Perception:
The last barrier
for Chinese cars

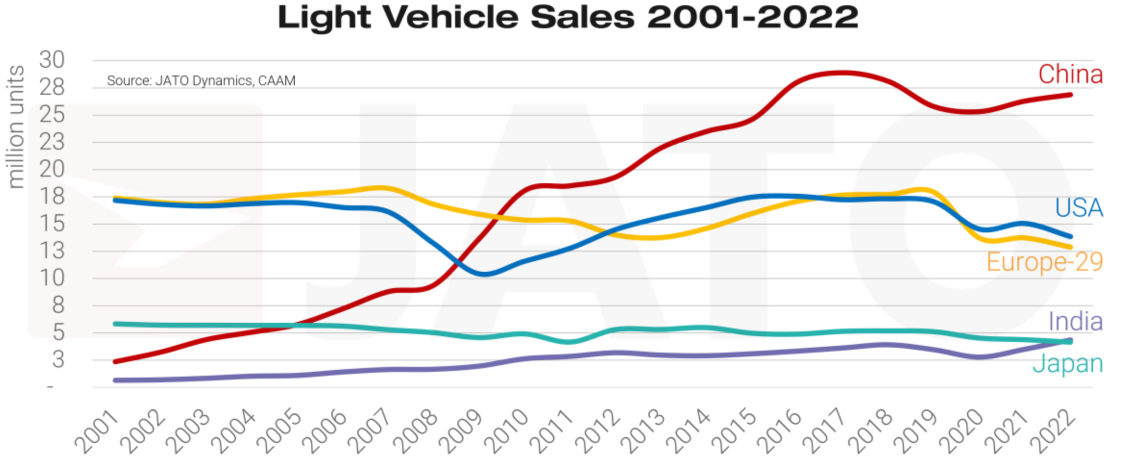
JATO

01 The Chinese cars are on the radar

While automotive industry analysts have been predicting a significant influx of Chinese cars in Western markets for some time, the topic is now gaining more attention. This is driven by several major announcements from Chinese manufacturers and their rapid progress across technology, quality, design, and performance.

China is the world's second largest economy and the biggest market for light vehicles by a significant margin. Last year, China surpassed Germany as the second largest car exporter and in the first half of this year, surpassed Japan to become the world's leading exporter, according to Moody's Analytics report.

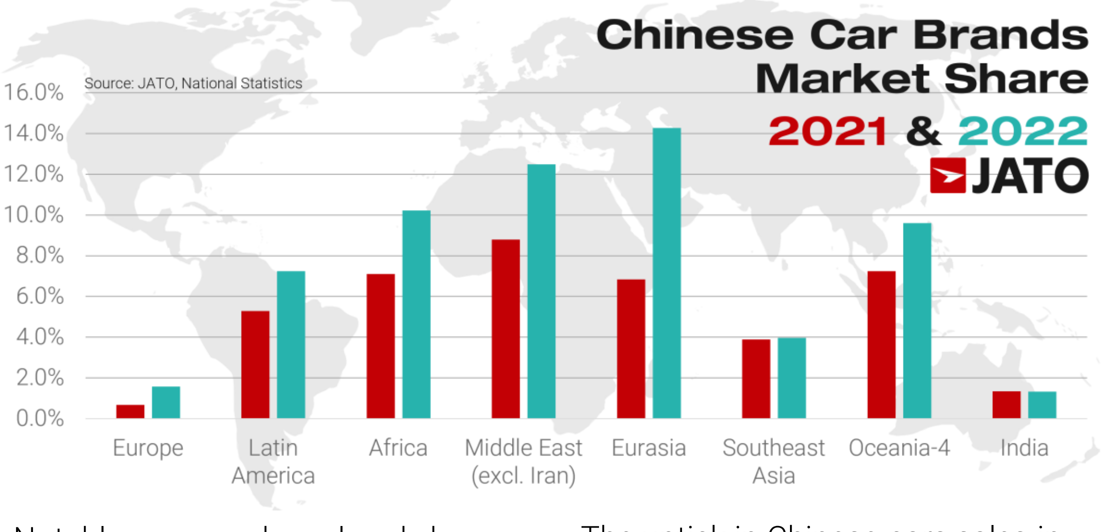
The domestic market has fueled the rapid growth of its local carmakers, but that growth is now waning, and these brands are setting their sights across borders.



02 A real alternative in the developing markets

For companies like SAIC, BYD, Geely, GAC, Chery, JAC, Dongfeng, Changan, and Great Wall, expansion plans involve creating a lineup of products that meet the needs of varying customers across both developed and developing economies.

