China
中国汽车产业成人化
A Maturing Developing Market

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雪佛兰销售走软，通用汽车3月中国销量微跌0.6%

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上海 — 通用汽车公司3月份在中国的销量同比下跌0.6%为296939辆，销量下跌的主要原因是雪佛兰和入华级微面的需求走软。上月雪佛兰的销量下滑达19%，部分原因是为了生产改款迈锐宝，工厂调整生产线。

福特汽车上月在华销量增长5%

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上海 — 福特汽车公司3月份在中国市场的销量增长了5%为114788辆，销量增长受跨界车和SUV的带动。3月份，两家合资企业的跨界车和SUV销量猛增29%为26732辆。本月乘用车合资企业长安福特汽车公司的销量同比增长12%为84292辆。但商用车合资企业江铃汽车公司的销量则下跌了8%为28997辆。
Developing Country

• “Big Push” industrialization
  – emphasis on politically visible goods, such as autos
• govt dream: national (export) champions
• ISI: import substitution industrialization
  – barriers (tariffs and otherwise) to imports of final consumer goods
  – lower tariffs on parts, components, capital equipment
  → final “screwdriver” assembly
ISI Distortions

• sourcing: too little
  • kits cost more than imported vehicles
  • cascades into local content mandates
  • encourages making old, simple product for decades

• model strategy: too many
  • if sales limited, sell upscale with big margins
  • proliferating product pushes profits up

• China-specific: internal geography
  • everyone wanted – and got – a car plant
    – despite formal policy to limit entry

• $\Sigma$ all lose battle with economies of scale
Developed Country

– low-volume confronts big market:
  • Econ of Scale in assembly
  • kits import not sustainable
  • how entice suppliers?
– multiple models
  • under ISI, drove up costs
  • with volume production, drives down price
– used car market maturing
  • ditto financing
– factory mgt good: initial quality near US levels
China specifics

• geography: from Urumqi to Hainan to Yunan to Manchuria: the four corners of a continent
  – *not* the geography of Klier & Rubenstein!
• entry
  – via 50:50 joint ventures
    • Germany, France, Japan, Korea, the US
  – pure domestic brands
    • Geely, Great Wall, BYD, Chery, Rover, many others
National Trunk Highway System (NTHS), China
China specifics

• State-owned firms as JV partners
  – but national, provincial, municipal
  – lots of heterogeneity in implications for mgt

• market growth
  – bigger than US or Europe
    • GM, VW largest players
      – 25% of GM profits, more (40%?) for VW group
    • China is largest market for Hyundai-Kia
      – not Korea, not US
Achieving Economies of Scale

• China’s economy began growing more strongly from 1999-2000
  • competition from 2001 entry by GM ⇒ lower prices
• Production grew most years at strong double-digit rates until 2011
  – when the economy, as expected, slowed
• Output doubled or more every 5 years
  – through 2013
• Successful firms could achieve EOS volumes
Exhibit 47: China car sales as a proportion of global (%)
Suppliers

• legacy production from days of Soviet aid
• labor-intensive local firms
  • esp bulky simple / labor intensive
  • radiators, seats, wire harnesses
• European and North American export base
• Firms that accompanied customers
  • VW ca. 2000, others
• regional sales engineering
  • now support for pure domestics, own OEs
  • GM is leader
Distribution of Suppliers: Agglomeration?

图 1  江苏省内 90 家韩国投资企业的空间分布特征

Fig. 1  90 Korean automotive firms in Jiangsu Province
Failures

• no “national champion” domestics
  • yet

• no exports
  • heavy trucks a bit different, but natural markets all have ISI strategies so local assembly
  • was large net importer (finished vehicles) in 2001
    – now essential zero net trade
    – value added is thus overwhelmingly domestic

• tech improving
  • but still scattered efforts
CHINA AUTO SALES BY MONTH, 2005 - 2015

THOUSANDS

SALES ROSE NEARLY 3-FOLD IN THE 5 YEARS OF STIMULUS, FROM 550k/MONTH TO 1.5m/MONTH

SALES ROSE BY TWO-THIRDS FROM 330k/MONTH IN 2005 TO 550k/MONTH IN 2008

SOURCE: INTERNATIONAL eCHEM ANALYSIS, CHINA ASSOCIATION OF AUTOMOBILE MANUFACTURERS
China Passenger Vehicle Market Share by Segment

Source: China Auto Market, Morgan Stanley Research
Vehicle prices in China are falling faster this year
Heavy DIScount
If disapproval, We will drawback
全新BMW M4双门轿跑车

融资租赁方案现已全面升级：BMW专享享利率

12个月：2.88%；
24个月：4.88%；
36个月：6.88%。
Chicken Little

• China’s slowdown is real
  – BUT the sky is not falling
  – a small increment in Chinese sales
    • is a large increment!!
    • 1% of 25 million = 1 assembly plant
  – differentials by segments central
    • no longer double-digit growth, a tide raising all boats
    • small SUVs booming, mini & compact cars shrinking
  – some firms will come out well
The Golden Goose and the Horse Race

– prices falling, margins with it
  • dealerships pinched as business model was new car sales
  • the Golden Goose is dead

– investment plans remain strong
  – no CEO goes to their board without a China strategy
  • but before being in the race meant profits
  • now you have to win, place or at least show

– achieving full capacity used to take quarters
  • now it may take years
Who will be first?

• To exit
Addenda: 2008 vs 2013

• China’s domestic industry is improving
  – JDPowers Initial Quality Survey (2009 vs 2014)
    • 318 domestic 173 JVs → 131 domestic 95 JVs
  – 210K employees → 340K [+60%]
    • 25K → 40K technical staff [+60%]
  – 12K → 26K R&D staff [+120%]
    • 元30 bn → 元70 bn R&D expenditures [+133%]
  – 11K → 31K patents (发明专利)
    • 12K → 46K utility models (实用新型专利)