

CHINA CORP. 2015

AUTO INDUSTRY



On the
Wan Li Road

Cars – Commercial Vehicles – Electric Vehicles

Market Evolution - Regional Overview - Main Chinese Firms

DCA Chine-Analyse

China's half-way auto industry

CHINA CORP. 2015

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Wan Li (ten thousand Li) is the Chinese traditional phrase for evoking a long way. When considering China's automotive sector in 2015, one may think that the main part of its *Wan Li* road has been covered.

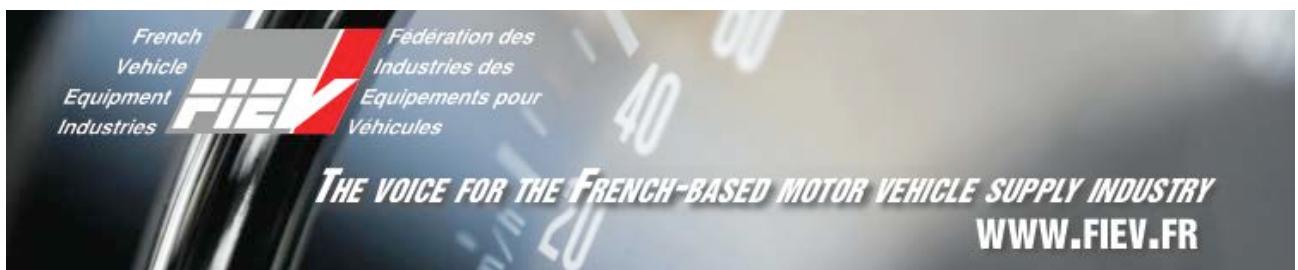
From a marginal and closed market in 2000, the country has become the World's first auto market since 2009, absorbing over one quarter of today's global vehicles output. It is not only much **bigger**, but also much more **complex** and **sophisticated**, with its high-end segment rising fast.

Nevertheless, a closer look reveals China's auto industry to be only half-way of its long road.

Its success today, is mainly that of foreign brands behind joint-ventures. And at the same time, it remains much too fragmented between too many builders. China's ultimate goal, of having an independant auto industry able to compete on the global market, still has to be reached, through **own brands development** and **restructuring**.

China's auto industry is only half-way also because a main technological evolution that may play a decisive role in its future still has to take off. For the authorities, pollution-plagued China should be *the* market for **Electric Vehicles** – and also the leading force in that new segment of the industry. But in China as elsewhere, maturity has still not arrived ; and the coming years will be decisive.

All of these challenges imply **new forms of foreign cooperations**. China's auto industry just began evolving from mere production joint-ventures or post-bankruptcy Overseas acquisitions, to **innovations co-development** and **global partnerships**.



Getting closer to take you further

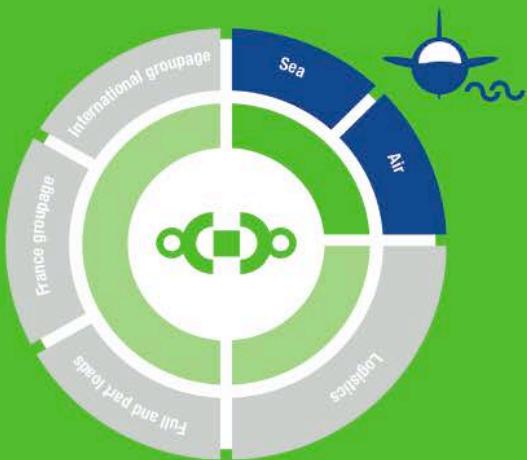


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NOTES

- **Methodology** : All figures mentioned in this Study come from multiple, crossed, Chinese and foreign sources ; they result from reassessment of eventually conflicting source figures based on DCA Chine-Analyse knowledge of the market.
- Production capacities forecasts given in this Study are based on a **Static Forecast** approach : they take in consideration investment decisions taken by automakers and approved by national authorities as of april 2015, without anticipating investments that may add until date forecasted.
- **Classification** : In this Study,
- * **Cars** refer to Sedans, Sports Utility Vehicles (SUVs), Multi-Purpose Vehicles (MPVs) and minibuses (under 3.50 meters long) cumulated ;
- * **Commercial Vehicles** refer to Light Commercial Vehicles (LCVs), Medium Trucks, Heavy Trucks and Buses cumulated ; among them,
- * **LCVs** refer to freight transport vehicles with a Gross Vehicle Weight (GVW) under 6 Tons ;
- * **Medium Trucks** refer to trucks with a GVW between 6 and 14 Tons ;
- * **Heavy Trucks** refer to trucks with a GVW over 14 Tons.

Cover photo : the busy road network inside Shanghai (© DCA Chine-Analyse)

I. Market Evolutions

China's automotive market has not only become the World's biggest since 2009. In the years that have passed since, it has also become increasingly complex. Evolution of vehicles demand, and ambiguous relations with foreign automakers, are essential parts of the context in which the Chinese auto industry evolves. Combined with future challenges, such as positioning on the yet-to-take off Electric Vehicles market, or unavoidable national level restructuration, they point to the evolving situation of a Chinese auto industry that is still far from maturity.

The rise of China's automotive market, and of its auto industry, has been one of the most spectacular economic issues of the begining of the XXIst Century.

In 2000, China was still a marginal auto market. Ranking number 8 Worldwide, its vehicle sales and production, just over 2 million units, accounted for 3% of global output. Those vehicles were still, for most of them, old conception Soviet models adapted by local producers ; and China was virtually out of the global automotive market.

I-1. The World's first auto market

This situation evolved rapidly at the opening of the century, as the country's auto market grew over threefold in the six following years. By 2006, China had become the World's number 3 auto market, with over 7 million sales, accounting for 10% of global vehicles output.



SNECI - Your Service Partner for Seamless European - Chinese Automotive Collaboration

Interview with Isabelle Bailly, Chairman of SNECI Group

China Corp: Isabelle Bailly, as Chairman of SNECI you participated to the visit of a French business delegation headed by French Prime Minister Manuel Valls to China. Could you tell us more about this visit?

Isabelle Bailly: Indeed, I was honored to be part of this delegation visiting China with 30 prominent French CEOs. We had the opportunity to meet Chinese Prime Minister Li Keqiang and Chinese officials to discuss important topics like CO₂ emissions reduction. I also met more than 15 Chinese companies to talk about Services SNECI can provide to Chinese automotive OEMs and Tier 1 suppliers.

CCorp: What Services are these?

Bailly: SNECI's 8 Services are specifically conceived to support the international commercial development of our automotive clients and to improve their industrial performance. We promote our clients with Market Strategy and Business Development activities. Accompany them during their projects with Services like Project Management, Training and Quality Support and support them during production with Supply Chain and Distribution solutions. These Services can be contracted independently or as full service package.

CCorp: What concretely does this mean for your activities in China?

Bailly: With our office in Shanghai we have direct access to the Chinese market. Through our extended contacts we help European suppliers to gain business and to establish their sites in China. For companies in Europe searching Chinese suppliers we identify potential suppliers, assess them and help chosen suppliers to upgrade their performance to the required level. For Chinese suppliers wishing to enter the European market we build a strategy and find potential customers through our Partnership & M&A and Business Development activities.

SNECI's Chinese engineers in the Shanghai and Paris offices ensure seamless communication between the parties making SNECI an organization our European and Chinese customers are satisfied with.

CCorp: Isabelle Bailly, thank you for this interview.



Isabelle Bailly
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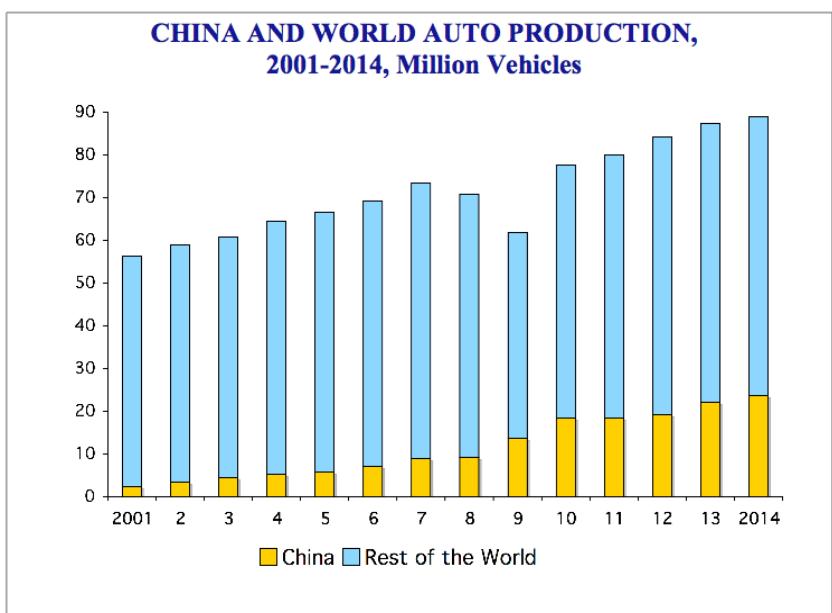
Most of the vehicles produced in China were now end-of-cycle products brought by foreign partners, with whom Chinese « historical » builders were re-designing, and re-sizing, their production capacities.

Nevertheless, the most spectacular acceleration was yet to come. Between 2008 and **2010**, China's automotive output doubled, jumping from 9 to **18 million** vehicles. This explosive growth coincided with financial crisis in the other main auto markets, so that in 2009, China raised to first position among World auto markets, absorbing 22% of global vehicles output.

And the following years proved the phenomenon not to be merely relative. Just as the rest of the World auto market recovered, China maintained stronger than average growth. And in **2014**, the country had consolidated its first rank

Worldwide, absorbing near to **24 million** vehicles, and over **26%** of global auto output.

China now is one of the launch markets for innovative products of the auto industry. And it has become vital for all global Major automakers, who are at the same time partners and competitors for Chinese builders.



I-2. The Cars market rise

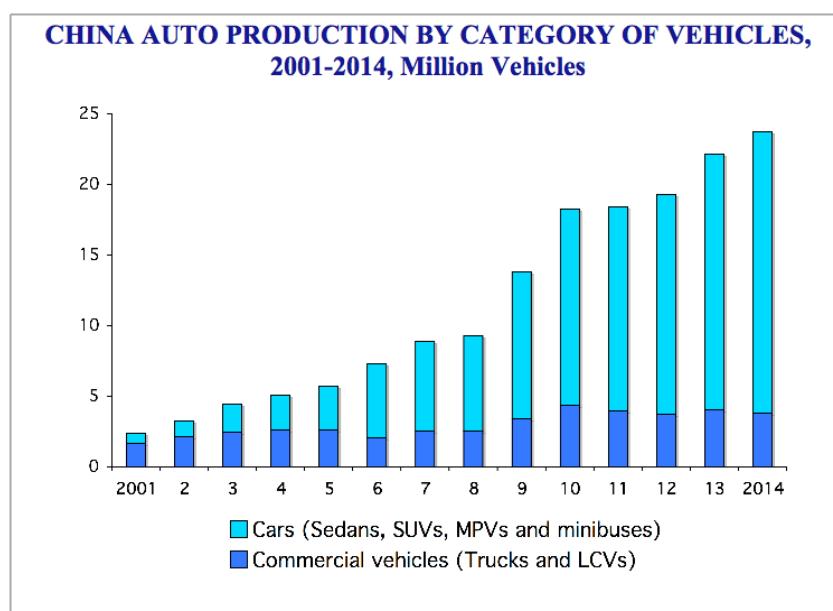
Evolution of the structure of the Chinese auto market, has been just as decisive as that of its volumes. **2000** China had an auto market heavily dominated by **commercial**

vehicles, that accounted for **70%** of national output – many of them old fashioned light trucks, which inspiration was inherited from the 1950s USSR.

The first phase of the 2000s development was partly driven by cars, although more modern light commercial vehicles (LCVs), like American pick-ups and Japanese minivans, also played a role.

In **2005**, for the first time, **cars** produced in China outnumbered commercial vehicles, with **54%** of total output. This trend was strongly confirmed in the following acceleration, as private car owners replaced administrations and corporations, as the main buyers for China's auto industry.

When the country became the World first auto market in **2009**, cars accounted for **75%** of vehicle output. And by **2014**, their share had risen to **84%** of China's automotive production.



In 2000, as car sales in China stood at 600.000 units, a book on automotive history published in Europe stated that perspectives of 4 million yearly sales in the country by 2015, were a strong incitement for all automakers. In 2014, car sales in China reached 19.700 million.

I-3. From low to high-end

Just as for China's vehicles market in general, the huge cars segment has itself registered important evolutions in its composition. Whereas Multi-Purpose Vehicles (MPVs) and minibuses stand at **16%** of sales in 2014, **sedans** accounted for the bulk of the progression until 2010. Over 12 million units, their share stands at **63%** of total car sales in 2014.

But after passing the 1 million yearly sales landmark in 2010, Sports Utility Vehicles (SUVs) have become an increasingly dynamic segment. And in 2014, for first time, they accounted for most of the progression in China car sales. Reaching 4.1 million units on that year, **SUV** sales now represent **20%** of China-made cars output.

