

AUTOMOTIVE INDUSTRIES

Opportunities in China



Introduction

Santander is pleased to collaborate with China Britain Business Council (“CBBC”) on this article which focuses on the Chinese automotive sector. CBBC is the UK’s national business network promoting trade and investment with China. Since 1954, CBBC has acted as the independent voice of business, located at the heart of the action, engaging across both countries in every sector and region. CBBC is a membership organisation and supports their members, clients, and partners by delivering the advice, analysis, advocacy, and access which they need to seize the China opportunity. Santander UK has collaborated with CBBC extensively over the last five years – from webinars, virtual connectivity events, trade missions, to insight articles. Together, we aim to promote trade and investments between China and the UK.

Market

China is the world's top automotive market with 25.8 million new vehicles sold in 2019 versus 17 million in the United States. Private car ownership in China stood at 207 million in 2019 compared to just 3.7 million in 2000, the year that China entered the World Trade Organizationⁱ. Between 2000 and 2019 the country’s population grew from 1.27 billion to 1.40 billion. In the same period private car ownership per 1,000 capita, surged from just 3 to 148ⁱⁱ. Although these increases have been substantial, there is still a huge potential for China’s car industry, as the ownership rate is comparatively low against those in other countries; 800 units per 1,000 people seen in the United States and the 550–600 units per 1,000 people in major European countriesⁱⁱⁱ.

Sedan and SUVs are the most popular automotive vehicles in China. Among the 25.8 million automotive vehicles sold in China in 2019, 40% were sedans, 36% were SUVs with the remainder being made up of 5% MPVs, 2% crossovers, and 17% commercial vehicles^{iv}.

From a UK Original Equipment Manufacturers’ (OEM’s) perspective, China continues to be the main international growth driver. China is the largest market for Jaguar Land Rover which sold 146,399 cars in the country in 2017^v, more than was sold in the whole European Union market. Aston Martin gained a year-on-year sales growth of 28% in 2019 in China, against a 21% fall in sales in the UK and 28% in Europe and Middle East^{vi}. Bentley sold 1,940 cars in China in 2019, against 651 for Japan and Korea combined and 852 in Middle East^{vii}. China will continue to be a growth engine for UK brands and tier 2/3 UK suppliers should be aware of China’s growth areas to be aligned & bring value within the wider supply chain to be part of the overall growth story. Specific opportunities in the Intelligent Connected Vehicles trend (ICT) will be discussed below.

The premium auto market is a key for international auto parts and aftersales suppliers. As the Chinese consumers of premium cars are normally less price sensitive, products and services with high quality and reputable brands are what they are more likely to select. International suppliers of auto parts or aftersales can establish their market entry and development strategy by following the OEMs manufacturing and sales network in the country.

In addition to international premium OEMs, China also has its own brands such as Hongqi a Chinese luxury car marque owned by the automaker FAW Car Company and known as ‘Red flag’ which has been developed since 1958. UK suppliers should take notice of the trend of Chinese automaker seeking foreign know-hows as part of the wider ICT trend. For example, FAW and the Japanese Renesas, a premier supplier of advanced semiconductor solutions, formed a joint laboratory to develop electronic control units for autonomous driving, intelligent cockpit, powertrain, and body control was announced December 2020.^{viii}

China is also the largest New Energy Vehicle (NEV) market in the world (includes plug-in electric vehicles eligible for public subsidies targeted for battery electric vehicles, plug-in hybrid electric vehicles and fuel cell electric vehicles). The subsidy regime is based on a matrix system considering the base price and the range of the NEV, and the consumer can enjoy a tax reduction up to 22,500 RMB (circ £2500).^{ix} There were 1.2 million NEVs sold in China in 2019, taking over half of the total global market. It is expected that the NEV market will continue to grow in China, as the Chinese government has set the goal to raise NEV market penetration rate to 25% of all auto sales in the country by 2025. In 2018 this was just 4.6%.^x

Premium brands of Chinese NEVs include Li, NIO and Xpeng. Their cars are popular in the market and seen as genuine competitors to Tesla particularly in the aspects of design, style and superior battery technology in terms of range and short charging time. These companies are all also working intensively on automated driving systems. Their priority is to continue to build-up and consolidate their position in China with the expectation that they will then expand into the international market as the next step.

Brands

Key Chinese OEM companies include Shanghai Automobile Industry Co, (“SAIC”), Geely Automobile Holding Limited (“Geely”), Great Wall Motor Company Limited (“GWM”), Chongqing Changan Automobile Company Limited (“Changan”), Guangzhou Automobile Group Co Ltd (“GAC”), Anhui Jianghuai Automobile Group Co Ltd (“JAC”), Chery Automobile Co Ltd (“Chery”) and BYD Company Limited (“BYD”).



Top 10 locations of manufacturing clusters in China include Guangdong, Shanghai, Jilin, Hubei, Guangxi, Chongqing, Beijing, Jiangsu, Hebei, and Zhejiang.

