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INFLUENCE FACTORS OF EXPORTING EU VEHICLE TO CHINA

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Abstract:
China, the world's largest developing country, is the world's important force to promote the development of the global economy. In the context of globalization and the rapid change of the pattern, China's strategic position is becoming more and more important. However, as the rise of unilateral, world trade frictions are increasing. In the future, EU should focus on the China's trade and economic cooperation with foreign common policy and guiding principles and should pay attention to expand export and import cooperation between China, and what's more based on China's huge potential market needed, EU should pay more attention on the car filed. Due to the background of American's unilateral protectionism, the trade relations between US, EU and China become more and more strained, therefore in order to achieve the purpose of mutual benefit and win-win results between China and EU, we need to further strengthen China-EU comprehensive strategic partnership.

Keywords:
Trade war, EU-China Trade, Car demand market, Influence factor

1. Introduction
With the intensification of competition in the international market, trade protectionism is strengthened constantly. Considering the US policy of trade protectionism has become increasingly frequent, subtler and complicated that Europe and China both face trade barriers from the United States and in will of their important component of the world economy, strength cooperation between China and Europe are benefit for maintenance world free trade, multilateralism and justice international order.
The key point is when the trade frictions occur, whether China and Europe can find an appropriate channel to maintain economic stability, whether the two sides can find a sally port to solve the problem by further strengthening economic and trade cooperation. Under the current international situation, Europe faced increased automobile import tariff from US government, and at the same time, China increase automobile import tariff for US made car. Based on those trade barriers and China's huge potential car market, Europe should consider export vehicle to China.
This paper mainly analyses under the current China-US-EU trade situation, offered EU vehicle manufacturer a new opportunity---- export more vehicles to China as a sally port1.The remainder of this paper is organized as follows, analyzes the influencing factors and gives suggestions for EU vehicle manufacturer to increase its Chinese market share.

2. Three factors
2.1. Political Factors
China which is a country has a peace and stable political environment in developing economy, in the context of globalization and the rapid change of the pattern, the trade relationship between China and EU are increasing closely and its strategic position in China's foreign cooperation is becoming more and more important. Moreover, because

of China is committed to peaceful development, EU vehicle manufacturer does not have to worry their export product or customers would be disturbed or cancelled by war or trade war.

Based on China's stable political and social situation, EU vehicle manufacturer does not need worry about leader's replacement will bring unrest and disturb export trade. This is due to China government has establish and consolidate the party and state leaders of the retirement system, meanwhile, China which is a country ruled by law and making the country built on the basis of generally accepted rules and institutions2. Moreover, China does not have situation like instability countries, for example, existence of individual long-term dictatorship and family hereditary rule, this is one important reason that caused some countries people strong dissatisfaction and opposition their political power2. Since China established, at leader's replacement period, never appeared upheaval in this country. All these build a good macro environment for EU vehicle manufacturer to develop business in China.

Since accessing to the World Trade Organization's (WTO) in 2001, china has tried its best to fulfill the obligation of WTO rules and gradually opened domestic market, which will further improve the investment environment for foreign3. China's series of tax reduction measures are as follows, since January 1, 2005, China cancelled car importing quota management, and continue to reduce tariffs on auto imports. Since July 1, 2006, the import tax rate of the car, SUV and bus, have been reduced from 28% to 25%, and the import rate of auto parts was reduced to 10%, such as vehicle's components, chassis and low gas engine4. Moreover, at present, based on the background of the trade war between China and US and WTO regulation, China keep open its domestic market up, especially on the vehicle market which is the first time to reduce tariffs in the past 12 years. The detailed regulations are as follows, Ministry of Finance website was released on May 22. Since July 1, 2018, import tariffs on vehicle have been reduced to 15%, and the tax rates of the component of the car are reduced to 6%5. However, these benefits are not for US, China has decided to impose 25% tariff for product imported from US, which include cars and its components6. It can be seen that based on these favorable polices it is really a good chance for EU vehicle or manufactory to entry China7.