For both sedan and SUV categories, an other important evolution has been accelerated rise of the **high-end** segment.

The six luxury car brands with the highest sales in China (Audi, BMW, Mercedes, Jaguar-Land Rover, Volvo and Cadillac, in decreasing

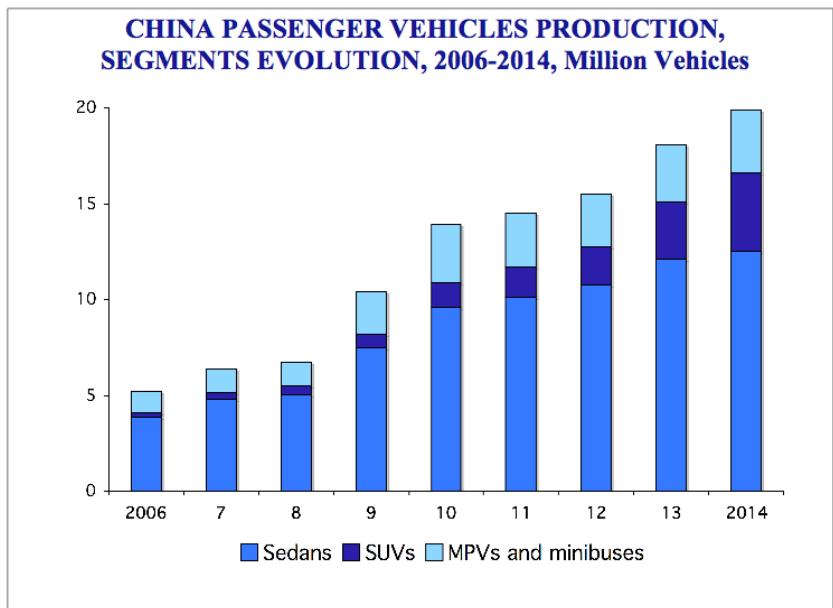
order), jumped from 150.000 cumulated sales in 2006, to over 1.6 million (including local production and imports) in 2014.

The country that, just ten years ago, was associated with low-end minicars, now accounts for 25% of those high-end brands cumulated global sales. Whereas it took **Audi**, which boasts the highest local market share, 22 years to sell its first million cars in China (from 1998 to 2009), it sold the second million in only 33 months (between 2009 and 2013).

Both huge and now sophisticated, China's car market has attracted all global scale players of the auto industry. All are now engaged in a complex network of joint-ventures with Chinese builders, that are compulsory for producing in China.

I-4. The complex foreign joint-ventures network

From pioneers who settled thirty years ago, to late-comers whose first plants will enter operations in 2016, all of the **16 main global carmakers** are now engaged in a



complex network of production joint-ventures in China. And the number of foreign builders involved reaches **21** when smaller players are added.

Foreign invested **joint-ventures** account for **62%** of China's total vehicle production in 2014 – and a higher share in the dynamic cars segment (see farther).

Those foreign builders are linked to **16 Chinese automakers**. But the common practice of multiple partnerships, results in a total of **35** Chinese carmaker-to-foreign carmaker associations. When sectoral or regional subsidiaries are considered separately, the total number of foreign invested auto making joint-ventures in China comes to **over 60**.

Of the 35 group-to-group associations now active on the Chinese market, 10 have been approved since 2010. The last years have such seen complexification of a market that is characterized by crossing partnering and competing ventures.

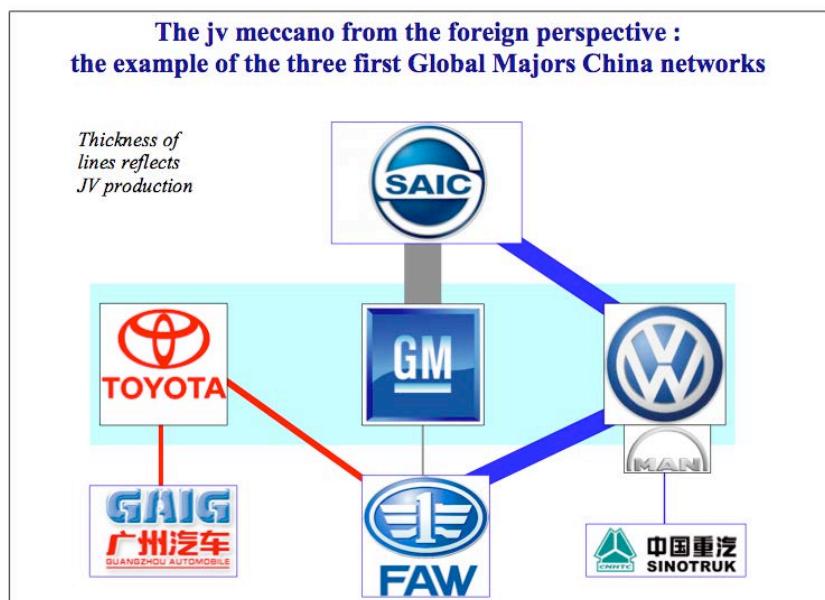
Multiple partnerships, motivated by geographical considerations, concern foreign automakers. Among the 21 of them involved in China, 11 are associated with two different Chinese auto builders (and some to more - although this is the official limit - due to subsidiaries considered as independant operators).

The 3 largest Global Majors in China illustrate the situations resulting.

Both **VolksWagen** and **GM** such share SAIC (Shanghai Auto) as a major partner, while both VolksWagen and **Toyota** have important joint-ventures with FAW - which is also a minor partner for GM.

On the Chinese side, the situation is even more

intricate. Whereas 10 of the country's second-tier builders are associated with just one



foreign partner, the 6 Majors that have emerged among Chinese automakers (see farther), motivated by know-how acquisitions, cumulate no less than 25 group-to-group joint-ventures.

There also, the 3 main operators can be taken as an example of the complex situation.

SAIC and **FAW**, the number 1 and 3 among Chinese auto builders, both have important joint-ventures with VolksWagen, as has already been mentionned. The Shanghai-based group adds to that a major partnership with GM, whereas Jilin-based

FAW has a more limited one with GM also, but others with Toyota and Mazda.

DongFeng, the number 2 among Chinese automakers, gained for its part a compensation for not dealing with the World Top 3 car builders. It cumulates the highest number of foreign joint-ventures, with other partners. After its projects with Renault and Volvo Trucks were approved in 2013, and it linked to Mitsubishi through gaining control of small Chinese builder SouEast, it is now engaged in production partnerships with no less than 8 foreign vehicle makers. When separate regional or sectoral joint-ventures are considered, DongFeng cumulates a record 12.



I-5. The Global Majors new playing ground

With over a quarter of total World sales, the Chinese market has become decisive for all global scale automakers. Analysis of their relative successes in the country reveals two determining factors.

One, quite expectable, is linked to their early or late-comer status for engaging in local production joint-ventures. The other, more specific to China, has to do with their nationality, and geopolitics.

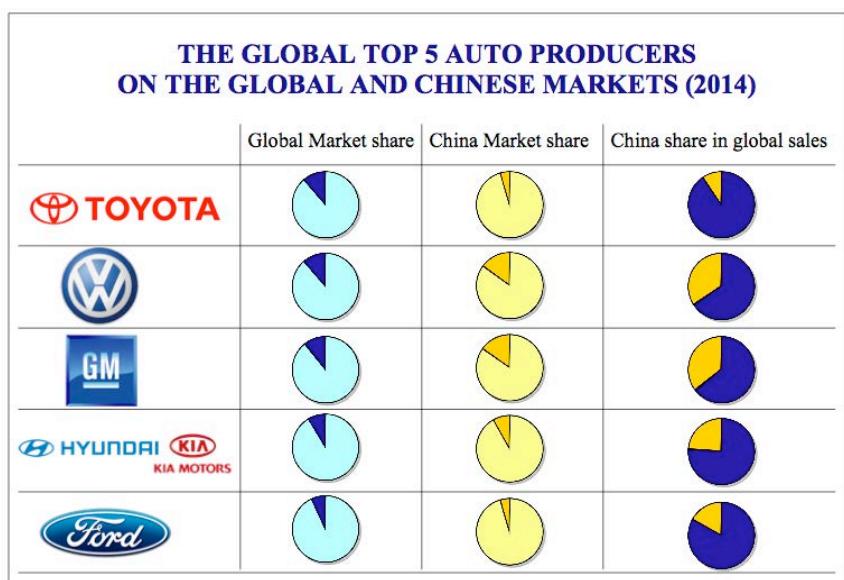
This last point refers mainly to Japanese auto makers. **Toyota**'s number 1 global market share, with 11.5% of World vehicle sales, falls down to slightly over 4% in China in 2014. Whereas Japan's six main auto makers (i.e., adding **Nissan**, **Honda**, **Suzuki**, **Mazda** and **Mitsubishi** to Toyota) account for over 28% of global vehicle sales, they cumulate less than 14% of those in China.

The relative late-comers status of Toyota, that began local production in 2003, or Nissan, that had been present since 1993, but strongly engaged in 2003 only, could be advanced as an explanation. But results of their South Korean neighbours deny this interpretation. Although **Hyundai** and **Kia** both engaged in local production in 2002 only, their combined market share in China, at 7.7% in 2014, stands much closer to their global performance (8.5%).

The truth is that Japan's Majors pay the price for the effects on Chinese buyers of the recurring tensions, linked to history interpretation and territorial claims, between Beijing and Tokyo.

The early versus late-comers statuses play a more obvious role in the positions of American and European major auto makers.

Pioneers **VolksWagen** (that settled its two main Chinese joint-ventures in 1984 and 1991) and **GM** (that began Chinese production in 1997) both see their global market share, around 11%, climb over 15% in China.



The two leading auto makers on the Chinese market adopted different strategies, as VolksWagen concentrated on the image of its different native brands (with the VW offer completed by that of Skoda, and mostly Audi), whereas GM adopted the badge of its local partner Wuling for half of its sales (the other half being made under its Buick, Chevrolet, and to a lesser extent Cadillac, brands). But results were comparable, as China now accounts for close to (for Volks Wagen) or over (for GM) 35% of their Worldwide sales.

The same timing differences translate in the results of the other main American and European actors.

Ford, that engaged in China in 2003, has a local market share (under 5%) lagging behind its global position (7%).

Conversely, France's

smaller **PSA**, settled since 1992 (after a first short-lived experience engaged in 1985), and with new perspectives linked to Chinese investment (see farther), attained in 2014 a China market share (3.1%) in line with its global position (3.3%).

Arrivals of **Fiat**, that began local production in 2012, and **Renault**, which first local plant should operate in 2016, complete the rankings of major global auto makers in China. Those late comers clearly have a handicap to overcome ; but the ambitions of the Chinese Majors who associated with them should help them.



I-6. The rise of Chinese Majors

The most important of China's auto industry foreign joint-ventures have been concentrated on **6 firms**, with the aims of giving these groups dominant shares of the

domestic market, and permitting them to acquire know-how. Whereas those six **Majors** of China's auto industry cumulate **78%** of the country's total vehicles output in 2014, their share rises to **95%** when foreign-branded production is considered.

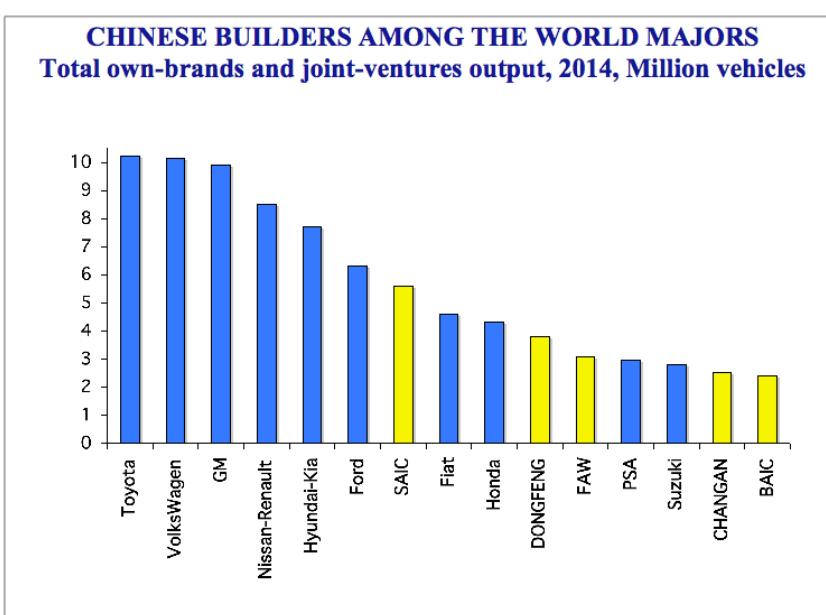
Of the six Chinese auto Majors, that should lead the country's auto industry reconfiguration in the future (see farther), five are « historical » builders which history is linked to that of pre-reforms China.

