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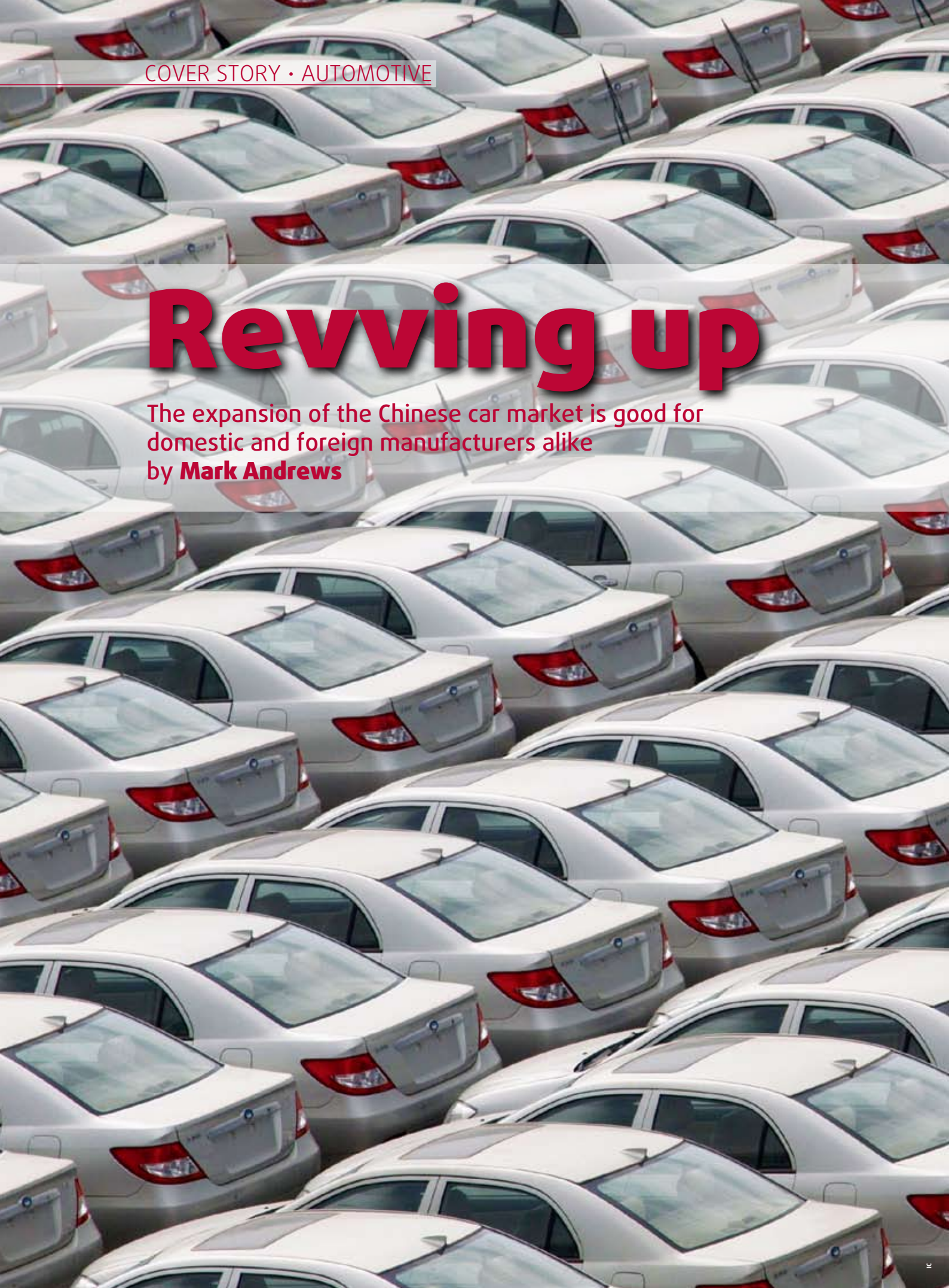
China's car market puts its foot on the gas



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Revving up

The expansion of the Chinese car market is good for domestic and foreign manufacturers alike
by **Mark Andrews**



It was only a decade ago private car ownership seemed like a dream for Chinese consumers, but today the dream has already been realized by much of the Chinese middle class. The explosive growth of car ownership in China led analysts to predict China would soon become the world's largest auto market, and in January they were proven right.