Jianguo Wei who was China commerce undersecretary said that since the end of 2001 China join the WTO, China fulfilled its WTO accession commitments and reduce vehicle imports tariffs for three consecutive years 2. Moreover, in 2004, import quota of vehicles and their key components are reached $10.494 billion 2. In 2009, Chinese government cancel the auto parts import management policy and the actual cut auto parts import tariff reduce to 10%. Since September 1, 2009, China government has abolished the “Automotive Industry Development Policy" in the relevant provisions of the parts import management. Based on a series of policy to reduce tariffs also its huge consumer market (we analysis this factor at 2.3 CONSUMER PREFERENCE FACTORS) China's auto production and sales ranked first in the world in 20188.

Since twenty-first Century trade between China and EU are among the most dynamic and harvests in the many fields of cooperation after China joined the WTO, which is developed rapidly, based on the larger base and has doubled in about every 3 years. Now we seen "made in China" is everywhere in European market. According to the statistics of Ministry of Commerce of the People’s Republic of China Department of European Affairs, China's annual growth rate of import and export to the EU is above 11.4% from 2016 to 2017 data are given in table 19. Furthermore, ASKCI Consulting Co., Ltd.’s data (2012 to 2015) given in table 2 means that EU has become China’s largest trading partner and the United States is in the second position10.

Table 1 Trade statistics of China and European countries in 1-12 months of 2017

Unit of amount: ten thousand dollars						
National	Import and Export Volume	Export Volume	Import Volume	Accumulated over the same period last year±%		
Total Volume	410,450,385	226,352,200	184,098,185	11.4	7.9	15.9
Europe	66,102,684	37,916,560	28,186,124	10.5	9.5	11.9
28 EU countries	61,691,575	37,204,153	24,487,422	12.7	9.7	17.7

Table 2 List of trade volume between China and Europe, China and American from 2012 to October 2015

Year	Total import and export of China's foreign trade($ billions)	Total import and export of China-EU trade($ billions)	Proportions (%)	Total import and export of trade between China and the United States($ billions)	Proportions (%)
2012	38669.8	5460.4	14.1	4846.8	12.5
2013	41608.7	5590.4	13.0	5210.0	12.5
2014	43030.4	6151.4	14.3	5551.2	12.9
Jan.-Oct.2015	32269.64	4646.83	14.4	4614.56	14.3

In recent years, under the Chinese government "going out" strategy, a number of Chinese outstanding enterprises have begun to go out of the country and invest in the EU countries, such as HUAWEI, ZTE and Haier. Due to these investments, China has become the EU's net direct investment country for the first time in 2015 and has invested 6.3 billion euro in the EU data which are given by the statistics of the European Bureau of Statistics (Eurastat), main while, the EU's investment in China was fell to 6 billion Euros at the same year 10.

China has Free Trade Area (FTA)

In order to make a fairer and reasonable environment, Chinese government established a free trade area and given privileges policy for foreign companies located in these areas. Privileges include reduced corporate income tax rates, tax holidays, lower land use fees and simplified entry and exit. For example, companies in free trade area tax saving is average 45%.

What's more, in order to promote the development of automobile parallel import trade, Chinese government taken three measures which is less requirements for the authorized documents of the imported automobile factory, less restrictions on the number of parallel imported cars and simplified factory inspection requirements8. These measures are announcement by the State regulatory commission and published in < pilot reform measures for parallel import vehicle China Compulsory Certification (CCC) certification in FTA> in 201611. Under these series of support policy for import car, compared with 2016, the number of parallel imported cars in China increases 29.8% and reaches 172 thousand and the data is given in fig 1. Therefore, FTA is a good choice for EU vehicle manufacturer to export finished vehicle to Chinese market as well as provides sustained strong policy support.