FAW, ChangAn, SAIC, BAIC and DongFeng were all created to settle auto production facilities in different regions of the country. Whereas location of **FAW**, based in Jilin's Changchun, was dictated in 1953 by relative proximity with then-allied, and provider of the first models produced, USSR, that of **DongFeng**, located in 1969 in Hubei's Wuhan, was conversely motivated by distance from both coastal and North-Eastern China, considered at that time to be vulnerable to US or Soviet intervention. Between both dates, creations of **ChangAn** in Chongqing (1957), and of **SAIC** (Shanghai Auto) and **BAIC** (Beijing Auto) in 1958, aimed at giving the country's most important cities auto assembly capacities.

As has already been mentionned (see above), when those historical builders grew to new size and capacities through foreign joint-ventures, SAIC and FAW gained cooperation with the three first global Majors (VolksWagen, GM and Toyota), while DongFeng later obtained

compensation through the biggest number of foreign joint-ventures.

ChangAn and BAIC, for their part, were designated as the main partners for late-comers with strong potentiel. ChangAn is thus noticeably the main

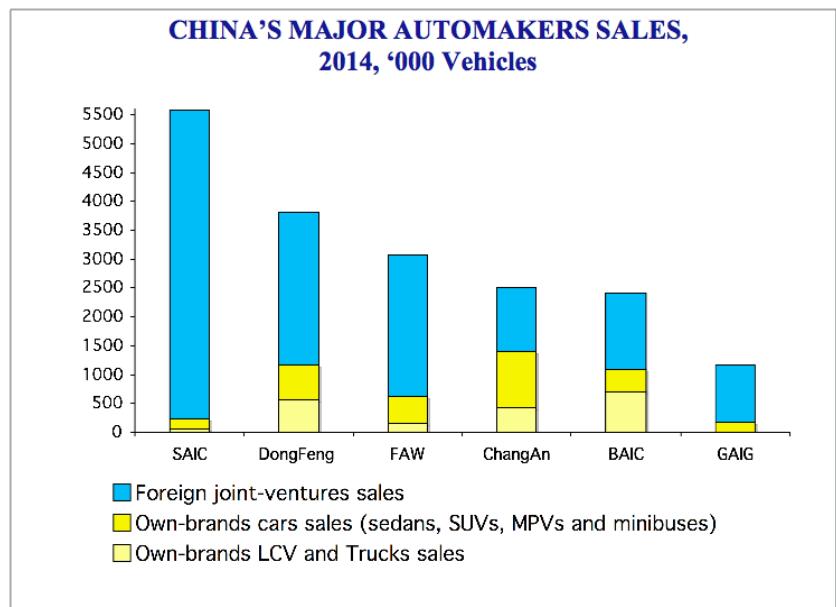


Chinese partner for Ford, whereas BAIC joined with Hyundai.

As a result of their multiple joint-ventures, all of the 5 « historical » Majors of China's auto industry have entered the ranks of the World Top 15 automakers. With an output over 5.5 million vehicles in 2014, the most important, SAIC, stands number 7, just behind Ford group.

The only late creation among China's auto Majors, **GAIG** (Guangzhou Auto), was founded in 2000, by unifying previously marginal local producers, for developing the industry in Guangdong - which had raised from backwardness to economic prominence in Reforms China. It initially specialized on association with Japanese auto makers, as Honda and Toyota were its two first partners, and remain the most important today.

Concentration on foreign joint-ventures had a cost for China's auto Majors, as, despite their recent efforts (see farther), their share of nationally owned brands output, conversely to that of foreign brands, is much under their share of total output, standing at 49% in 2014. **Own-brand** sales of the six Majors account for only 25% of their total vehicles sales in 2014.



I-7. Lighter weight Pioneers

Chinese authorities were soon aware of that problem, and for that reason gave space, and support, to lighter weight auto makers who focused on more autonomous developments.



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Whereas the country's Majors focused on building world-level capacities through association with global automakers, several smaller groups explored more autonomous ways of development. Founded with direct or undirect involvement of regional governments, they benefited from national authorities support when the stakes justified it.

The first of those pioneers is **Chery**, that was founded in Anhui in 1997. The group became famous in 2003, for producing the first nationally developed modern car, iconic *QQ* - although US group GM strongly contested this « national » identity, and denounced it as a gross copy of its *Matiz* model.

Evolving from this minicar to more elaborate models, Chery benefited from strong support, as the powerfull China Development Bank (CDB) gave it access to 8 billion dollars of credit lines between 2010 and 2015. Part was used for trying to develop on the high-end segment, but the failure of the Qoros brand (see farther) proved that to be difficult ; and total Chery sales have declined after reaching a peak in 2010. Just as other second-tier builders, the group appears as a probable target in future restructuration of China's auto industry (see farther).

Zhejiang-based **Geely** has also been a pioneer, in a different domain. Buying Swedish auto maker Volvo in 2010, it opened the way for a new approach to international acquisitions (see farther). There also, national authorities support played a decisive role : the 1.8 billion dollars Volvo operation, amounted to well over half of Geely's turnover on the same year ; it implied national banks financing that could not come without central approval.

A third case to mention is that of Shenzhen (Guangdong) based **BYD Auto**, the third main Chinese own-brand sedans vendor outside Majors. The group, that was a subsidiary of major electronics, and specifically lithium batteries, maker BYD, took early positions in the strategic Electric Vehicles field (see farther).

But its over-ambitions led it to conflict with both local and central authorities after 2008. This seriously limited its expansion, as administrative obstacles showed once more - this time in negative - how political support was important for Chinese

automakers. But the group was nevertheless preserved from failure, in order to keep its technological potential, that may be brought to one of the Majors at a later stage of restructuration.

I-8. The difficult building of domestic brands

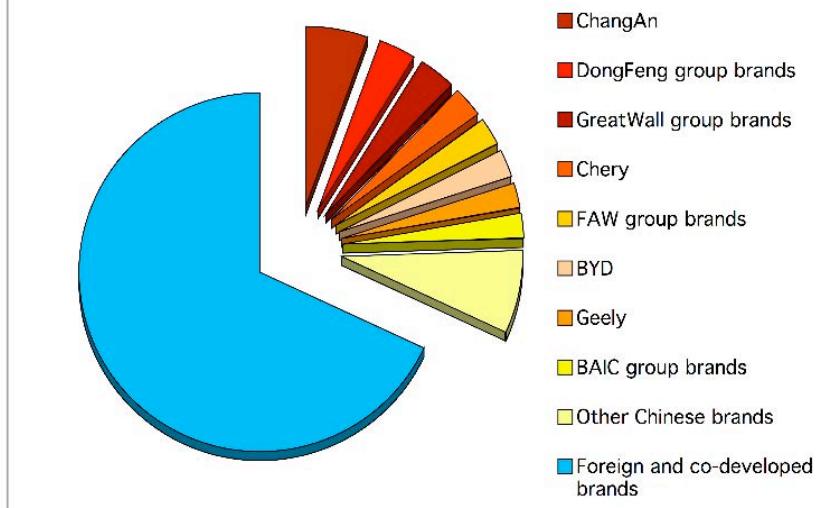
Despite its huge development, incapacity of China's auto sector to build a truly national industry has been one of the most blatant failures of the country's recent industrial policy.

The government's call for this development, in 2005, seemed at first to

be answered, as national constructors own-brands (outside foreign invested joint-ventures) attained **50%** of China's vehicles output in **2010**. But since then, the trend has reversed, and in **2014**, Chinese own-brands accounted for only **38%** of the country's vehicles output, against 62% for joint-ventures.

The failure is even more obvious in some of the most dynamic sectors. Purely Chinese models thus account for only **28%** of **cars** produced in the country – and, among those, only **22%** of **sedans**, against 78% for foreign-invested joint-ventures. In 2012, a former minister publicly described foreign joint-ventures as the « opium » of China's auto industry. The unusually blunt words, making reference to the country's XIXth Century humiliation, translated the frustration attached to that situation.

CHINESE BRANDS ON CHINA'S CARS MARKET, 2014



In a market increasingly determined by private buyers, and evolving toward high-end products, Chinese auto makers have not been confronted so much to technical problems, than to the challenge of **building brands**.

Whereas rustic minibuses account for a good part of the sales of best-selling Chinese own-brand cars producers ChangAn and DongFeng, the failure of its own-brand sedans development by **SAIC**, the country's first Major, provides an example of the difficulty in higher-end segments. Although it was based on acquired technologies of defunct foreign British group MG Rover, its **Roewe** brand, that was introduced as soon as 2006, trails at only 1% of sedan sales in China in 2014.

Another example lies in the disaster in the making of the **Qoros** brand developed by **Chery** group. Aimed at the medium to high-end segment of the market, it was built on recruitment of talents that had worked for some of the most prestigious European luxury brands, and on a state-of-the-art factory. Notwithstanding, its first full year of operations, in 2014, concluded with sales of 7.000 vehicles (whereas its objective was 150.000), showing the difficulty of selling a brand created *ex nihilo*.

The brand obstacle can nevertheless be overcome - in sectors where foreign competitors occupy weaker positions at the start of the race.

This is shown by the **SUV** sector, which recent development permitted some Chinese builders to take strong initial positions. Despite growing foreign competition, Chinese brands thus accounted for **41%** of domestic sales on that segment in 2014 (to compare to the 22% on the sedan segment). And Hebei based group **Great Wall Motor**, that engaged in SUV production as soon as 2002, comes first with a market share of 12%, ahead of foreign competitors.

This early starter potential is also one of the stakes of the Electrical Vehicles sector for Chinese automakers (see farther).

Nevertheless, on the still determining oil-engine sedans segment, Chinese carmakers suffer from their late-comer status. And they have been trying to compensate that through a foreign investment policy that began only ten years ago, but has already led to some important acquisitions.

I-9. Foreign acquisitions : evolving motivations

Acquiring technologies for building their own brands, motivated auto industry groups to be among the early Chinese investors Overseas.

As soon as 2005, **SAIC**, the country's number one automaker, engaged in a strong push, acquiring second-tier South Korean car maker **Ssangyong**, and part of bankrupt **MG Rover** group – the other part going to its neighbouring competitor Nanjing Auto. In 2007, when SAIC acquired Nanjing Auto, it reunited all remaining assets of the defunct British motor company.

Nevertheless, this first wave of investment proved not to be very profitable. Whereas management problems ended in bitter conflict with Ssangyong, and withdrawal from it capital in 2009, quickly outdated technologies acquired from MG Rover were insufficient to build a convincing new brand, as appears in the poor sales of the derived Roewe badge (see above).

The lessons were quickly learned, as was illustrated by the attitude toward Swedish auto makers just five years later. When too-small-to-survive the financial crisis Volvo and Saab groups went bankrupt in 2010, Chinese authorities, who had the last say in financing for their acquisition, adopted two radically different attitudes.

Whereas **Geely** group's offer for buying **Volvo** obtained the 1.8 billion dollars bank financing it needed, two other Chinese automakers failed to get the much smaller amount needed to acquire **Saab**. The reason lied in the fact that former owners of Volvo would not oppose technology transfers by Volvo to its acquirer ; whereas GM, former owner of Saab, had clearly stated it would.

Post-acquisition Volvo management also illustrates the evolution of the Chinese approach. The Swedish firm has been left as an independant entity, at the time it obtained important financing for relaunching its development – in 2012 and 2013, the powerfull CDB lended it 2 billion dollars. The idea is to maintain the foreign acquisition as a living center of innovation, for progressive integration of up-to-date progresses by its Chinese partner.

The same approach can be found in the **DongFeng – PSA** case in 2014. When its twenty-years partner came in need of fresh capital, China's second auto maker did not try to force its way toward controlling it. It agreed to a minority (14%) share buying, that should open the way for long-term technological cooperation.

Chinese auto groups have now appreciated the difficulty of building their own brands, and integrated that objective in a longer term approach.

I-10. The Trucks market

China's commercial vehicles have seen their relative share in the country's auto production steeply decline over the last fifteen years ; but they remain important in absolute terms.

Whereas Light Commercial Vehicles (**LCVs** – mini-trucks and light trucks, defined in China by a GVW under 6 Tons) sales are limited when compared to other markets, those of **Trucks** (Medium and Heavy Trucks with a GVW over 6 Tons, according to Chinese norms) represent a huge part of the global market. They stagnated since their peak in 2010, but the industrial power of the country, and its still important building works, make it by far the World's first Trucks market. Although different classifications from one country to another make comparisons difficult, China's output of Medium and Heavy Trucks can be estimated around 40% of global output ; and this share nears **45%** when only **Heavy Trucks** (over 14 Tons GVW in Chinese classification) are considered.

China's trucks market presents different features from that of cars. It is more concentrated, on subsidiaries of half of the auto Majors and a handful of specialists.

The Trucks subsidiaries of **DongFeng**, **FAW** and **BAIC** thus cumulate some 50% of the market, and **55%** of the Heavy Trucks segment. Two specialized builders, **Sinotruk** (CNHTC) and **Shaanxi Auto**, account for **30%** of Heavy Trucks sales ; and half a dozen smaller actors (including a subsidiary of SAIC) for the remaining 15%.

China's truck market difference with the car segment is also that it is heavily dominated by **Chinese brands**.