In developing economies, the market share of Chinese car brands jumped from 4.79% in 2021 to 6.46% in 2022. In contrast, European brands lost 2.7 points of share, while the market share of Korean brands fell by 1 point.



Notable progress has already been made in the developing economies. In 2022, these manufacturers posted double-digit market shares in regions like the Middle East, Eurasia, and Africa. While in Latin America, their market share increased two percentage points when compared to 2021.

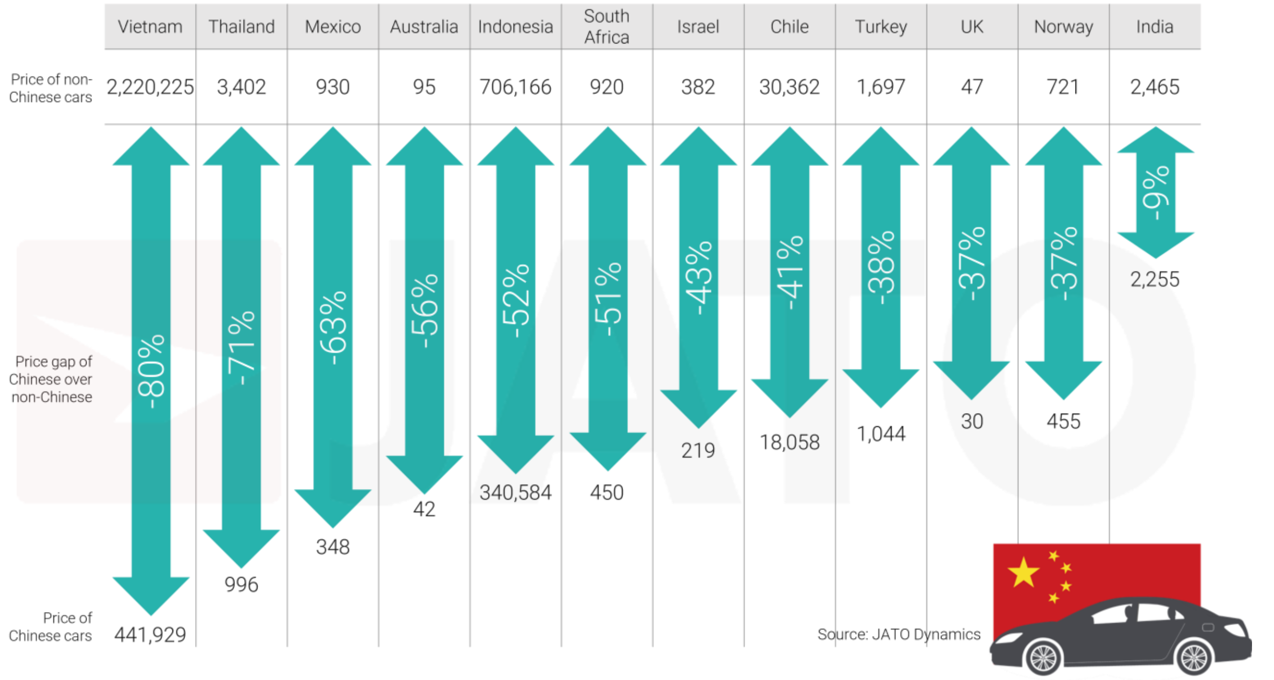
The uptick in Chinese cars sales in these markets is largely the result of competitive pricing. For instance, a car manufactured by Chery is on average 36% cheaper than a Toyota in South Africa; a Haval, a Chinese SUV brand, costs 50% less than a Jeep; and in Chile, an MG is on average 41% less expensive than the average price of all other new passenger cars.

With an increasingly attractive product offering at affordable prices, China's carmakers are gaining traction in these regions. In comparison, the opposite is playing out among Western OEMs that have focused on the production of cars in the upper segments, with less mass appeal and higher price tags.

Cooperation between the BRICS group of major emerging economies (Brazil, Russia, India, China & South Africa) will also be a significant contributor to increased Chinese market share across those countries.