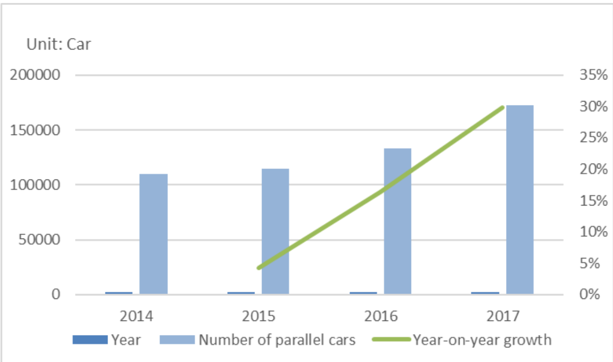

Fig. 1 2014-2017 year parallel import car market share

The following question is there are 11 Free Trade Zones in China, and which one is the best for EU vehicle? As we seen, no matter Tianjin or Shanghai's free trade zone, the approved area is limited; but Hainan which is the whole province and Hainan province given more beneficial policy, like <The implementation scheme for parallel import of Haikou port> which is published by Hainan provincial government in July 5, 2018. The public notice is announcing that Hainan port will give support to vehicle manufactory on customs clearance12, household registration, taxation, financial support and after sales service, government also will take the construction of the free trade area (port) as an opportunity to win a total of 10 thousand cars parallel imports in 2020, with sales exceeding 7 billion yuan12. Based on before analysis, we can see that Hainan port is the best choice in total 11 FTA for EU vehicle manufacturer to export parallel vehicle.

2.2. Economic Factors

China has a huge potential consumer market for Vehicle and its component.

From 2001 to 2016, China's vehicle sales increased from 2.36 million to 28 million13. As show in fig 2 in 2016 global car sales 9385.46 million, increased 4.7% over 2015. Fig 3 shows that Chinese market is a leading vehicle sales market in the world, total sold 28 million vehicles, accounting for 29.86% of the world's total sales13. Until 2017, Chinese market consumed 30% of the world's cars, moreover, since 2009, China's auto sales have been ranked first in the world for nine consecutive years. Which means, the consumption for cars are huge in China, also with the development of China's economic (e.g. the average growth of China's GDP is 6.9% per year14), the potential market for car demand is huge in China.

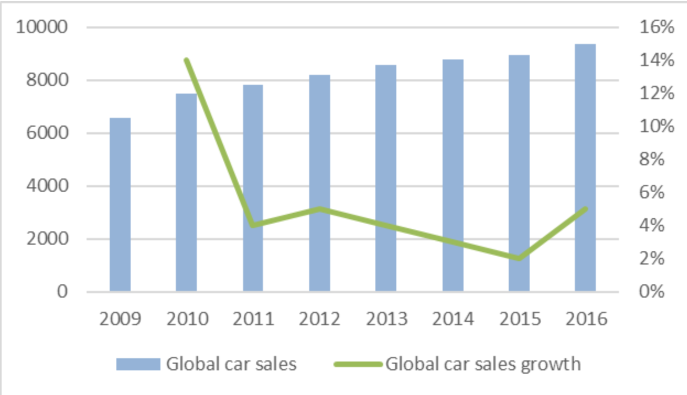

Fig. 2 Global car sales

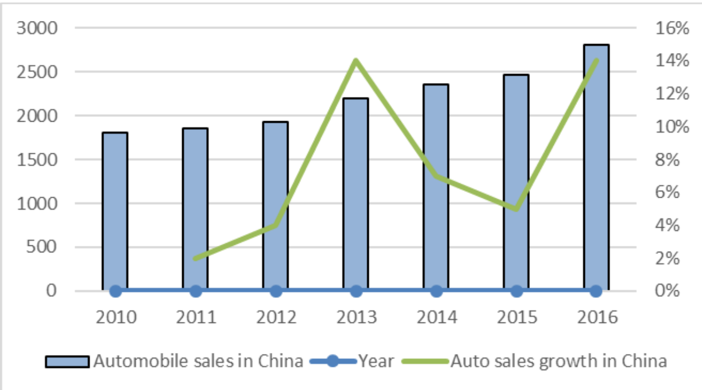

Fig. 3 Automobile sales & growth in China

During 2009 to 2016, China has import cars from 42million to 142.3million, it is almost up 3 times within 7 years, and then, back to a million or so. In 2016, decreased to 107 million vehicles, which was down by 3.4% from the same period15. In 2017, the total sales volume of imported cars in Chinese market exceeded 120 million, increase about 15% over the same period last year, and the above data is show in fig 4. However, the sales of domestic cars are growing steadily; it can be found in fig.5 that since 2008 to 2017, domestic car sales are growing steadily16. Compared with domestic cars and joint venture vehicle, the price of the imported car is more expensive. Moreover, the high price is owing to import vehicle tariffs, excise duty, value added tax (VAT) and transportation fees17. However, this situation will be changed in 2018, import tariffs on vehicle are reduced to 15%, the tax reduction range was 40% and 25%, the tax rates of the component of the car are reduced to 6%, and the average tax reduction rate reached 46%18. However, tax benefit is not including cars from USA. That is really attractive news for EU vehicle manufacturer, which means EU vehicle' s price is more competitive compared with cars import from USA. For example, the deprecation range of Martha Lahti provided by Martha Lahti China official website is between 5.5 and 139 thousand Yuan. Take Tesla Model S and Model X as an example, the price is overall increased between130 and 257 thousand Yuan.