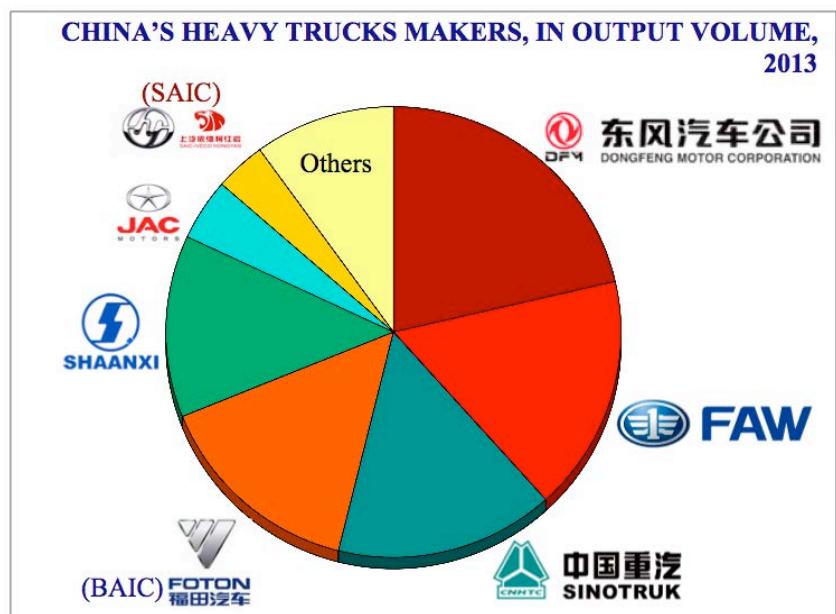
One reason is original specialisation of China's auto makers, which were nearly only commercial vehicles producers for their first thirty years of operations.

Another reason, is that recent development by Chinese truck makers has integrated lessons from the car segment. They have adopted technologies brought by foreign partners, but under Chinese brands.

The reality that is such disguised by brand names, is that China's truck segment has seen a recent wave of investment by foreign builders, motivated by the still huge perspectives linked to China's truck fleet modernization. Since 2007, nearly all of the main global trucks makers have entered agreements with Chinese builders.

Some of them, including VolksWagen's subsidiary **MAN**, Korean **Hyundai** and American **Navistar**, did so through joint-ventures with truck-focused specialists. Others did through association with truck subsidiaries of China's auto Majors. Whereas Fiat's **Iveco** subsidiary agreed to develop that new activity for SAIC, **Daimler** partnered with already strong BAIC subsidiary Foton.

And the potentially most important joint-venture, yet to enter operation, was that agreed in 2013 between **Volvo Trucks** and DongFeng, respectively number one in World and China Heavy Trucks sales.



I-11. The strategic Electric Vehicles question

Electric-engine powered vehicles are a strategic perspective for the World's auto industry, but particularly for that of China, for two reasons.

One is linked to the potential **domestic market**, deriving from the huge **environmental** problems experienced by many of China's cities. Reduction of these problems could undoubtedly be helped by Electric Vehicles (EVs) fleets.

The other reason is linked to **global market positioning**. Whereas China's auto industry suffers, in the oil engines segment, from the difficulties linked to its late-comer status (see above), the EVs market could see it positioned among **early starters**, and thus offer it much better perspectives.

For these reasons, the EVs segment has been a focus of attention from Chinese authorities. A 2011 plan by the Ministry of Industry and Information Technologies (MIIT) called for 500.000 units of Purely Electric Vehicles (**PEVs**), and transition Hybrid (electric/oil engines) Vehicles (HEVs), to be produced and sold in China by 2015, with a longer term objective of 5 million by 2020.

Concrete results have thus far been well under these objectives. From 2011 to 2014 (both years included), PEV cumulated sales in China were only 76.000 units, and adding HEVs brings the total to just over 110.000. Insufficient charging infrastructures, and buyers defiance toward not-yet fully mastered technologies, clearly weight on the market.

The authorities adopted several measures to prop it up in 2014, from nationwide unification of standards for vehicles and charging stations, to compulsory buying for part of administrations' vehicles fleets, and new tax incentives. As a result, PEV sales tripled in 2014, but this growth was on a very limited basis. Just over **45.000** units, PEVs still account for only **0.2%** of China's vehicles sales in 2014.

Notwithstanding these delays, Chinese automakers obviously prepare for the take-off of EVs. Beginning of 2015, at least **12** of them are engaged in PEVs production.

The most advanced – although, it has to be insisted on, on still limited absolute volumes – are relatively light-weight « pioneers », which exploring roles has already been evoked above. They include the **Kandi** new subsidiary of **Geely** group, electric batteries producer turned-to-automaker **BYD**, and **Chery**.

But some of the Majors have also advanced on the segment. Some did under their own brand, such as **BAIC** ; others under new brands co-developed with foreign partners, such as the **Venucia** EVs produced by a joint-venture linking **DongFeng** to **Nissan**.

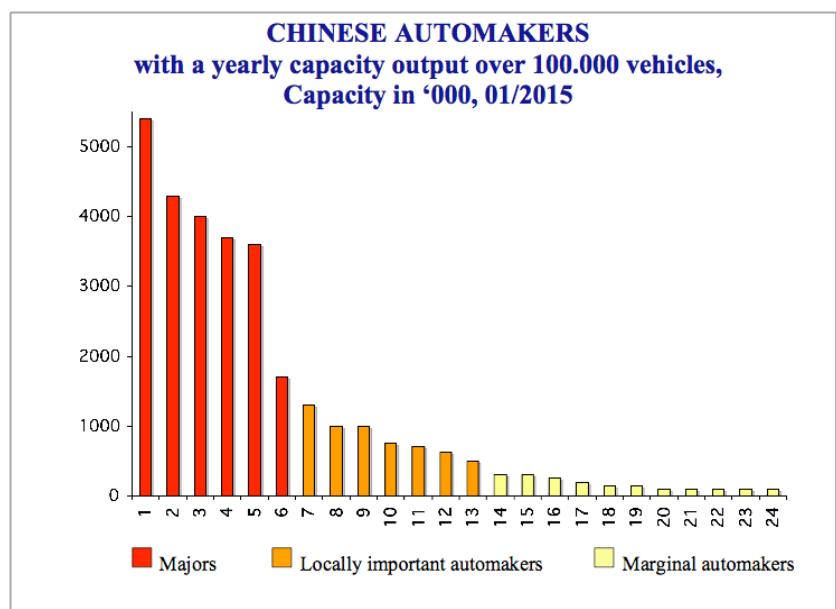
For the Majors, this early positioning in EVs is part of a broader strategic movement, toward becoming important independant actors. For China's second-tier automakers, it is an important asset for positioning in the unavoidable future restructuration of the country's industry.

I-12. The future consolidation of China's auto industry

In order to reach its ultimate goals of becoming an important and independant actor on the global market, China's auto industry will have to go through a serious consolidation on the years to come.

The **6 Majors** that have emerged over the last fifteen years accounted (through both their joint-ventures and own brands) for **78%** of vehicle sales in the country and **75%** of China's production capacities in 2014. But the market is still much too fragmented, as **18** other Chinese groups operate yearly production capacities for over 100.000 vehicles.

Those second-tier producers can be divided in two groups. A first group of **7** automakers, which capacities range from **500.000** to **1.3 million** vehicles, are important local actors ; a second



group is made of 11 marginal builders, with capacities in the range from 100.000 to 300.000 vehicles.

On a long term perspective, all 18 of them have a vocation to be absorbed by the six Majors that should lead China's auto industry evolution. The difference lies in the fact that members of the first group have more arguments for remaining independant a longer time, as, besides having strong local support, they often play a leading role in specific areas (such as international cooperations for Geely, SUVs development for Great wall, or electric vehicles for BYD).

The process, for being unavoidable, nevertheless promises to be difficult.

It has in fact already begun, as from 2002 to 2012, 8 small to intermediate-size automakers (namely, and in chronological order, **Xiali**, **Haima**, **Nanjing Auto**, **ChangFeng**, **ChangHe**, **Hafei**, **Gonow** and **SouEast**) were already absorbed by the Big 6. But it stopped then, just as those first experiences illustrated its difficulty.

The case of **ChangHe** was particularly telling, as the Jiangxi-based automaker, which was a former subsidiary of aerospace conglomerate AVIC, entered in open conflict with its 2009 new owner **ChangAn**. The situation became so problematic, that in 2013 ChangAn sold this retive subsidiary to **BAIC**.

This case illustrates the difficulties linked to reluctance of target acquisitions to renounce their independance. And the fact is complicated by support they may receive from regional authorities, for whom presence of an independant auto maker is a guarantee of revenues, as well as prestige.

However painfull, the process seems unavoidable for China's auto industry. Whereas 26 global automakers, excluding Chinese builders (which international presence is limited for now), each with yearly production capacity over 100.000 vehicles, compete for the 74% of the World market outside China, China cannot go on with 24 such automakers, competing for the 26% of the World market it accounts for.

Discussions are under way between the Majors and several of the marginal, but also locally important automakers ; and the years to come will undoubdedly be those of consolidation for China's auto industry.

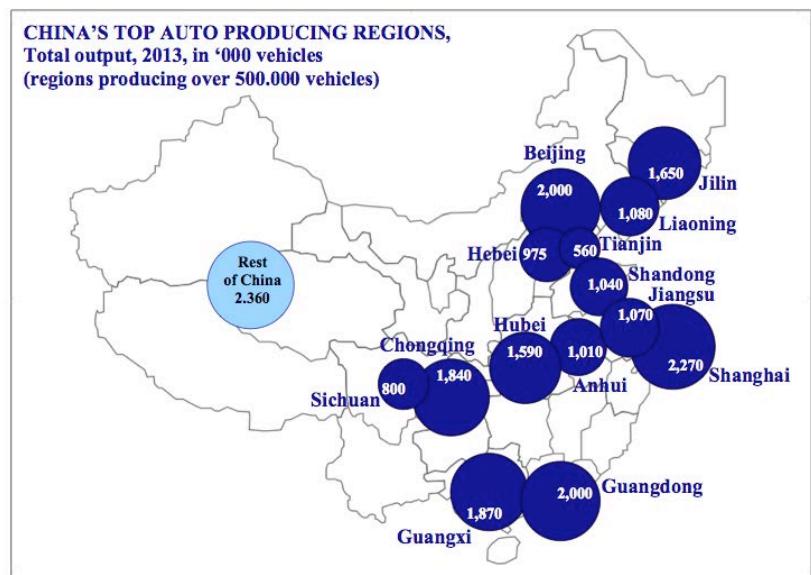
II. Regional Overview

Whereas, in 2003 China, only 8 regions had a civil vehicles fleet over one million, it was the case for 27 of its 31 Provinces, Regions and Municipalities ten years later. And among those, 8 regions have over five million civil cars and trucks on their roads. Answering the geographical diversification that has been part of the country's auto market huge development, has deeply modified China's auto industry map in the last fifteen years – and will continue to do so for the next years. While historical bases have been confirmed in their positions, totally new major production centers have appeared.

China's auto industry huge development, has gone with a massive geographical diversification.

Whereas **2003** China (which output was 4.4 million vehicles) only had **5** Provinces or Municipalities producing

over **200.000** vehicles (in decreasing order, Jilin, Shanghai, Hubei, Chongqing and Beijing, respectively homes of « historical » automakers FAW, SAIC, DongFeng, ChangAn and BAIC), the number reached **20** in **2013** China (which produced 22



million cars, LCVs and trucks). On that same year, 14 regions of China produced more than 500.000 vehicles ; **11** crossed the **1 million** built autos mark ; and **3** reached 2 million auto output.

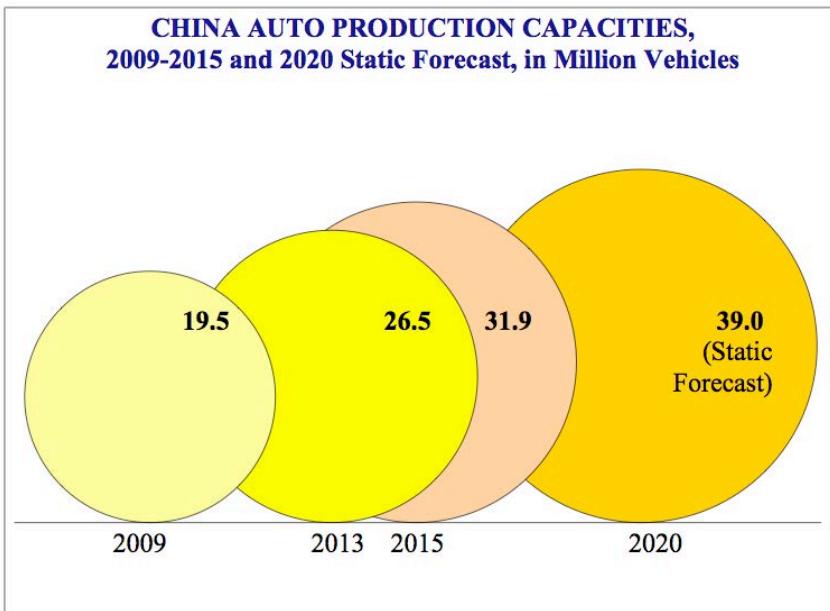
II-1. The 2020 perspective

While 2014 output in China was 23.720 million vehicles, production **capacities** operational through the country, stand close to **32 million**, begining of 2015.

