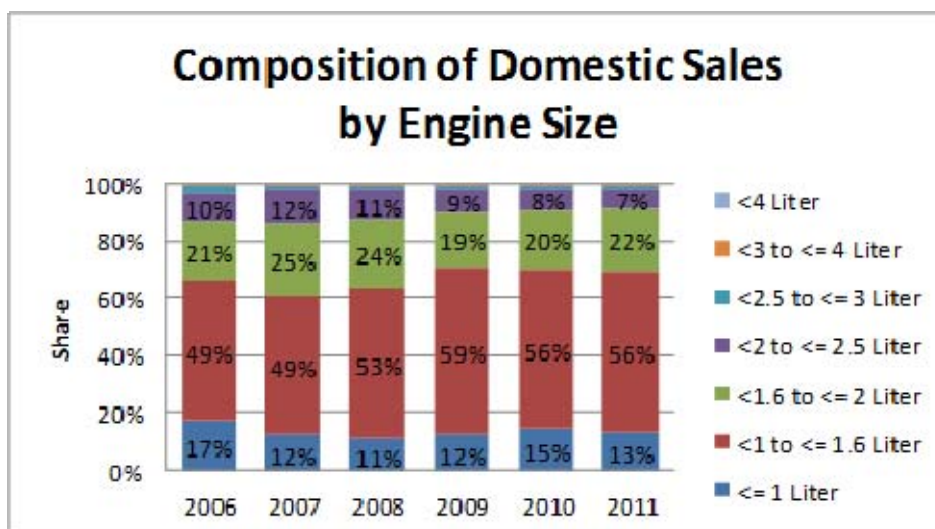
Fig 3



Source: CEIC Data

However, in 2009, the Chinese government implemented policies to favor the consumption of small, energy efficient vehicles. These policies seemed to have paid off. In 2011, almost 70% of the domestic sales were vehicles with engines 1.6-liter or less, compared to 64% in 2008 (fig 4).

Fig 4



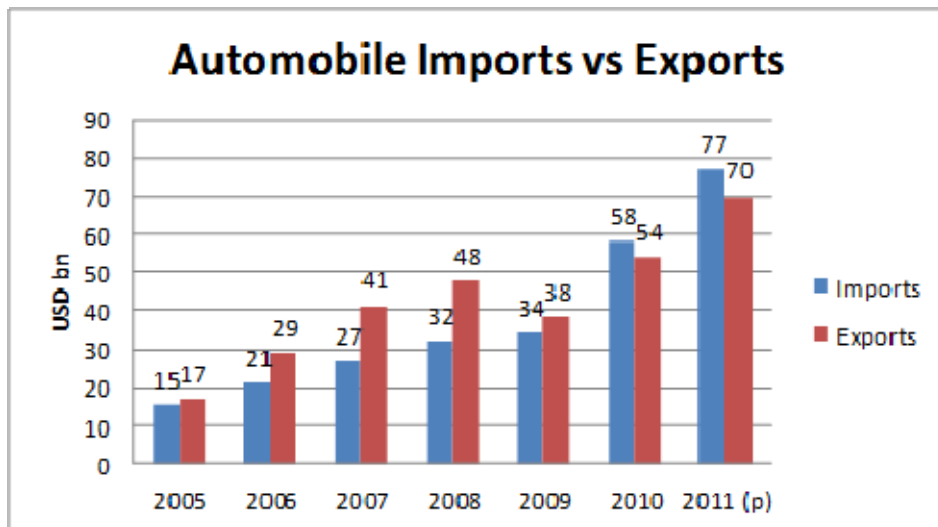
Source: CEIC Data

Automobile imports and exports are relatively minor compared to domestic production. About 566 thousand vehicles were exported in 2010, with an average unit cost of only 12.3 thousand dollars, representing 3% of the domestic production. The United States, although still the top exports destination, accounted for 24% of the highly affordable Chinese auto exports during 2010, a 7-point drop from 2005. Japan has been steady at a distant second place with 12% of the exports in 2010.