Price Gap: Chinese Car Brands vs Rivals

Average Retail Price (in thousands) in local currency of the passenger cars available in Q1 2023



Chinese Car Brands
Market Share in Passenger Cars Markets

		FY 2021		FY 2022		H1 2023
Europe	Germany	0.22%	↑	0.95%	↑	0.97%
	United Kingdom	1.87%	↑	3.19%	↑	4.26%
	France	0.31%	↑	1.04%	↑	1.79%
	Italy	0.75%	↑	2.71%	↑	4.12%
	Spain	0.19%	↑	1.30%	↑	3.45%
	Eastern Europe-8	0.01%	↑	0.15%	↑	0.46%
	Scandinavia + Baltics	1.57%	↑	3.59%	↓	2.44%
	Turkey	0.09%	↑	0.34%	↑	3.28%
	Total	0.67%	↑	1.57%	↑	2.37% (1)
Latin America	Brazil	2.62%	↓	2.31%	↓	2.02%
	Argentina	0.73%	↓	0.49%	↓	0.32%
	Chile	27.14%	↑	29.79%	↓	28.12%
	Mexico	2.73%	↑	8.00%	↓	7.34%
	Peru	20.26%	↑	24.63%	↑	25.75%
	Ecuador	18.60%	↑	24.76%	↓	23.30%
	Total	5.28%	↑	7.24%	↓	6.90% (2)
Africa	South Africa	3.78%	↑	6.08%	↑	8.83%
	Morocco	0.14%	↑	0.40%	↑	0.66%
	Egypt	17.22%	↑	24.79%	↓	17.19%
Middle East	Saudi Arabia	15.21%	↑	18.12%	↓	16.43% (3)
	United Arab Emirates	3.27%	↑	3.77%	↓	2.49% (3)
	Israel	1.46%	↑	8.51%	↑	16.26%
	Total	8.79%	↑	12.49%	↓	11.27% (4)
Eurasia	Russia	7.43%	↑	20.17%	↑	50.20%
	Kazakhstan	3.50%	↑	9.65%	↑	19.57%
Southeast Asia	Indonesia	4.10%	↓	3.92%	↓	3.02%
	Thailand	8.02%	↑	9.39%	↑	15.34%
	Vietnam	1.53%	↑	1.84%	↓	0.87%
	Singapore	2.40%	↑	3.33%	↑	3.70%
	Philippines	7.42%	↑	7.90%	↑	8.18%
	Total	3.89%	↑	3.97%	↑	5.02% (5)
Oceania	Australia	7.32%	↑	9.70%	↑	11.40%
	New Zealand	6.42%	↑	8.54%	↑	10.83%
Others	India	1.35%	↓	1.33%	↑	1.51%
	United States	0.00%	=	0.00%	=	0.00%
	Canada	0.00%	=	0.00%	=	0.00%
	Korea	0.00%	=	0.00%	=	0.00%
	Japan	0.00%	=	0.00%	↑	0.03%

(1) Excludes Balkans, micro-States, Ukraine, Moldova
(2) Excludes Colombia, Uruguay, Paraguay, Bolivia, Central America, Caribbean
(3) Data for Q1 2023; (4) Excludes Israel; (5) Excludes Brunei

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Targeting developed economies

The expansion of Chinese OEMs is also taking place in the developed economies, albeit on a much smaller scale. Between 2020 and 2023, the European car market has welcomed 15 new Chinese car brands. Some have clear plans while others are testing their presence across markets, but one thing remains consistent: appealing cars at competitive prices.

A key difference between developed and developing economies are the barriers to entry. The US, for example, has taken action to support the acceleration of home-grown electric vehicles. Paradoxically, localisation – a topic that played a leading role in the Financial Times recent [“Future of the Car”] summit - is perhaps becoming more prominent in a globalised world.

Last year, Chinese car brands had zero market share in the USA, and the Inflation Reduction Act aims to make the US a new EV haven, boosting local production of EVs and parts.

Looking to Europe, in 2022, Chinese car brands sold 193,400 light vehicles across 42 European nations* – a 116% increase on the 90,900 units sold a year earlier,

Bo Yu

Area Manager, Greater China, commented:

“Regulation will impact the commercial performance of Chinese manufacturers, particularly those whose volumes are too small to justify large scale investment. This is one of the many hurdles that car makers need to negotiate and while it may delay them, it is unlikely to stop them in the long run.”

and 0.86 percentage point growth in market share. Excluding light commercial vehicles and vans, Chinese carmakers accounted for 1.63% of the market in 2022, and during the first half of this year, that percentage grew to 2.24% of all passenger car sales in Europe-29.

China’s carmakers are also making inroads in Australia and New Zealand. According to the data for 2022, these vehicles made up 8.61% of the light vehicle sales, up by 1.63 points when compared to 2021. MG, a British-origin Chinese brand owned by SAIC, was the 7th best-selling brand and the fastest growing within the top 10.

Different ways of exporting its cars

The arrival of China in the global markets is not homogenous, rather it is occurring in four main ways.