Recent development has remained very dynamic, as **5.4 million** vehicles new yearly capacities were added in the **two years** running from january, 2013, to january, 2015.

This development concerned many regions, as the number of Provinces, Regions or Municipalities with an auto producing capacity over **1 million**, raised from 10 in 2013, to **14** in 2015. Among them, Major bases were strenghtened, as regions with yearly capacities over **2 million** vehicles went from 4 in 2013 (Shanghai, Beijing, Chongqing and Guangdong) to **6** in 2015 (adding Jiangsu and Hubei to the four above mentionned).

Development on the years to come will slow down relatively, but will remain strong. Using a **Static Forecast** approach (taking in consideration decisions taken and approved at national level as of april 2015, without anticipating those that may add until 2020), identified projects under construction or approved amount to **7.6 million** vehicles new production capacities to be added in China **by 2020**.



When transfers from one region to another corresponding to some projects are deduced, expectable capacity stands at **39 million** vehicles in **2020**.

Both geographical diversification of production and strengthening of major bases should go on, as regions reaching the **1 million** vehicles capacity mark should progress from 14 in 2015, to **17** in 2020 ; and regions with capacity over **2 million** should go from 6 in 2015, to **10** in 2020 (adding Sichuan, Shandong, Hebei, Guangxi and Zhejiang to the 6 previously mentionned regions, but removing Beijing).

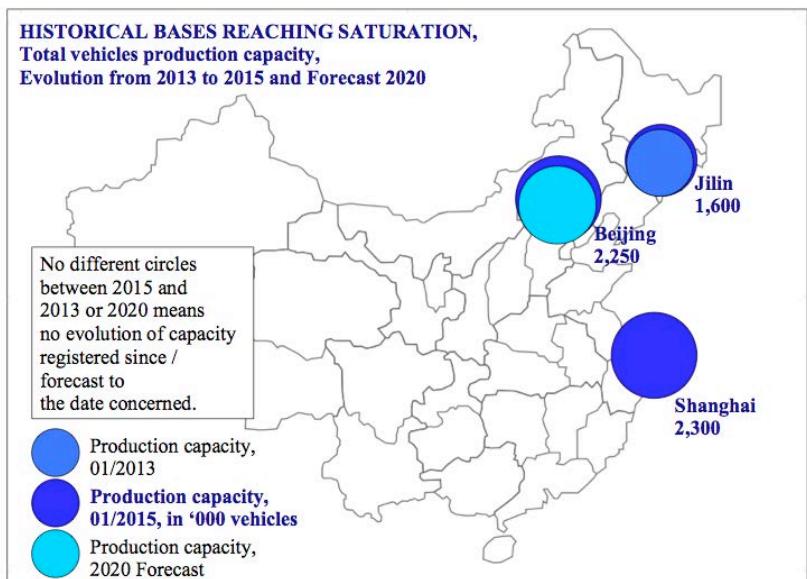
II-2. Historical bases reaching saturation

A first category of auto industry regions is made by **3** of the 5 « historical » bases that remain **major** production areas, but are confronted to **limits** today.

Those limits are of diverse origins. In the case of **Shanghai**, that is still the **number 1** Chinese region for production in 2013 (with some **2.270 million** vehicles), the problem is simply that of **space** available. Hosting the huge original production bases of the joint-ventures of **SAIC** with VolksWagen and GM, China's most populated city has no more room for them to grow. This limit, and projects developed in other regions, should make Shanghai's auto production recede to **number 3 or 4** position in China by **2020**.

The case of **Beijing**, that stood in 2013 as China's **second** region for vehicles production (just over **2 million** vehicles), is

more linked to **environmental** considerations, and general plans to relocate industries out of the Municipality. It is the **only region** of the country that should have



2020 capacities **under** those of 2015, as **BAIC** intends to transfer part of them to neighbouring Hebei (see farther).

Jilin (more precisely the towns of **Changchun**, and to a much lesser extent **Jilin**), headquarter to **FAW** group, receded from number one to **number 6** rank among China's auto producing regions between 2003 and 2013 (with an output close to **1.650 million** vehicles). It is for its part confronted to its unfavorable geographical location. Whereas it once concentrated all of the production capacities of the country's number 3 automaker, it is the case for 40% only today.

II-3. Neighbouring relay bases

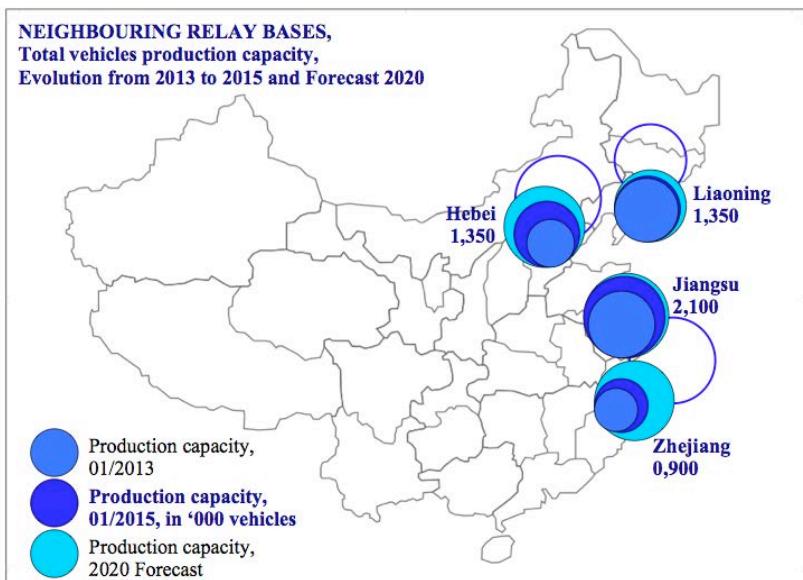
Limits reached by the previously evoked historical bases have benefited neighbouring regions.

The most obvious cases are those of Jiangsu and Zhejiang, that form Shanghai's industrial hinterland. Whereas **Jiangsu** accounted for 3% of China's vehicles output in 2008, it had risen to nearly **5%** (over 1 million autos) in 2013. And it still has progression margin, as important capacities recently settled give it **7%** of national production capacity begining of 2015. It has benefited not only from new sites openings for **SAIC**, but also investment by **5 other** automakers based outside the province, including 3 of the 5 Majors other than SAIC.

Southern neighbour **Zhejiang** is engaged in the same path. Whereas it is still marginal today, with only **1.4%** of national vehicles output in 2013 (300.000 vehicles), new sites under construction should bring regional capacity to **5%** of China's total by 2020. **SAIC** again plays a role there, but it is also the case of another of the Majors, and of locally headquartered **Geely** group.

The same roles played by both a neighbouring giant and an important local builder, is found for **Hebei**. Whereas it was near zero in 2003, its vehicles output rose close to **1 million** in 2013 ; and its production capacity should rise to **5.5%** of the country's total by 2020. The main investors behind this quick rise are **BAIC**, relocating some of its capacities from Beijing, and local group **Great Wall**.

Liaoning can also be mentioned in that category, although the situation is quite different. The province has been rising from less than 3% to close to 5% of China's auto output from 2003 to 2013 (over **1 million** vehicles), in part thanks to local group



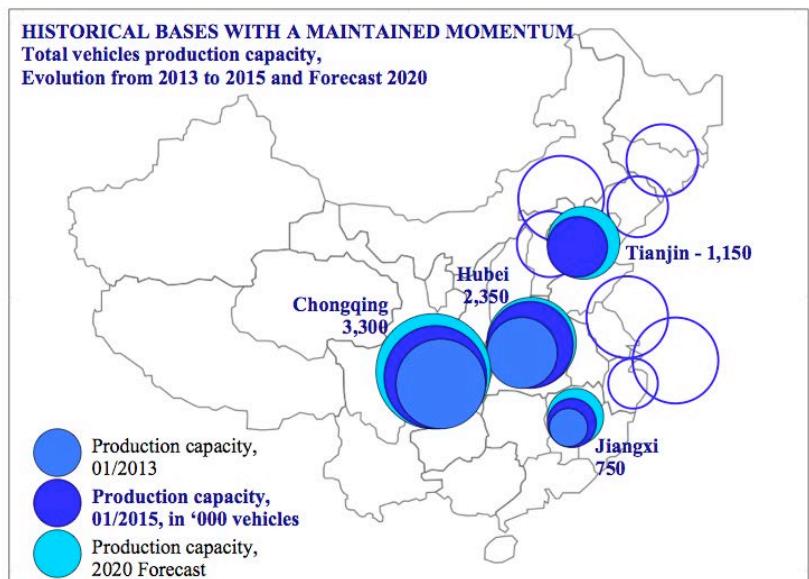
Brilliance. But the rest of its development had no link with neighbouring, Jilin headquartered FAW, that chose other regions of the country to diversify its bases. It was brought by **3 other** auto makers based out of the North-East region, 2 of which chose **Dalian** as a location (whereas the third settled its local base in **Shenyang**) because of the export potential of its port.

II-4. Still dynamic historical bases

Whereas Shanghai, Beijing and Jilin are reaching development limits for auto industry, the two other historical bases of Hubei and Chongqing still benefit from recent and yet to come new dynamism.

Hubei, and more specifically **Wuhan**, headquarters of **DongFeng** group and home to 80% of the province's vehicles production capacity, has come down from number 2 to **number 7** rank among China's auto producing regions between 2003 and 2013 (nearing **1.600 million** vehicles on that year). But it has seen adding of 800.000 vehicles new production capacity in the years 2013-2014, lifting it to **number 3** position in terms of capacities begining of 2015. Part of this progression was attributable to DongFeng, but most of it was due to **2 other Majors** that settled new production sites in the mid-Yangze province.

Comparable dynamism has characterized **Chongqing**'s auto industry in the last two years. And the Municipality where **ChangAn** is headquartered, favoured by China's South-West new development, still shows strong dynamism. This should bring it to **1st rank** nationwide for yearly production capacity, over **4.2 million** vehicles, by 2020 (whereas its 2013 output, ranking number 5 in China, stood at **1.840 million** vehicles). There also, local heavyweight ChangAn is only part of the explanation, as plans by **2 other Majors** account for most of the new facilities under construction.



Tianjin Autonomous Municipality, that produced some **550.000** vehicles in 2013, developed in the 2000s as a main new base for **FAW** group. Its auto industry remains in development today, with new developments for one of FAW's jvs, and Hebei-based Great Wall. Its yearly capacity should reach **1.650 million** vehicles by 2018. On a smaller scale, **Jiangxi** (which output was **370.000** vehicles in 2013) can also be evoked among historical regions. The province that had been a relative stronghold of auto industry (accounting for 6% of China's modest output in 2003) before declining, sees a new dynamism today. Developments by local group **JMC** (Jiangling) and one of the Majors, should bring its capacities to **1 million** vehicles in 2020.

II-5. New major areas of production

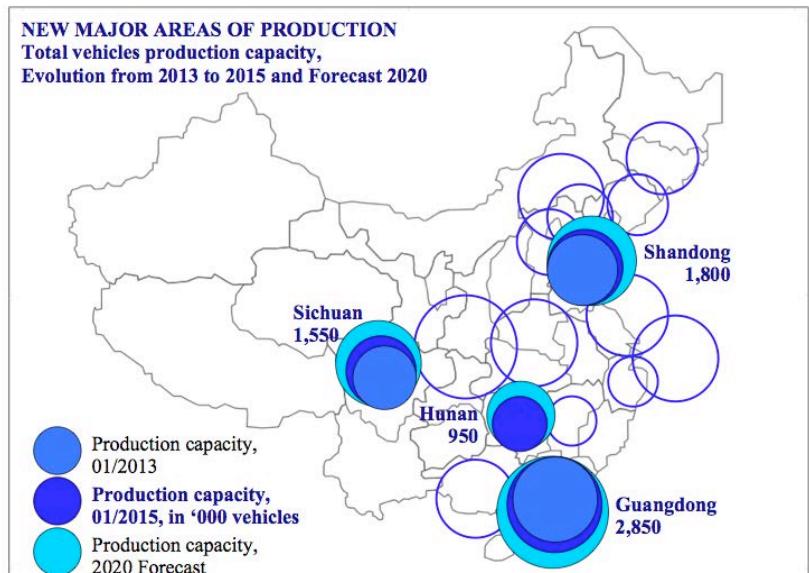
Besides historical bases, several regions of China have become new major production areas for the country's auto industry over the last decade.

The most spectacular case was that of **Guangdong**. China's number one province for both population and GDP produced less than 70.000 vehicles in 2003. Ten years later, its output was close to **2 million**, making it the country's **number 3** (nearly on par with number 2) auto producing region. With over 1 million new vehicles yearly production capacity to be added by 2020, Guangdong's capacity should then approach **4 million**. Whereas part of that dynamism is due to local heavyweight **GAIG**, local developments engaged by **4 of the country's other 5 Majors** account for the most part.