To tap into China’s auto market, UK companies can make use of local events as market entry opportunities in the country as the first step. They may attend auto-related exhibitions, trade shows or forums to showcase

their products and pitch to potential Chinese clients. For example, China EV100 Forum 2021, recently held on 15th January 2021, is a major online forum in the NEV sector. More than 200 VIP guests joined the next generation vehicle event, including those from governments, associations, research institutes and companies. As a sub-forum, the 5th China-UK EV Innovation Forum invited EV experts from both countries to explore mutual opportunities. Due to Covid19, the event had various livestreamed sessions continuing the likely trend of upcoming events to be conducted virtually. As the automakers and supplier chain aspire to produce better quality vehicles and components, [Testing Expo China 2021](#) in September 2021 is another event to be considered. [Automechanika Shanghai](#) will also take place in November 2021.

In 2018, China issued the plan to cancel its mandatory policy requiring that the Chinese shareholding must be higher than international one in all automotive joint ventures set up in the country. NEV companies are the first type to have the share restriction lifted, while others will also be free of it by 2023. As a result, BMW was the first foreign automaker to take controlling stake at 75% purchased from its JV partner Brilliance Automotive. Tesla set up its 100% wholly owned entity in China in 2018 and has completed the work to build the mega manufacturing base in Shanghai, aiming to produce 300,000 Model 3 and 250,000 Model Y cars in 2021, manufactured from the facility. Chinese government has been striving for market liberalization and reform on technology transfer and IP protection to create a more competitive domestic market. Automotive sector sets a new direction of the overall liberalization trend.

Opportunities

China has targeted developments in specific parts of the automotive sector as a key part of their industrial strategy (Made in China 2025). This includes NEVs and intelligent and connected vehicles. As already stated, China is the biggest market in the world for NEVs for both manufacturing and sales.

The UK has a long history of automotive excellence and is home to many renowned automotive and engineering companies (70% of the F1 teams have bases in the UK) that are part of the global supply chain. This history and heritage of excellence is highly sought after by the Chinese automakers and supply chain players. As China continues to develop its NEVs, intelligent and connected vehicles (ICT), it needs expertise in advanced lightweight materials, autonomous technologies, batteries, motors, energy management technology, body control management system, information, communication, and entertainment systems. These will be the areas where UK companies can find opportunities and collaborate. For example, a UK supplier in electronically controlled air suspension (ECAS) collaborated with a Hangzhou-based Chinese supplier to position their air suspension systems for the growing ECAS market particularly in the premium NEV segment^{xi}. Overall market is worth \$8.8bn USD (CAGR 8.3% between '16 – '25).^{xii}

In terms of these opportunities, Chinese companies are looking for solutions in all forms, covering products, design and consultation services. A step beyond the opportunities is to potentially form a joint-venture or establishing a wholly foreign owned enterprise (WFOE) especially considering the market liberalization mentioned above.

Route to Market

Around 40% of UK companies trading with China say bureaucracy remains a major challenge, according to Santander's latest 2021 Spring Edition [Trade Barometer](#), while 36% cite regulatory barriers as an issue. As a fast-growing economy, China faces bureaucratic challenges like other emerging markets. However, eagerness and successes in recent reforms propelled China's [Ease of Doing Business Index](#) from 46 ('19) to 31 ('20). Finding the right local partner, IP protections and the correct entity setup are areas Santander and CBBC can support to navigate the challenges. We have successfully opened the doors for many UK SMEs and large corporates to trade and invest in China.

Santander has a strong local presence and partners in China and understands the breadth of practical help that is needed to connect companies to the right opportunities. This covers a variety of support from knowledge of the local culture, language, and regulatory environment to operational support such as legal or HR resources. Above all it means helping companies move with confidence by putting them in touch with people they know they can trust.

Speak to us to have a bespoke solution tailored to your business' own unique sets of challenges. [Dennis Lin](#) is Santander UK's China Trade & Investment Corridor Director and [Paul Brooks](#) is UK Head of Manufacturing & Automotive.

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If you would like to discuss how CBBC can support your business in China then please contact [David Gregory](#), China Market Business Adviser.

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ⁱ <https://www.chinanews.com/2002-11-08/26/241438.html>

ii <http://www.stats.gov.cn>

iii <http://www.chyxx.com/industry/201712/595824.html>

iv <http://www.caam.org.cn/tjsj>

v <http://www.cheyun.com/content/19986>

vi <https://chejiahao.autohome.com.cn/info/5715846/>

vii <https://tech.sina.com.cn/roll/2020-01-09/doc-iihnzahk3041940.shtml>

viii <https://www.renesas.com/us/en/about/press-room/renesas-and-faw-establish-joint-laboratory-accelerate-development-next-generation-smart-vehicles>

ix <https://www.electrive.com/2020/04/24/china-extends-nev-subsidies-til-2022/>

x <https://www.reuters.com/article/us-china-autos-electric-idUSKBN1Y70BN>

xi <https://www.santander.co.uk/about-santander/media-centre/press-releases/dunlop-systems-and-components-secures-funding-from>

xii Infiniti analysis, industry interviews