The first is through the acquisition of Western brands, which gives direct access to a legacy firm with an existing network and established awareness among consumers. This can be more expensive, but as demonstrated by MG, it allows carmakers to avoid long periods in which significant resource needs to be directed at brand awareness.

The second route is the rebadging of cars with Western logos, as seen by the likes of Chevrolet in Latin America. This is becoming usual practice in the developing markets, where the Western brands are eager to offer cheaper cars in a competitive package.

The third, and most challenging method, is the direct introduction of the local brand – the current strategy employed by NIO and BYD in Europe. In addition to the usual high costs of introduction, this approach requires significant investment in building brand awareness and consumer trust as many Chinese car brands remain unknown in Western markets.

Finally, there is technological collaboration. A new trend that started in 2023, it sees cooperation between Chinese OEMs and Western brands for the development of new models and technologies. Two examples are the strategic partnership between the Volkswagen Group and Xpeng to develop new Volkswagen branded EVs; while Leapmotor recently signed a Memorandum of Understanding with a Western OEM to license its EV technology.

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04 Who wants a Chinese car?

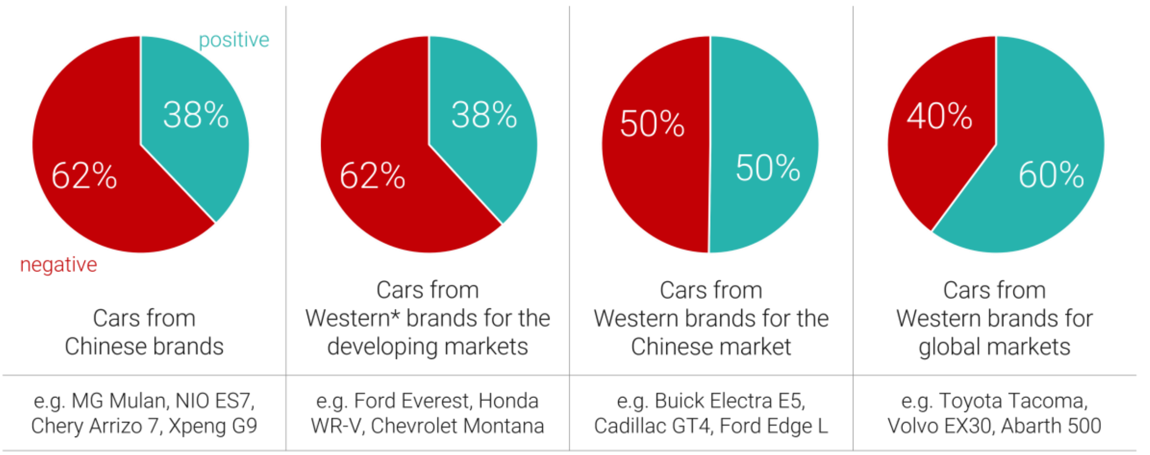
China's automotive industry has previously been hamstrung by persistent perceptions of lower quality, and outdated technology. However, after years of continued investment and insight garnered from the West through joint-ventures, the tide is beginning to turn.

Now, the current crop of Chinese cars is meeting and often exceeding the standards across design, quality, performance, and pricing. This is true of both high-end brands like NIO, Xpeng, and Zeekr, alongside mainstream brands such as Chery, Haval, BYD, Changan, and Geely.

Bo Yu, Country Manager of JATO China: "For a long time, consumers in China considered foreign car brands to be superior to the domestic offering. For ICE vehicles this perception held true, but in the era of EVs the tables have turned with many Chinese made cars now viewed as technologically more advanced and in most cases, more affordable. Continued strong support from the Chinese government and increasing nationalist sentiment, is creating ideal conditions for local OEMs to thrive."

The speed at which China's manufacturers have progressed is impressive. However, while these vehicles are gaining traction beyond

Sentiment Analysis
Passenger Cars revealed Jan/2022 – Aug/2023



*non-Chinese car brands
Analysis of 220 new production passenger cars presented between January 1st 2022 and 4th August 2023 in online polls with an average of 3,500 answers per poll from people around the world

their domestic market, perception barriers are not so easily fixed.

This has been evidenced by a sentiment survey of 221 new vehicles launched between January 2022 and July 2022. According to the survey**, negative views of Chinese cars averaged 62% compared to just 45% for Western cars.

Ongoing negative sentiment in other parts of the world could be linked to the countries' desires to support domestic industries and jobs. For instance, this can be seen in the European Commission's recent decision to investigate putting punitive tariffs in place, to support EU manufacturers.