Although to a lesser extent, **Shandong** presents a comparable evolution. From 20.000 vehicles in 2003, its output jumped to over **1 million** in 2013. And projects underway should bring its production capacities close to **2.5 million** vehicles by 2020. As there is no heavyweight headquartered in the province (except for the Heavy Trucks segment, with **CNHTC**), this dynamism relies on **3 of China's auto industry Majors** based in other regions.

South – West **Sichuan**'s acceleration has been more recent, but it should bring it to production capacities over **2.3 million** vehicles in 2020.

There also, decisions have come from out of the province, as no less than **6** automakers based in other regions (including **3 of the Majors**), and just one local group, are behind the recent or next-to-come developments.



On the chapter of recent accelerated developments, the case of **Hunan** also has to be evoked. Although the province is still marginal in output today (**320.000** vehicles produced in 2013), projects underway should bring its yearly capacities close to **1.5**

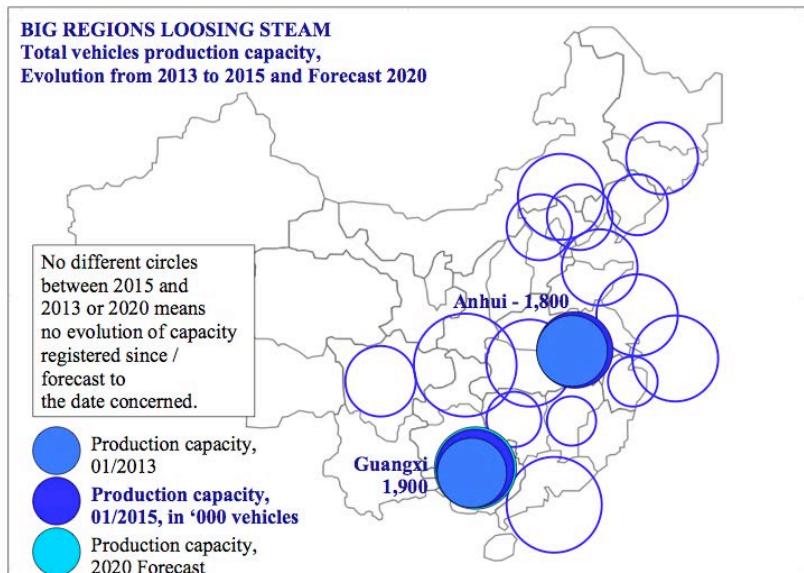
million by 2020. There also, the province has been chosen by no less than **6** automakers based out of it (including **3 of the Majors**) to settle new production facilities.

II-6. Important regions loosing steam

Two regions have attained major positions in China's auto industry geography during the last fifteen years, but should register lesser dynamism in the years to come.

The most important is **Guangxi**, that ranked **number 4** in China for output in 2013 (with **1.870 million** vehicles).

The South - Western Autonomous Region has become the country's most important minivans production base, since the **Wuling** joint-venture, associating **SAIC** and **GM**, was founded in **Liuzhou**. Nevertheless, although 2 other automakers also built sites in the Region, new development of Wuling's capacities in other areas of the country should limit further growth of Guangxi's auto output.



Anhui province, which had a production just over **1 million** vehicles in 2013, is a special case, as most of its development relied on two medium importance local builders.

Whereas **Chery** built its main base in **Wuhu**, **JAC** (Jianghuai Auto) did so in **Hefei**. Despite still recent development, that brought regional capacities to **1.8 million** vehicles, medium-term perspectives depend on the fate of these two actors.

II-7. Marginal regions

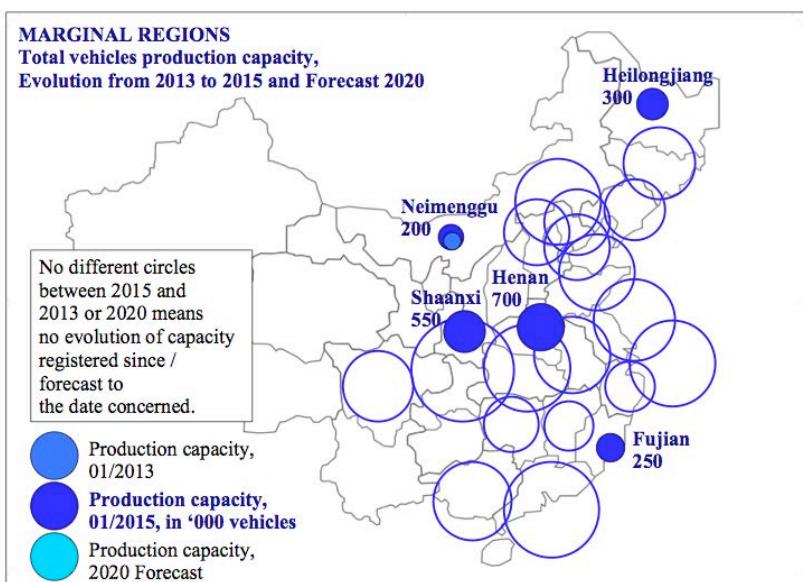
Amidst China's auto industry accelerated development, some regions, although they reached the 100.000 vehicles capacities mark, appear confined to a marginal role. A first case is made by provinces that emerged in the 2000s as alternative production bases for far-away automakers, but which dynamics finally revealed limited.

Such is the case of **Henan**, that produced some **400.000** vehicles in 2013. Despite production sites for **3** automakers, in **Zhengzhou** and **Kaifeng**, its capacities should remain under **2%** of China's total by 2020.

Shaanxi, producer of some **420.000** vehicles in 2013, appears in a comparable situation. Although an outside automaker added in **Xian** an important base to the facilities of local trucks specialist **Shaanxi Auto**, 2020 perspectives give the province only **1.5%** of the country's auto producing capacities.

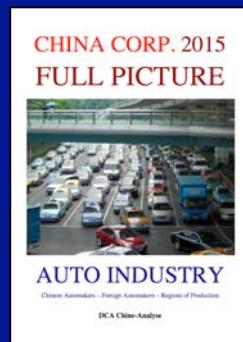
Other provinces have limited perspectives due to their geographical situation. Far North **Heilongjiang** is thus a marginal production base for 2 of the country's Majors, but appears limited to the **300.000** vehicles yearly capacity it has today.

Neimenggu (Inner Mongolia), home to trucks specialist **BeiBen** and an alternative base for an outside automaker, should remain around **200.000**, just as South-Eastern **Fujian**, bordering both hyperdynamic Guangdong and Zhejiang.



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> see p. 48 and followings

III. Major Chinese Firms

SAIC (Shanghai Auto)

DongFeng

FAW

ChangAn

BAIC (Beijing Auto)

GAIG (Guangzhou Auto)

Geely

GreatWall Motors

Chery

BYD Auto

JAC (JiangHuai)

CNHTC (SinoTruck)

Brilliance

JMC (JiangLing)

SAIC (Shanghai Auto)



Founded in 1958, SAIC reached its first position among China's automakers through joint-ventures with two of the Top 3 global carmakers. Although its leadership is uncontested, it faces challenges, the most serious of which is failure of its own brands construction.

HQ : Shanghai

Foreign JV partners : GM (US) ; Iveco (Fiat group, Italy) ; VolksWagen (Germany)

Own brands : Baojun (co-owned) ; HongYan ; Maxus ; MG ; Roewe ; Wuling (co-owned) ; YueJin

With **5.620 million vehicles**, SAIC accounted for over 23% of China's total auto output in 2014. Although it has subsidiaries dedicated to both LCVs and Heavy Trucks, the group is heavily focused on the **cars** segment, with **97%** of its sales.

SAIC rose to prominence among China's auto industry Majors through its joint-ventures with **VolksWagen** (selling under the **VW** and **Skoda** brands) and **GM** (selling under the **Buick**, **Chevrolet** and **Cadillac** brands, but also under the local badge **Wuling** for half of its production).

Accounting for **96%** of its sales, SAIC **joint-ventures** were the main force behind its rise, but have become part of its main problem. Failure of its **own brands** development, mainly that of its **Roewe** sedans subsidiary, was all the more vexing that it was based on early foreign acquisition, as SAIC bought the assets of bankrupt British group **MG Rover** in 2005 and 2007. Roewe nevertheless supports the group's first sales in the strategic **Electric Vehicles** segment today.

Static Forecast indicates that SAIC's production **capacities** will rise to over **8 million** vehicles by **2016**. Only 29% of these existing and projected capacities will be next to its Shanghai headquarters, as the group has settled important complexes (over 300.000 units yearly capacity each) in **9 regions** of the country.

DONGFENG



Founded in 1969, China's second auto Major benefits from strong political support, and has become the country's carmaker with the most diversified network of foreign partners. Behind these joint-ventures, DongFeng's main objective is clearly development of its own cars, that would permit it to duplicate its success in the trucks market.

HQ : **Wuhan**, Hubei

Foreign JV partners : Honda (Japan) ; Kia (South Korea) ; Mitsubishi (Japan, undirect JV) ; Nissan (Japan) ; PSA (France) ; Renault (France) ; Volvo Trucks (Sweden) ; YuLon (Taiwan)

Own brands : DianYue (co-developed) ; Dongfeng ; Fengshen ; Fengxing ; Venucia (co-developed)

With an output of **3.810 million vehicles** in 2014, DongFeng group comes second among China's automakers, with 16% of national production. Whereas **cars** account for **75%** of the vehicles it produces, DongFeng occupies China's **number 1** position in both **Medium and Heavy Trucks** segments.

70% of the vehicles it produces bear the brands of one of the 6 foreign partners it is associated with in **joint-ventures** (the most important of which are **Nissan**, **PSA**, with both **Peugeot** and **Citroen** brands, and **Kia**). The JVs it agreed to with **Renault** and **Volvo Trucks** will bring their total to 8.

The group's main goals include strengthening its cars own brands, that may be regrouped under the sole name DongFeng. Strategic association with France's **PSA group**, through acquisition of 14% of its capital in 2014, aims at converging progress on the technological front. Development of **Electric Vehicles**, for which Dongfeng chose to associate with Nissan under the new **Venucia** brand, is another priority.

Static forecast gives Dongfeng **capacity** production for **4.85 million** vehicles by **2017**. The group has settled important production bases in **9 regions** of China.

FAW



Founded in 1953, FAW was historically the first automaker of the People's Republic. It has maintained among China's Top 3 thanks to its joint-ventures. But its results fall short of strong ambitions in own-brands development, that include both high-end and EV segments.

HQ : **Changchun**, Jilin

Foreign JV partners : GM (US) ; Mazda (Japan) ; Toyota (Japan) ; VolksWagen (Germany)

Own brands : Besturn ; Haima ; HongQi ; JieFang ; Ranz (co-developed) ; XiaLi

With **3.080 million vehicles**, FAW accounted for 13% of China's total auto output in 2014. Whereas **cars** account for **82%** of the vehicles it produces, FAW occupies China's **number 2** position in both **Medium and Heavy Trucks** segments, mainly under its **JieFang** brand.

The **joint-ventures** of the group with foreign automakers account for **80%** of its sales. **VolsksWagen** is by far the most important of its partners, with FAW-VolksWagen, that produces under the **VW** but also **Audi** brands, ranking first among all of the country's jvs in 2014 (with 1.780 million sales). **Toyota** comes farther (with 580.000 sales in 2014), while **Mazda** and **GM** are much more marginal partners.

Despite its early role in restructuring, with buying of **XiaLi** and **Haima** in 2002 and 2006, own-brands sales of FAW in the cars segment remain limited. The group nevertheless maintains strong ambitions. Those include high-end sedans, where it has reactivated historical brand **HongQi** in 2013. And EVs, both under its **Besturn** own brand, and **Ranz** brand, co-developed with Toyota.

Static Forecast indicates that FAW's production **capacity** will rise to at least **5.3 million** vehicles by **2020**. Only 30% of these capacities will be in Jilin, as the group has settled plants in **7 regions** of the country.

CHANGAN



Founded in 1957 in Chongqing, Changan is the strongest of China's Majors in terms of own-brands development ; but this success concerns mostly low-end products. Growth of its major foreign joint-venture, is its main engine today.

HQ : Chongqing

Foreign JV partners : Ford (US) ; Mazda (Japan) ; PSA (France) ; Suzuki (Japan)

Own brands : Chana

With **2.540 million** vehicles sold in 2014, Changan stands number 4 among China's automakers. **83%** of its output is accounted for by **cars**, and the group's commercial vehicles production is limited to the **light trucks** segments.

With **55%** in 2014, Changan is the only of the country's Majors to have the majority of its vehicles sold under its **own brands**. Its car sales, that came close to 1 million in 2014, mostly under the **Chana** brand, rank number 4 among all of China's carmakers, foreign and domestic. Nevertheless, this success must not hide the fact its relies mostly on low value-added products, in the minibuses and mid-size sedans segments. Just as for other Chinese Majors, foreign partners have played an important role in its recent dynamism. More precisely, the sales of its joint-venture with **Ford**, that accounts for 70% of its whole jvs output, doubled between 2012 and 2014 (reaching 810.000 vehicles on that year). Its new jv with **PSA**, that entered operation in 2014, is also expected to play a dynamic role.