Fig.4 Number of imported cars in China in recent years

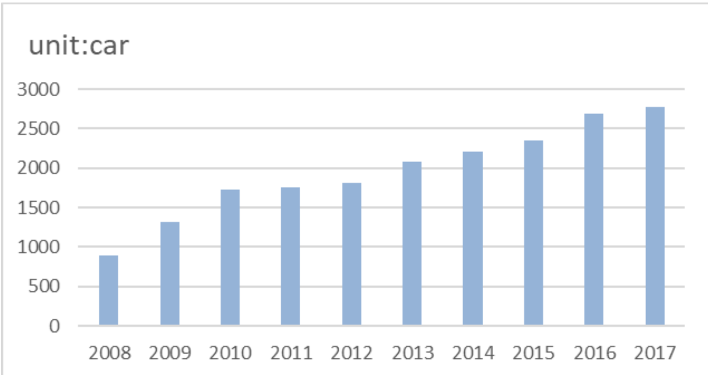

Fig.5 Domestic car sales

Also, compared fig 1and fig 4 can reach the following conclusion, even the total number of imported cars has declined from 2015-2016, but the number of parallel imported cars has keep steady growth. Number of parallel imported car increase of 29.8% over the same period. As one can observe, China has a huge automobile consumption market and many preferential tax policies for imported cars, specially for parallel imported car. Therefore, European manufacturers can through parallel imported cars to reduce prices and increase market share.

In addition, consumer in China like to spend money on cars from EU than other countries. Specially, with the escalation of trade war between China and US, Chinese consumer's preferences have been affected, and the market share of us models has been impacted15. Fig 6 is given that about 30% first-time car buyer chose national and German brand cars, about 35% consumers chose German brand cars at their second time consumption, ahead of other brands (include Chinese national brand). We may wonder why more and more Chinese choose German cars? That is because except national sentiment, but also the quality19. Especially people who are born after 1980, they are like to spend money on German brand car. In their eyes, German is an important part of EU, to some degree, it represents the level of EU made, and they feel that EU made always with good quality and good "taste". For example, made in Germany, means precise design, exquisite workmanship and advanced technology as well, like BMW, Benz and Volkswagen; French car which is elegant, avant-garde and romantic, like Citroen, Peugeot, Renault, Bugatti; made in England, obviously – Gentle, like Aston Martin, Bentley, Jaguar and Rolls-Royce. No matter that brand, this generation like "EU made". More important is that post-80s has become the major car consumer groups in China, which means with the growth of this generation's economic capability, EU vehicle manufacturer will get huge potential consumer.