Imported cars, typically expensive, are intended primarily for the Chinese upper-income strata. 813 thousand vehicles were imported in 2010 at an average price of 37.8 thousand dollars, accounting for 4% of the domestic production by volume. Germany and Japan, each with 32% of the total imports, were by far the top two suppliers for China during 2010. The share of Korea, historically the third supplier, dropped from 17% in 2005 to only 8% in 2010.

Imports and exports of automobiles, while as a small share of overall, have been growing roughly at the same pace as domestic production, and during 2011 represented a 77 and 70 billion-dollar business, respectively (fig 5).

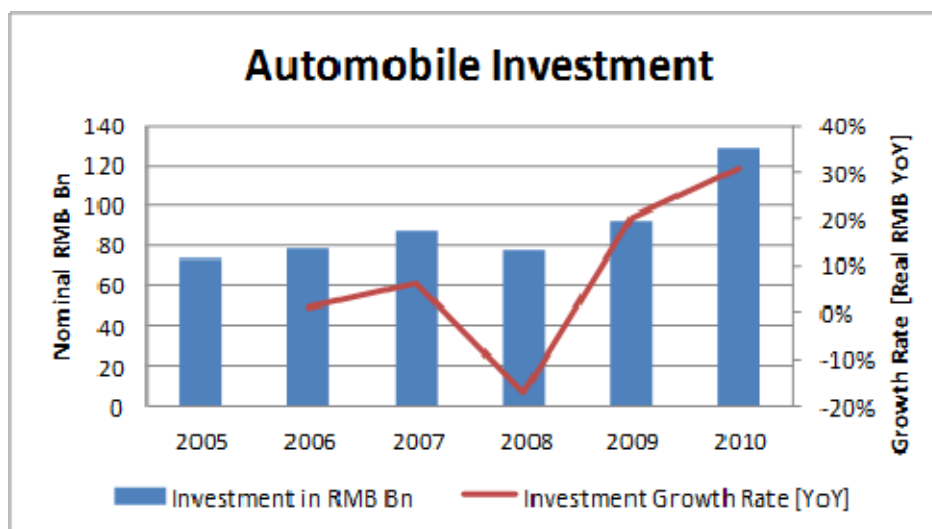
Fig 5



Source: CEIC Data

Investments in the automobile sector in China increased at an average rate of 8% per year over the last five years (constant RMB). After a negative growth of 17% in 2008 due to the international financial crisis, the industry recovered with impressive 20% and 31% investment growths in 2009 and 2010, respectively (fig. 6), reaching an all-time record of nominal 127.8 RMB bn during 2010. The crisis affected foreign investment, in particular, causing an 8-point drop in four years from 34% in 2006 to only 26%, in 2010.

Fig 6



Source: CEIC Data

Government restrictions over car ownership and vehicle registrations were implemented to control and relieve already congested areas, such as Beijing and particularly Shanghai. This could have played a role in the stagnant levels of production. The top production centers in 2010 were located in Shanghai, Jilin, Chongqing, and Hubei, each with 9% of the total number of vehicles produced that year, slightly displacing the former leader Beijing to a fifth place in 2010, with only 8%. In terms of the number of vehicle registrations, the top five new vehicle registration areas in 2010 were Shandong, Guangdong, Jiangsu, Zhejiang, and Hebei, representing almost 40% of the new registrations in China during 2010 (fig 7).

Fig 7

Top Production and Vehicle Registration Areas, 2010



Source: CEIC Data

The automobile market in China, composed of around 20 active competitors, are mostly state-owned. The top five companies by volume, all state-owned, Shanghai Auto, Dongfeng, China FAW, China Changan, and BAIC, together accounted for 74% of the total automobile sales. (fig 8).

Fig 8



Source: CEIC Data

Foreign manufacturers accessed the Chinese marketplace through joint ventures with local firms. The top three partnerships, all involving state-owned firms, were Volkswagen and China FAW, with 1.9 million cars sold in 2010, followed by General Motors-Shanghai SAIC and Ford-Changan Motors.

Similar to India, China’s automotive sector after experience significant growth over most of the last decade has cooled down, at least temporarily, as a result of restrictions on auto registrations, greater investments in public transportation, higher costs of borrowing and a reduced flow of foreign investments in the sector.