Whereas longer term perspectives are more uncertain, Changan's production **capacities** should come over **3.9 million** vehicles by end of 2015. Dynamism of the South West region has played a role in its Chongqing headquarters still concentrating 65% of these capacities, although the group has now settled plants in **9 regions** of the country.

BAIC (Beijing Auto)

Founded in 1958, BAIC missed the initial joint-ventures wave, but has since partnered with two of the most dynamic foreign brands on the Chinese market. It also holds strong positions in the Commercial Vehicles segment, and in the emerging Electric Vehicles market.



北汽集团
BAIC Group

HQ : Beijing

Foreign JV partners : Daimler (Germany) ; Hyundai (South Korea)

Own brands : Baolong ; Beijing ; Beiqi Foton ; ChangHe ; ShouWang (co-developed)

With sales of **2.410 million** vehicles in 2014, BAIC ranks number 5 (and very close to number 4 ChangAn) among China's automakers.

Cars account for **70%** of its output. But the group, through its **Foton** subsidiary, holds strong positions in the commercial vehicles segment, ranking number 4 for **Heavy Trucks**, and number 1 for **Light Trucks**. To consolidate this position, it associated with **Daimler** Heavy Trucks branch in 2012.

57% of BAIC's output comes from its foreign invested **joint-ventures**. The bulk of it is accounted for by its jv with South Korea's **Hyundai** (1.120 million units sold in 2014), that now ranks number 3 among car brands in China. Association with Daimler's **Mercedes** branch also gives it presence on the high-end car segment.

The 43% of vehicles sold under its own brands are mainly CVs, and the **Beijing** brand only comes number 7 among domestic car badges. Nevertheless, BAIC has taken, through it, the most advanced position among Majors on the (yet under-developed) **Electric Vehicles** market.

Ambitious plans for both own-brands and jvs should bring BAIC's **capacities** to **5.5 million** vehicles by **2020**. Whereas Beijing still concentrated 60% of its capacities end of 2014, this share should fall to 30% in 2020. BAIC has undertaken the most geographically diversified development, settling plants in **11 regions** of China.

GAIG (Guangzhou Auto)

Founded in 2000 by unifying the main auto workshops of Guangdong's capital, GAIG is the smallest of China's Majors. Initially focused on joint-ventures with Japanese carmakers, it recently added one of the late-comers among global Majors, and tries to develop its own-brands production



HQ : **Guangzhou**, Guangdong

Foreign JV partners : Fiat (Italy) ; Honda (Japan) ; Mitsubishi (Japan) ; Toyota (Japan)

Own brands : ChangFeng ; Everus (co-developed) ; Gonow ; Trumpchi

With **1.170 million** vehicles in 2014, GAIG is still far from the numbers of China's auto industry Top 5.

It is entirely focused on **cars**. **Joint-ventures** with foreign automakers account for **83%** of its output. Its 3 Japanese partners – in decreasing order of importance, **Honda** (accounting for 40% of its total output), **Toyota** and **Mitsubishi** – have been joined by Italy's **Fiat** since 2013.

GAIG has actively engaged in the consolidation process of China's auto industry, buying smaller builders **ChangFeng** and **Gonow** in 2009 and 2010. It has also been engaged recently in cooperation talks with Chery, and smaller builder ZhongXing. It nevertheless gives priority to development of its **Trumpchi** brand (which had still modest sales of 120.000 cars in 2014).

Both own-brand and joint-ventures expansions should bring GAIG's **capacities** close to **2.3 million** vehicles by 2016. Guangdong should be home to 65% of these capacities, but GAIG has now settled production complexes in **4 regions** of China.

GEELY

Acquisition of Sweden's Volvo in 2010 has changed the status of Geely. The group has also taken the lead in the emerging EVs market in 2014. Nevertheless, even that ambitious pioneer may be a target for future consolidation.

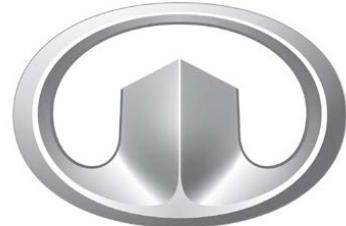


HQ : Ningbo, Zhejiang - Own brands : Geely ; Kandi ; Volvo

Global group sales of some **950.000** cars in 2014 were equally divided between **Geely** (480.000 units) and its **Volvo** subsidiary (466.000). Whereas the Swedish carmaker has come back to life with the help of the Chinese market, the group's Chinese brands (Emgrand, Englon and Gleagle), despite being unified under the Geely name, suffer today. On the EV segment, Geely has taken strong relative positions through its new **Kandi** subsidiary, which control it acquired in 2014. Cumulating facilities for Geely and Volvo brands, the group's **capacities** in China should come over **1 million** vehicles by 2016. Geely has settled plants in **5 regions** of China.

GREATWALL Motor

China's SUV segment leader tries to develop Overseas sales to compensate greater domestic competition.



HQ : Baoding, Hebei - Own brands : Haval ; Voleex

Great Wall

With sales of **730.000** vehicles in 2014, GreatWall was initially a LCV specialist. But it engaged early in the SUV segment, and LCVs now account for only 17% of its output, against **55%** for **SUVs** and 28% for sedans. Beginning of 2015, its production **capacities** have reached **1 million** vehicles. Export ambitions have led it to expand its production base from Hebei to Tianjin. In terms of diversification, its projects in EVs have been jeopardized by disappearance of its batteries provider.

BRILLIANCE

Brilliance Auto

华晨汽车

Brilliance vehicles are present at both low and high ends of the market. JinBei minibuses on one side, and cars produced under the BMW brand on the other, are its two main productions.

HQ : **Shenyang**, Liaoning

Foreign JV partners : BMW (Germany) - Own brands : Brilliance ; JinBei

Brilliance's **800.000** vehicles sales in 2014 were **minibuses**, produced by its JinBei subsidiary, for **40%**, and **cars** for **60%**. Among those, production coming from its **joint-venture** with Germany's **BMW** accounted for 35% of the group's total vehicle output. Brilliance production capacities should come over **1 million** vehicles by **2016**, with the group having plants in **2 regions** of China. In 2014, it engaged in talks with Russia's Kamaz for a possible diversification in the trucks segment.

CHERY



Founded in 1997, Chery has played a leading role in the building of an independant auto industry. But it is confronted to multiplying problems today.

HQ : **Wuhu**, Anhui - Foreign JV partner : JLR (India) - Own brands : Chery ; Qoros

Chery's sales of **485.000** vehicles in 2014 are concentrated for **93%** in **cars**. Despite restructuring in 2012 around the sole Chery brand (eliminating former Riich, Rely and Karry), its sales have declined by 30% since their 2010 peak. Its attempt to enter the high-end segment in 2013, with the **Qoros** brand, was confronted to confidential sales in 2014. Although it is still dynamic in **EVs**, and its promising jv with **Jaguar Land Rover** entered operation in 2014, the group appears vulnerable. Its production **capacities** should reach **1.4 million** vehicles by 2020, with plants in **5 regions**.

JAC (JiangHuai)

Founded in 1964, JAC rised as Anhui's second automaker, after Chery. It has diversified in cars, but specialization in trucks has come back at the core of its main projects.



HQ : **Hefei**, Anhui

Foreign JV partners : Navistar (US) - Own brands : **JAC** ; **JiangHuai**

With sales of **465.000** vehicles in 2014, JAC has a diversified production. Whereas **cars** account for **40%**, the group remains China's number 3 for **Light Trucks**, and number 6 for **Heavy Trucks**. This last segment should be developed through its **joint-venture** with US specialist **Navistar**. Already producing engines, it aims at vehicles in the short term. With plants settled in **3 regions** of China, JAC has reached production **capacities** of **1 million** vehicles begining of 2015.

BYD Auto



Founded in 2003 as a diversification of electronics specialist BYD, the group has fallen from over-ambitious positions ; but it still plays a leading role in the strategic EV segment.

HQ : **Shenzhen**, Guangdong - Foreign JV partner : Daimler (**Denza** brand)

With production of **440.000** vehicles in 2014, BYD is far from its hubris of the 2000s, that led it to conflict with the authorities. It nevertheless remains a leading player in the **New Energies vehicles** segment. Producer of its own batteries, of the Chinese EVs with the longest successfull track (including Overseas), and of the country's first Electric Buses, it has a jv with **Daimler** dedicated to the same segment. It is also strongly engaged in connected vehicles research. BYD Auto has production **capacities** for **750.000** vehicles, and plants in **3 regions** of China.

JMC (JiangLing)



Founded in 1968, JMC is a specialist of Light Trucks that has engaged in diversification. Although small, it has a powerful foreign partner to support its ambitions.

HQ : Nanchang, Jiangxi - Foreign partner : Ford (US) - Own brands : JMC, Yusheng

Of the **275.000** vehicles sold by JMC in 2014, **20%** were **cars** (pick-ups and SUVs). The rest is accounted for by **Light Trucks** under its own brand, or **LCVs** under the **Ford** brand (accounting for 25% of its total vehicles output). The US automaker is a strategic **partner** for JMC, holding 30% of its capital. The group has plans to diversify in **Heavy Trucks**, after buying that activity from ChangAn in 2012. With plants in **2 regions** of China, JMC has production **capacities** for **500.000** vehicles.

CNHTC (Sinotruk)



Founded in 1956, Sinotruk is the most important among Truck-focused builders in China, and the country's number 3 Heavy Trucks producer. It has engaged in a strategic foreign partnership.

HQ : Jinan, Shandong

Foreign partner : MAN (Germany) - Own brands : Howo ; HuangHe ; Sitrak

CNHTC sales of **155.000** vehicles in 2013 were made by **Heavy Trucks** for **80%**, and Medium Trucks for the rest. The group has been among those courted by main global truckmakers, as Germany's **MAN** bought 25% of its capital in 2009. Their JV began production, under the **Sitrak** brand, in 2013. With plants settled in **2 regions** of China, Sinotruk has reached yearly production **capacities** for **250.000** vehicles in 2015.

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CHINA CORP. 2015 FULL PICTURE



AUTO INDUSTRY

Chinese Automakers – Foreign Automakers – Regions of Production

DCA Chine-Analyse

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I

CHINESE AUTOMAKERS

ABSTRACT

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I.1 - SAIC (SHANGHAI AUTO)



Headquarters : Shanghai (Autonomous Municipality)

Sales 2014 : 5.620.000 vehicles

(Number 1 in China – Domestic Market Share : **23.7%**)

- Segments :

- | **Cars** : 97.5% (5.480.000)
- | **Light Commercial Vehicles (GVW < 6 Tons)** : 2.1% (120.000)
- | **Light Trucks (GVW < 14 Tons)** : -
- | **Heavy Trucks (GVW > 14 Tons)** : 0.4% (25.000)

- Origins :

- | **Joint-Ventures** : 96.1% (5.400.000)
- | **Own brands** : 3.9% (220.000)

Total production capacities :

- 03/2015 : **6.900.000** vehicles

(6.380 million for JVs ;
0.520 million for own brands)

- 2016 : **8.160.000** vehicles

(7.640 million for JVs ;
0.520 million for own brands)

SAIC - Joint-ventures

* With GM

Sales 2014 : total **3.570.000 vehicles**



Buick 920.000 cars



Chevrolet 770.000 cars



Cadillac 40.000 cars



Wuling 1.660.000 cars and LCVs



Baojun 180.000 cars

Production capacities :

- 03/2015 : **4.280.000** vehicles
- 2016 : **4.840.000** vehicles

Production sites : **Shanghai** ; Liuzhou (**Guangxi**) ; Shenyang (**Liaoning**) ; Qingdao (**Shandong**) ; Yantai (**Shandong**) ; Wuhan (**Hubei**) ; **Chongqing** (under construction)

SAIC - Joint-ventures

* With VolksWagen

Sales 2014 : total **1.730.000** vehicles



VW 1.450.000 cars

ŠKODA



Skoda 280.000 cars

Production capacities :

- 03/2015 : **1.950.000** vehicles
- 2016 : **2.650.000** vehicles

Production sites : **Shanghai** ; Nanjing (**Jiangsu**) ; Yizheng (**Jiangsu**) ; Ningbo (**Zhejiang**) ; Urumqi (**Xinjiang**) ; Changsha (**Hunan** ; under construction)

* With Iveco (Fiat Group)

Sales 2014 : total **100.000**

IVECO



YUE JIN

Iveco + Yuejin 100.000 Light Commercial Vehicles

Production capacities :

- 03/2015 : **150.000** vehicles

Production sites : Nanjing (**Jiangsu**)

SAIC – Own brands

* SAIC Motors

Sales 2014 : total **180.000**



ROEWE
荣威

Roewe 130.000 cars



MG 50.000 cars

Production capacities : 03/2015 : **400.000** vehicles

Production sites : **Shanghai** ; Nanjing (**Jiangsu**)