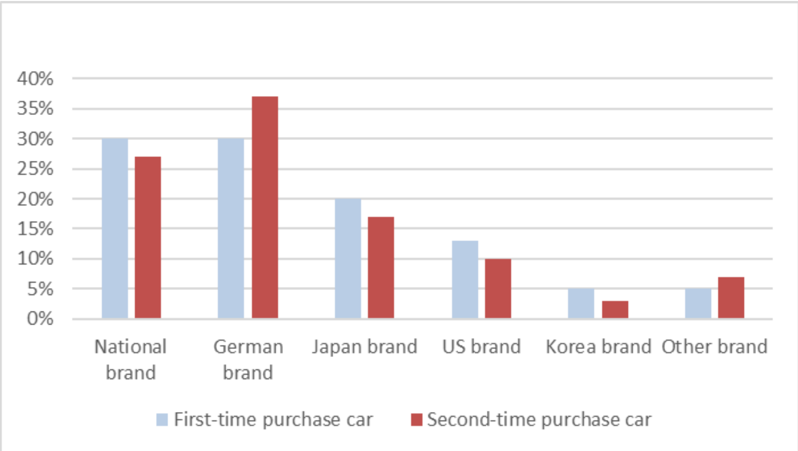

Fig. 6 Chinese consumer national choice for auto brands in 2017

In addition to exporting economic vehicles to China, European manufacturers also need to consider luxury cars, specially to high developed cities20. In high developed cities , lots of people are seek special, high-class, even private tailor. In their eyes, luxury car always means "cool","attractive" and even "owner's social status". Until 1 January, 2017, luxury car rankings in various Chinese provinces, top three is Beijing, Shanghai and Zhejiang Province, the data of rank are given in table 3. As we can see Shanghai is a core city of our country, international economic, financial, trade, shipping, science and technology innovation center. Shanghai is One of the largest cities in the world, no matter its population or economic, in 2017, social consumption is about 2 trillion yuan. In 2017, Guangzhou's gross domestic product (GDP) amounted to 2 trillion yuan, it's total retail sales of social consumer goods, household deposits and account among ranks on the top three in China. Total retail volume of consumer goods in the city is about 871 billion yuan. Hangzhou is the capital of Zhejiang province, with the development of High-tech enterprises, such as Alibaba, hence, the internet economy has become a new point in Hangzhou's economic groth. In 2016, Hangzhou's GDP amout to 1.1trillion Yuan, in 2017, it's social consumption was about 572 billion Yuan, we see that, in East of China, no matter its ecnonmic capability or it's consumption capacity, Hangzhou is second only to Shanghai. As we can see those cities have high level of economic, and consumer here have stronger purchase power. EU vehicle manufactroy can develop luxury market in these cities by parallel import luxury car, also can use their high quality or special services to attractive consumer, specially in first-lin cities. By imporve the quality of consumer service to establish customer's sense of trust and increase customer stickiness.

Table 3: Provincial ranking---Luxury car sales

		F12	LP700	Mousse	Rolls-Royce phantom	Maybach	Super sports car	Total
1	Beijing	44	78	183	385	140	30	860
2	Shanghai	55	72	104	285	89	46	651
3	Zhejiang Province	45	67	133	270	43	7	565
4	Guangzhou Province	36	52	87	135	20	19	349
5	Sichuan Province	19	29	137	135	24	2	346
6	Fujian Province	7	33	102	99	19	4	264

2.3. Consumer Preference Factors

In this section, we will analyze which region prefers to consume EU vehicles in China. In addition, by analysis local consumer preference choosing car model21.

Regional selection criteria include the location being in a major city, commercial center of China or close to high developed areas where with high GDP, high consumption. Location with high quality of infrastructure, with good delivery or locations with high developed22. At the same time, we also should consider professional competition.

In 2007, compared with other types of models, SUV sales keep high growth and increased 13.3% than last year which data is given in fig 7. It has been keep 8 years' growth since 2009 and the market share of SUV has exceeded 42% in 2018. However, sales of other models are not optimistic, it can be found in fig 8 that auto-car dropped 2.5%, MPV dropped 17.1%, crossover car dropped 20%23. Moreover, the newest data shows, SUV keeps good sales in last year and months, but China's auto cars production and sales both decreased in the last 8 months of 2018. It can be see that SUV market keep continues hot. For EU vehicle manufacturer can by launch SUV products, product new-style products and guarantee the differentiated of the product to improve the competitive of their vehicle and improve market share of SUV. The next content will be analysis size of SUV, motive power, SUV's brand and regional to find customer preference.