Similarly, in India - the world's third largest light vehicle market - the introduction of new regulations could be seen as an attempt to slow the arrival of these brands.

While SAIC has successfully introduced locally assembled MG models, it was the only Chinese player available in India until last year. BYD also made clear its ambitions to gain a foothold in the market; however, penetration has been limited due to import-only constraints from the Indian government. In July, its $1 billion investment plan to build electric cars locally was rejected.

05 The MG example

MG is a prime example of how Chinese manufacturers can leverage a Western brand to support their international ambitions. Since its acquisition by SAIC in 2007, MG has evolved from a UK brand that was almost facing bankruptcy, to one of the industry's most dynamic mainstream manufacturers.

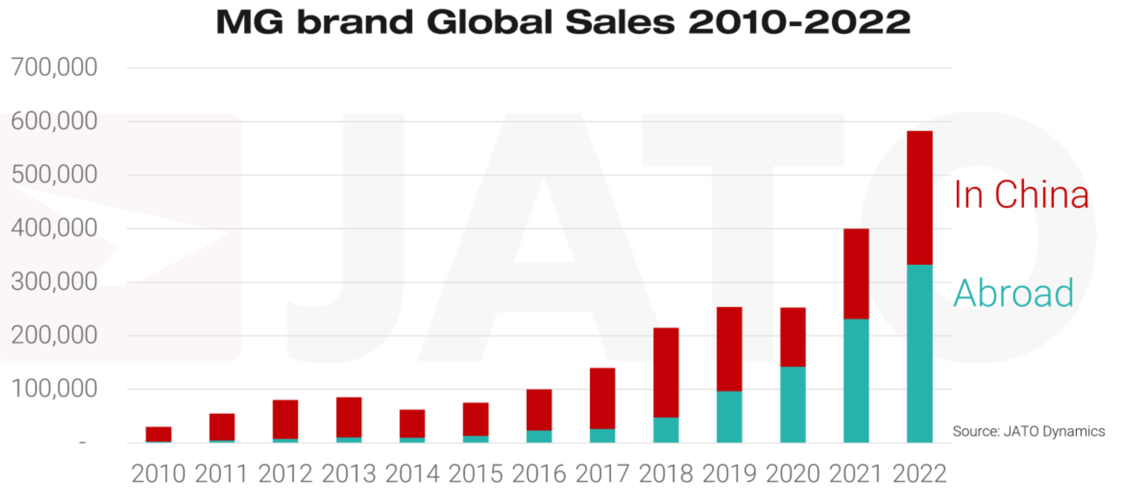
After relaunching in 2015, MG sold approximately 75,000 units – three times the total number of vehicles registered a decade earlier. Since then, the brand has seen sales increase, reaching a record of 450,000 units in 2022.

During this period, SAIC has developed an attractive lineup of models that includes both traditional sedans aimed at Chinese consumers and compact SUVs that suit the preferences of buyers in international markets. Plus, unlike most legacy car brands in Europe, the US, Korea, and Japan, MG is also making strides in popularising EVs by creating an offer that appeals to consumers in both developing and developed markets.

Felipe Munoz

Senior Analyst commented:

“Today, MG vehicles are developed, and produced entirely in China. But as revealed within the sentiment analysis survey - in which the MG 7 was the highest scoring Chinese made car with 75% positive views - the success of recent years is a clear signal that brand familiarity continues to carry weight in the minds of many consumers.”



Shifting Perceptions

China's carmakers will not deliver the market share gains they're targeting through imports alone. Many have their sights set on the establishment of local market manufacturing infrastructure, dealerships, and after-sales services, but as demonstrated by BYD, this relies on cooperation.

Felipe Munoz, Global Analyst at JATO Dynamics: "In the coming years we expect to see further collaboration between Western legacy carmakers and Chinese OEMs through joint ventures in areas like technology and charging infrastructure. We may also see more Chinese OEMs following the example set by SAIC in acquiring Western carmakers to recognition and consumer trust in-market."

China's carmakers have proven their ability to develop and produce an offering at scale that can compete with, and in many cases, outperform established legacy brands that have until now dominated the global automotive market. However, establishing and sustaining a foothold in new territories, requires patience, investment, and consistency. Beyond this, geopolitical issues and ongoing challenges associated with the Covid-19 pandemic could hamper their international ambitions, but it remains to be seen what will develop on the wider stage.

*excluding Turkey

**Conducted by Global Analyst, Felipe Munoz, with an average of 3,500 answers per poll from respondents across the globe.

***The study includes 91 Chinese and 129 Western models officially revealed during this period.

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