



By: *Tomorrow's Affairs Staff*

# China's auto industry has been slowing down - Does it have the strength to fight Western competitors?



The recovery of the Chinese economy in terms of the domestic automobile industry, which has dominated the national market for years, is not going according to expectations.

Economic and political planners in Beijing cannot be satisfied with the sharp decline in sales of cars from domestic manufacturers, which has been recorded since the beginning of the year.

The expectations of the Chinese Communist Party that the economy would regain the momentum that almost disappeared during the three-year pandemic are not happening in the domestic auto industry, as one of the sectors with the highest expectations.

The sudden and unexpected lifting of the hard lockdown at the end of the last year was forced by the cooling of the economy and the desire to restore the once high percentages of growth.

This year, China will not expect more than 5% GDP growth, as estimated by the top of the CCP at the recent annual session of the parliament.

This is still not enough to stabilise the national economy, and particularly its return to the former level of expansion.

## A sharp decline in car sales

Since the beginning of the year, car sales in China have declined by as much as 20% compared with the turnover from the same period last year, when the strict quarantine regime due to the COVID-19 epidemic was still in force.

In January and February this year, 600 thousand fewer cars were sold in the huge Chinese market than in the first two months of 2022.

The Chinese car market is huge, one of the largest in the world, with around 27 million cars sold in each of the previous two years.

Domestic production occupies almost half of that market and has about one third participation in the world market. The gross output of this industry was about US 1.4 trillion in 2021, and the entire sector makes up about 10% of the national GDP.

The COVID-19 pandemic has left scars on this sector. In the period from 2020 to 2022, a loss of 20 to 40% was recorded, according to the China Passenger Car Association.

The consequences were particularly large in the interrupted and disrupted supply chains, which spilled over to the global market, given the large participation of Chinese manufacturers in the global chains of car manufacturers.

The prolonged lockdown has forced some of the major foreign manufacturers to close their facilities (Tesla's Gigafactory in Shanghai was closed for almost a month), or to start withdrawing from China due to unstable business conditions.

## Removing subsidies shrinks the market

The drop in car sales in China at the beginning of the year was the result of the cessation of subsidies and tax relief for electric vehicles. The Chinese government cancelled these incentives as of January 1, as too much of a burden on the budget.

Regarding electric vehicles, the subsidies were in force for a full ten years, from 2010 to 2020, and were extended for another two years until 2022, to help the market overcome the pandemic period.

As of January 1, there have been no such concessions, which many believe have been a key factor in China's huge growth in EV sales (and production) in recent years.

Their volume was large: as many as two million vehicles every year, from 2020 to 2022. However, those benefits are no longer

available.

This has been compensated by subsidies from local authorities in certain regions of China, where larger car manufacturers are located, but their effects are not yet visible, nor is it realistic that they will reach the effect of state benefits.

## There is no strength to match the green programmes of the US and the EU

China's state economic planners obviously have other budget priorities, meaning bigger problems that they have to fix than encouraging the purchase and production of green vehicles.

This is not a good sign in the long run for Chinese manufacturers, and the car market in general, because other major auto markets have been moving in a completely different direction and increasing subsidies.

China has cancelled incentives for the green industry at a time when the US and the European Union are competing to allocate more for the stimulation of this sector.

The European Union recently responded with an almost equal package to the American challenge of around US 370 billion in green industry incentives over the next ten years, contained in last year's Inflation Reduction Act.

Its Net-Zero Industry Act foresees about US 270 billion to be pumped into the industry that would provide the technology necessary to reduce greenhouse emissions by 2030.

Even though EV sales are expected to grow this year by some 4-5%, which is less than in previous years when subsidies were in effect, China shows that it does not have the strength to follow the West in the great protectionist race.

That race is taking place in the field of

advanced technologies, which entail large capacities in research and development, which all together hint at the long-term lagging of Chinese potential in relation to competitors in the West.

There is still no hint in China about the possible return of car subsidies. This huge sector will maintain a mild, but less than desirable, growth rate this year.

That will hardly be enough for China to keep pace with international Western competition, which will be strongly supported by rich subsidy packages until the end of the decade.