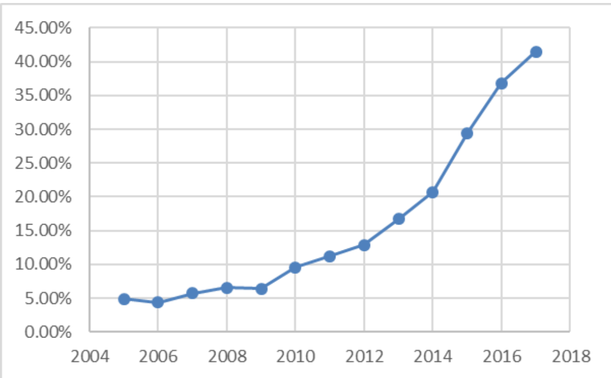

Fig. 7 SUV Market penetration

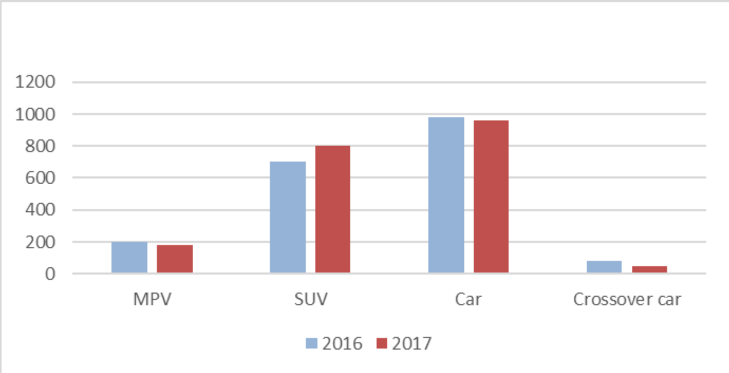

Fig. 8 Different Car Model sales

Following we will analyze the sales volume of different types of SUV in 2017 and its data can be found in fig 9. We can see that sales volume of compact SUV accounts for 39.17%, small SUV and medium SUV are 23.75% and 25% respectively23, and among of them compact SUV are close half of the scale. Why Chinese like to buy compact SUV? That is because compared with automobile, driver drive compact SUV got more space and feel more comfortable; moreover, as "Tow-Children Policy", Chinese need more space to pick up children; except those before reason, also because as the development of China, more and more people choose self-driving travelling. Compared with auto mobile, compact SUV is the better choice not matter for its space or its practicability for travelling. For example, Chinese national brand Hover H6, it sales continue to rise in recent years. Therefore, EU vehicle manufacturer can consider export compact SUV to China,

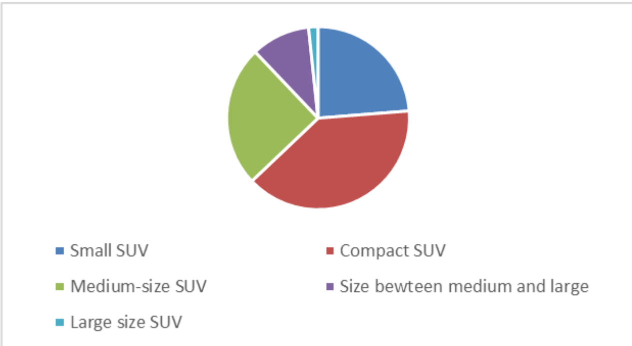

Fig. 9 Diff. Size of SUV sales analysis

As Fig 10 showed that total sales volume of energy vehicles is 777 thousand and increased 53% in 2017 than last year. Moreover, sales in December were particularly large which was sales 163 thousand and increase of 55% over the same period last year24. Among of them pure electric car total sales 652 thousand vehicle annual and mixed-electric car total sales 125 thousand vehicle annual. We can see that compared with other motive power of car, Chinese consumer prefers pure electric car35. Throughout the year consumer like to buy new car in December that is may be for celebrate Chinese New Year. For EU vehicle manufacturer can try to catch the opportunity and export pure electric car to China, especially at the end of year that is a good time to promote new products.