"China's growth has been well ahead of forecast for several years, but nobody expected China to take the lead until sometime in the middle of the next decade," says William Russo, president of Synergistics, a business consultancy specialising in the auto sector. Even allowing for the impact of the downturn in the US, it is still amazing how quickly the Chinese market has grown, he says.

China's unofficial celebration of its new stature was marked by the 13th biennial Shanghai Auto Show

held last April. More than 600,000 people attended the show, many of whom were actually shopping. Jason Shen, for example was a postgraduate student looking to buy his first car. "For me it's a family purchase," he said. "If I have a car it is very convenient for me to take my wife to work, my child to school, and look after my parents."

Solidly middle-class consumers like Shen are the future of the domestic car market. Sales in the first half of 2009 amounted to 6.1 million units, compared to 4.8 million in the US. "Since 2003 China's vehicle market has more than doubled in size from 4.56 million units to 9.67 million units [in 2008]. Of this total, 61 percent, or 5.91 million units, represent passenger vehicles," says Russo.

This is good news for foreign manufacturers; two-thirds of all passenger cars sold in China are >>

"The Chinese are natural savers and have liquid cash in troubled times, which coupled with government incentives has boosted the Chinese car market ahead of the US"

ASH SUTCLIFF, CHINA CAR TIMES



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WORK FASTER: Even as foreign markets decline, Chinese car demand remains robust

➤ produced by foreign brands or their joint ventures.

Around the end of last year the market faltered slightly, but the Chinese government stepped in with a plan to aid the industry. The plan aimed to boost the sales of more fuel-efficient vehicles, aid development of domestic brands through R&D and acquisitions, and promote electric cars.

Since January 20, taxes on vehicles with an engine displacement of 1.6 litres or less have been reduced, along with subsidies for purchase of those of less than 1.3 litres. January and February saw a nearly 19 percent increase in sales of such cars.

"The Chinese are natural savers and have liquid cash in troubled times, which coupled with government incentives has boosted the Chinese car market ahead of the US in sheer volume," argues Ash Sutcliffe, author of the popular China Car Times web site. "This cash behind

them has given car buyers a great amount of room to manoeuvre at the negotiating table."

Foreign attention

In the past, many foreign manufacturers used the China market as a place to sell old designs. Sutcliffe points to the Volkswagen Santana, Daihatsu Charade and Austin Maestro as examples of models that were produced in China long after they had debuted in other markets. Nevertheless, some of these models – the Santana in particular – went on to set sales records.

However, today American, Japanese and Korean manufacturers' joint ventures are offering their latest designs on the mainland. Porsche's launched its new Panamera sports saloon at the Shanghai Auto Show, the first time Porsche had launched a new car at a non-European or American show.

Manufacturers are also now taking into account Chinese tastes and modifying their products to suit. Ford, for example, launched a saloon version of the popular Fiesta hatchback in China this year designed specifically to appeal to the "real men don't drive hatchbacks" market in China. Audi produced a specially lengthened version of the A4 for China. Lengthened cars, with their greater rear legroom, are popular here as they can accommodate larger family units or business partners.

Another leader has been General Motors. In 2006, GM introduced a Chinese version of the Buick LaCrosse. While based on the architecture of its American namesake, the Chinese model has a completely different body and interior designed in Shanghai. The domestic styling of the LaCrosse was so successful that GM's Shanghai subsidiary is now in charge of redesigning the interior and the exterior for its replacement, to be released later this year in both the US and China.