* Maxus

Sales 2014 : **20.000** Light Commercial Vehicles



Production capacities : 03/2015 : **50.000** vehicles

Production sites : Nanjing (**Jiangsu**)

* HongYan (SIH ; co-developed with **Iveco**)

Sales 2014 : total **25.000** Trucks



上汽依维柯红岩

SAIC-IVECO HONGYAN

Production capacities : 03/2015 : **70.000** vehicles

Production sites : **Chongqing**

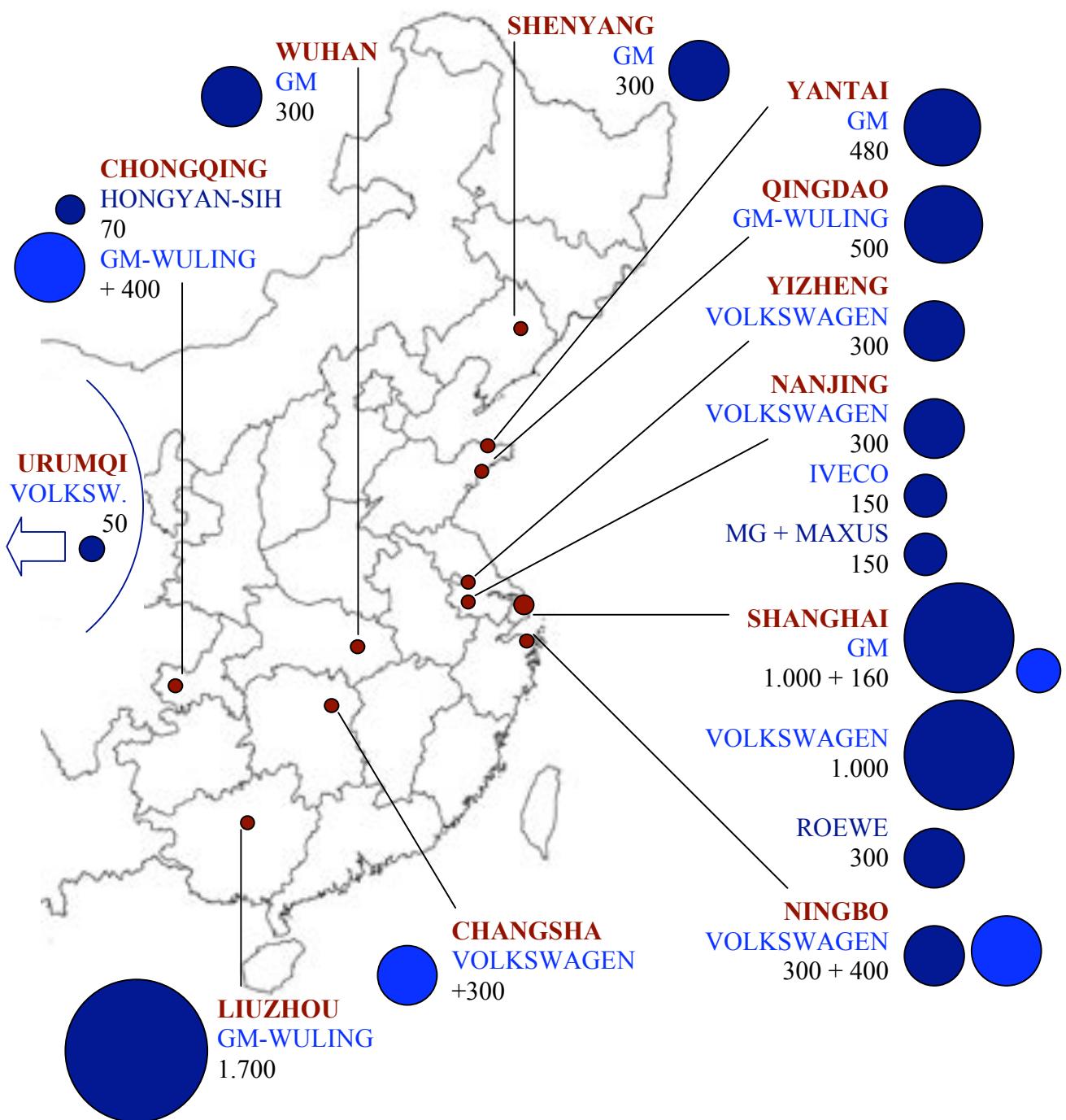
SAIC - Production facilities in China

Vehicles production capacities, in '000 :

● Operating ● Under construction ● Planned and approved

Data for 03/2015

Projects « planned and approved » imply approval at national level



II

FOREIGN AUTOMAKERS

ABSTRACT

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II.6 - HONDA

Sales 2014 : 805.000 vehicles

(own brand 790.000 ; co-developed brands 15.000)

(Number 9 among car brands in China ;

Market Share, total vehicles : **3.4%**)



- Segments : **Cars** 100% (790.000 + 15.000)

Total production capacities of Chinese Joint-Ventures :

- 03/2015 : **1.100.000** vehicles

- 2016 : **1.220.000** vehicles

Joint-ventures

* **With GAIG (Guangzhou Auto)**

Total Sales 2014 : **485.000 vehicles**



Honda 480.000 cars



Everus (co-developed) 5.000 cars

Production capacities :

- 03/2015 : **600.000** vehicles - 2016 : **720.000** vehicles

Production sites : Guangzhou (**Guangdong**)

HONDA - Joint-ventures

* With DongFeng

Total Sales 2014 : **320.000 vehicles**



Honda 310.000 cars



Ciimo (co-developed) 10.000 cars

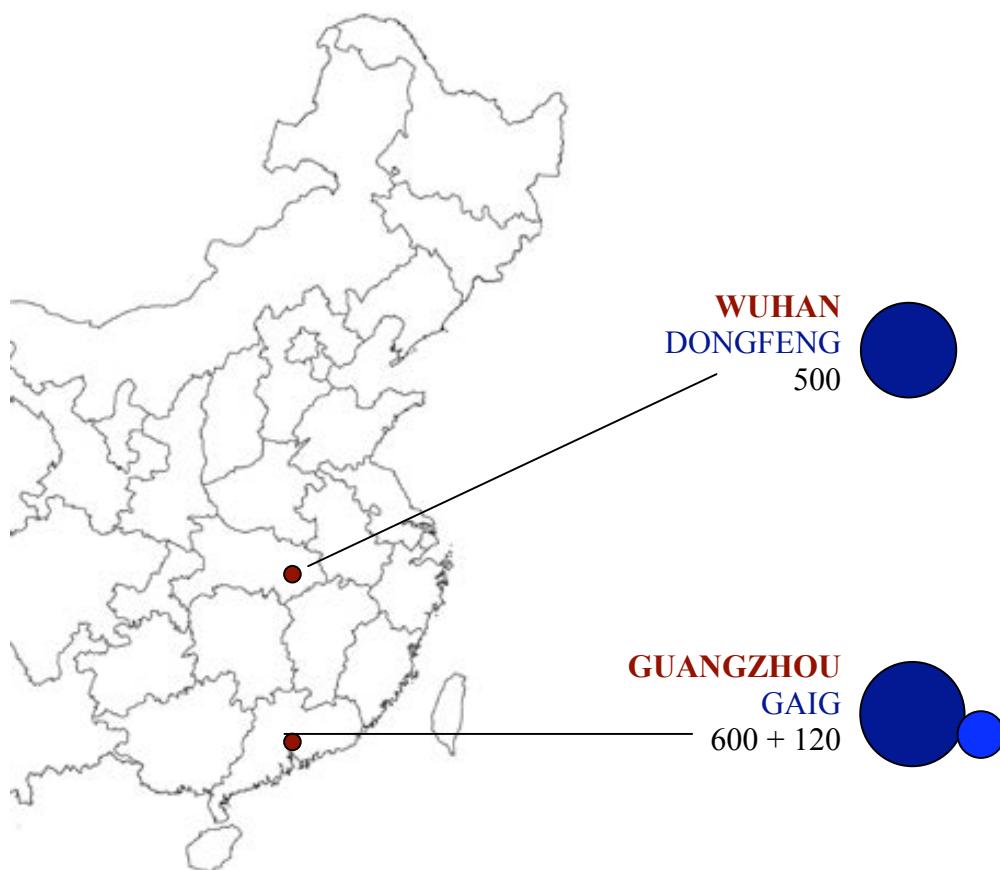
Production capacities : 03/2015 : 500.000 vehicles

Production sites : Wuhan (**Hubei**)

Production facilities in China

Vehicles production capacities, in '000 (03/2015) :

● Operating ● Under construction



III

REGIONS OF PRODUCTION

ABSTRACT

(1 PAGE OF 22)

III.7 - SHANDONG

Area : 153.00 km²

Population : 95 million

Capital city : Jinan

GDP 2013 (rank and share of China's) : 883 billion dollars (number 3 ; 9.3%)

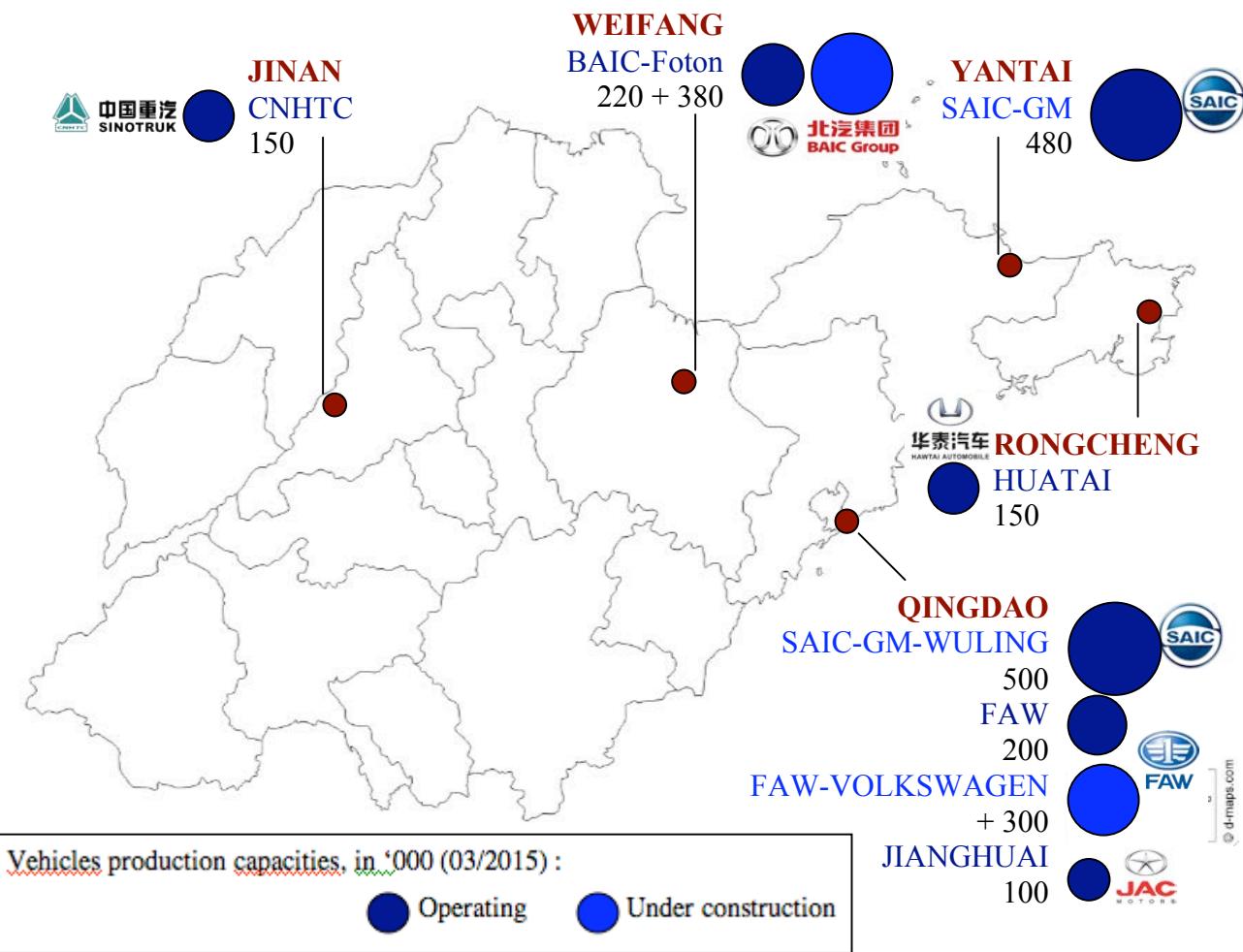


Production, 2013 : 1.040.000 vehicles

Production capacities :

- 03/2015 : **1.800.000** vehicles

- 2020 : **2.480.000** vehicles (+680.000)



CHINA CORP. 2015 FULL PICTURE – AUTO INDUSTRY

The **25** main Chinese automakers (JVs, own brands, production sites)

The **18** main foreign automakers in China (partners, production sites)

The **22** main regions of production (automakers settled, capacities)

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