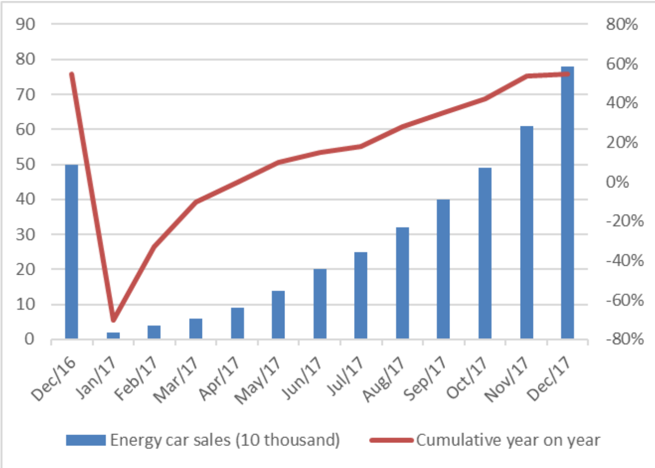

Fig. 10 Energy Car sales volume

However, Sales of energy vehicle in China was not always smooth going which is great influenced by the policy16. From year 2012 to 2015, the sales volume of energy vehicle increased from 12 thousand to 331 thousand that is increased steadily24. In 2016, the cumulative sales of energy vehicle reached 507 thousand, which is far exceeding the sales volume in 2015; however, its growth speed decreased that is because subsidy policy changed. In 2017, because of market preference change to energy vehicle that this market got a new growth. Now, in 2018, new subsidy policy of energy vehicle has been published which is improve vehicle subsidy for high mileage car, which means higher mileage car can get more subsidy. For example, mileage over 400 km can got 50-thousand-yuan subsidy in 2018, instead of 30.8 thousand yuan in 2017. Except this good news for EU vehicle manufacturer, but also no need to face strong competitor which from US, like Tesla. That is because of the trade war between China and US, Chinese government canceled policy preferences for US. Here, we take Tesla as an example, in 2017, Tesla sales over $2 billion in China and which is accounted for 20% of the world's share25, but this situation will be changed in 2018 which is tariffs on imported cars from United States have risen by 40% since July 6. Through before analysis, we see that EU vehicle manufacturer got a big chance in 2018. Firstly, because of subsidy that Chinese consumer would like to choose mileage energy care, which means EU vehicle manufacturer can export this type of car to China; secondly, with high tariffs and no government subsidy, the price of US made vehicle will increase. Especially Tesla's consumers that will be choose other substitutes because of its high price. That is a good chance for EU vehicle manufacturer to product similar product subsisted Tesla and increase Chinese market share.

Through before analysis, we can see that Chinese consumer like buy pure electric car, even sales volume are influenced by subsidy policy, but compared with petrol vehicle it has speed up fast, low cost of use and protect environment's characteristics, more and more people would like to choose energy vehicle.

Customer in China prefer pure electric car than others, and what brand do they like?

In 2017, auto sales top ten that is seven models comes from national brands, only three joint venture brands enter the list which is Volkswagen, Buick and Nissan and data is given in fig 11. SAIC Volkswagen cumulative sales of 332 thousand vehicles and increase of 38.2%, which is rank fourth in the total rankings and first in joint venture brand in 2017. It can be see that china has market need for EU vehicle and consumer prefer EU vehicle than Japan and US made.

In the first factor, we analyze and conclude that on the background of China-US trade war, which is a good time for EU vehicle manufacturer to get more market shares form US car brand26. In the second factors we analyzed consumer will consider quality a bit more on their second-time purchase. In order to achieve the purpose of reducing price and improve market share, EU vehicle manufacturer can consider product type of vehicle or auto parts localization to reduce production costs,

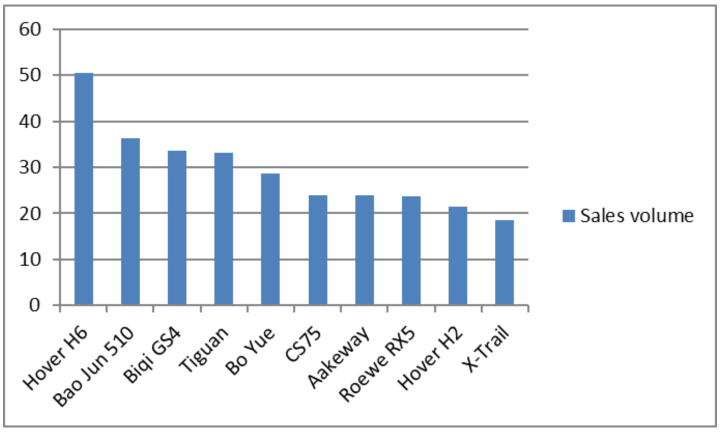

Fig. 11 Diff. SUV Brand Sales volume in 2017

Except those factors, there is another factor needs to be considered --- Regional.