Volkswagen has also got in on the act, launching the VW Lávda and VW New Bora in China last year. With the recent rumours that VW will end production of the Jetta and

Santana in China by 2012, Volkswagen's strategy seems to be targeting China with a mixture of its latest international designs and localised versions.

When it comes to the top end, the near-monopoly enjoyed by foreign brands shows no sign of ending. Government officials, leading purchasers of luxury vehicles, no longer exclusively purchase Audis, but are also buying Mercedes and BMWs.

But some foreign carmakers are looking to get in on the growing, low-price market as well. >>



LOCALISED: A prototype on display at the Shanghai Auto Show

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AMBITIOUS: A Chang'an concept car on display

The market leaders in sales by domestic companies are all either private companies or were created by SOEs not previously involved in car production

►► Italian carmaker Fiat created a joint venture this July with Guangzhou Automobile Group to produce economy cars for the Chinese market. Beginning in May 2011, the JV will produce 140,000 cars per year and may increase production up to 250,000 units.

Local pride

At a time when the names of Chinese manufacturers are being tossed around as potential purchasers for ailing American and European car brands, local brands made a confident showing at the Shanghai exhibition, demonstrating their latest models along with concepts and technology.

However, behind the scenes there has been a shift in perception. The original aim behind the joint ventures with foreign manufacturers was to help larger state-owned carmakers to create competitive brands

of their own. With the exception of SAIC, with its Roewe and MG brands – which were acquired, not created – this has yet to happen.

The market leaders in sales by domestic companies, Chery, Geely and BYD, are all either private companies or were created by state-owned enterprises (SOEs) not previously involved in car production. Beijing has correspondingly started to bet on domestic leaders like Chery and Geely at the expense of the big SOEs, says John Russell, CEO of Manganese Bronze Holdings, which is currently in a JV with Geely to produce London-style taxis.

One tangible product of this government support is Geely's purchase in March of Australian transmission manufacturer DSI. This acquisition may help Geely overcome a significant technology challenge. According to an executive at Great Wall Motors, gearbox technology is one of the

biggest bottleneck areas for Chinese producers.

Cutting edge?

Chinese battery manufacturer BYD last year took the motoring world by surprise with its launch of the F3DM, an electric car which also features a small petrol engine to generate electricity when the charge runs out. The F3DM will hit the showrooms two years before projected launch of the much vaunted electric Chevrolet Volt.

At the Shanghai Auto Show, most of the larger Chinese manufacturers also displayed advanced technology featuring hybrids and electric vehicles. Unlike the F3DM, these models are mostly "mild hybrids", which store power during the deceleration phase and then reuse it to help with acceleration.

Chinese government targets call for a production capacity of 500,000 electric and hybrid vehicles a year by the end of 2011.

However, market analysts Frost & Sullivan forecast that actual demand by 2015 will be only 100,000. Russo of Synergistics says that manufacturers are still cautious when it comes to hybrids. "There has not been any



ADVENTUROUS: The "Detroit Fish", a domestic amphibious prototype

strong indication of a movement to produce such vehicles on a large scale."

Sales of hybrids have justified their caution. Chinese sales of the Prius amounted to 899 units during 2008 and so far BYD's F3DM has only been delivered in small numbers to fleet users.

Even with city and central government subsidies to reduce initial costs of purchase, electric vehicles are largely unsuitable for the Chinese market infrastructure. Most people live in apartments without private garages and therefore have nowhere

to hook the car up to the electricity grid in the evenings. These target production levels also assume that the grid can generate enough electricity for them in the first place.

Sutcliffe and Russo agree that the technology on display at the auto show was more about creating publicity for the manufacturers. When it comes down to it, Chinese consumers care about price, says Russo. "The vast majority are looking for an overall cost-effective mode of transportation, and so what the consumer in China will look for is the total cost of ownership." ■

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