Through above analysis, we can see that SUV and pure energy vehicle are very popular in China, and this phenomenon is more outstanding in the first tier cities. Car purchase analysis report about First-tier cities user in China (2016 Edition) state that the growth rate of vehicle in the biggest city is higher than other cities, specially, SUV and the Auto-car's growth rate which is 3.17% and 4.11% higher than others. However, MPV is lower 3.04% than national level, which means, SUV and Auto-car got more opportunity in first-line cities. Hence, EU vehicle manufacturer should be considering export more kind of SUV models to first-line city in China as their preference.

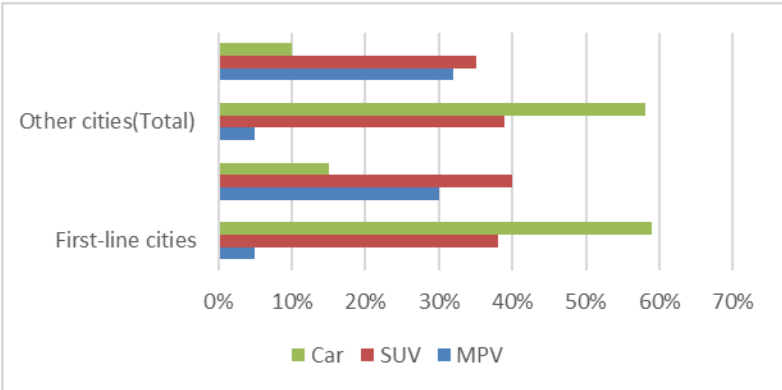

Fig.12 First-line city car sales compared with other cities

In 2017, energy car sold more than 24.9 thousand in First-line cities that can be found in Fig 13. Compared with Fig 10 data we can see that first-line cities sales volume account for 32% of all energy car sold in China.

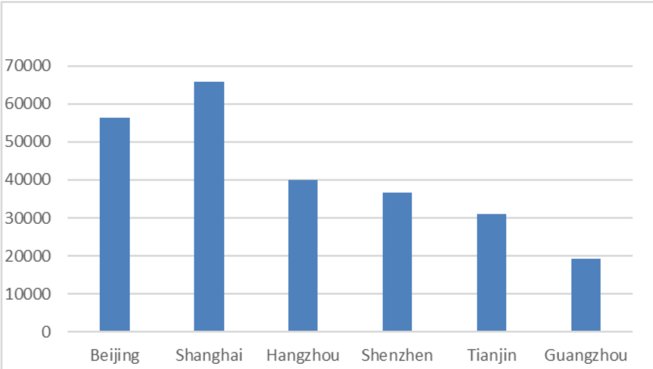

Fig. 13 2017 Energy Car Sales Volume in First-line Cities

As analysis on regional factor, we can see that first-line city is the most important substantial of car sales market in China. One important reason for consumer in first-line city choose pure energy SUV car is that they can get free license plate27, like Shanghai, buy pure energy car can avoid limit license plate policy. The second reason may because the implementation of "Two-child policy" which means family need more space for children. Hence, EU vehicle can catch this opportunity, export pure energy SUV car to those cites and grab market share.

3. Conclusion

Through above analysis, we can see that EU vehicle manufacturer can choose Hainan port entry China to catch policy support, like tax support and customer service. Those supports can reduce vehicle's price for customer and improve its completion. Moreover, increase parallel car's volume to China is also good, as more and more customers are looking for good quality instead of low price.

EU vehicle manufacturer can also develop luxury car market in china and parallel export to China, because part of Chinese like extravagant lifestyle and numbers of them are quite big.

Most important for EU vehicle manufacturer is that they should develop and export high mileage pure energy car to China. One reason is catch new subsidy policy in China, another reason is that it is a good chance to replace Tesla's market share in China.

Moreover, it can be inferred that Chinese consumer prefer pure-electric SUV and especially in the first-tier cities. Therefore, EU vehicle manufacturer can export pure-electric SUV to China, especially to the fist-tier cities and that is because these cities have high consumption capacity and market demand. In addition, the best time to launch new product is better before Chinese's New Year that is because many Chinese like to change car or purchase new car on that time.

This paper also confirms the generally held understanding that export EU vehicle to China, in present some attractive factors and unique challenges. Overall, export vehicles to China proved to be attractive--stable and peace political, the county is stability; good business opportunity, large potential market and attractive economic policy; and keep improved legal system, all of these are attractive EU vehicle export their products to China.

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