

China electric vehicle market marshall islands

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Electric vehicles (EVs) have emerged as the sole growth area in the automotive market, amid a decline in overall car sales since their peak in 2017. As the world transitions towards a sustainable future, the EV market is expected to foster innovation and drive growth in one of the economy's crucial sectors. China stands at the forefront of this transformation with its thriving EV industry, offering foreign companies a plethora of opportunities driven by government incentives, environmental regulations, favorable policies, and technological innovation.

We discuss investment prospects in China's EV industry from a supply chain perspective in this industry brief.

China is the world's largest new energy vehicle (NEV) market. According to the Ministry of Public Security, NEV ownership in China reached an impressive 13.1 million by the end of 2022, showcasing a substantial increase of 5.26 million vehicles (a remarkable growth rate of 67.13 percent) compared to 2021. Of this vast NEV fleet, electric vehicles accounted for an astounding 79.78 percent at 10.45 million.

Enterprise search data show that China has more than 600,000 existing NEV-related enterprises. The year 2022 saw 239,400 newly added enterprises, an increase of 40.34 percent year-on-year. China's new energy vehicle market has been developing rapidly in recent years, with growing market participants and competition in the industry. Major industry players include BYD Auto, Tesla China, SAIC-GM-Wuling, Aion, and Changan Automobile. These five players have more than 50 percent market share combined.

Globally, China holds a dominant position in the EV supply chain, with over three-quarters of the world's battery production capacity. The battery is among the most important components of an EV and accounts for 40 percent of the vehicle's total price. Moreover, China houses more than half of the world's processing and refining capacity for lithium, cobalt, and graphite, which are essential materials for making EV batteries. Specifically, China boasts 70 percent of the global production capacity for cathodes and 85 percent for anodes.

China benefits from its inherent supply chain advantages, lowering costs in logistics, labor, and land management. Moreover, the large EV market enables economies of scale. Compared with Western markets in the US and Europe, China's EV manufacturing industry has a cost advantage of 20 percent.

The Chinese government has implemented supportive policies to bolster the growth of the EV industry. In line with the dual-carbon target, the State Council introduced the "New Energy Vehicle Industry Development Plan (2021-2035)" on November 2, 2020. This plan outlines a national strategy aimed at achieving a sustainable automotive future with reduced emissions.

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On June 21, 2023, China unveiled a substantial RMB 520 billion (US\$72.3 billion) tax incentive package spanning four years. This package is designed to offer tax breaks for EVs and environmentally friendly vehicles. Notably, it provides a complete exemption from purchase tax for NEVs purchased in 2024 and 2025, with savings of up to RMB 30,000 (US\$4,170) per vehicle. From 2026 to 2027, the exemption will be halved and capped at RMB 15,000 (US\$2,078). The goal of this initiative is to stimulate growth in the automotive industry, especially in light of sluggish auto sales.

Many regions have also introduced local initiatives. For instance, Shenzhen released the “Guidelines for Financial Support to the High-Quality Development of New Energy Vehicle Industry Supply Chain”; in 2023. This proposal aims to enhance cross-border financial services to support NEV enterprises. Similarly, Shanghai issued the “Implementation Plan for Accelerating the Development of New Energy Vehicle Industry (2021-2025)”; to drive the growth of the NEV industry in their region.

Currently, in China, the distribution of the NEV industry is similar to that of the traditional automobile sector, with a concentration in key areas such as Beijing-Tianjin-Hebei, the Yangtze River Delta, the Pearl River Delta, and the central region.

The EV supply chain can be divided into three main stages of production activity: upstream, midstream, and downstream.

The upstream industry involves the supply of raw materials and components for vehicle manufacturing. It encompasses extraction of minerals, namely lithium and cobalt, and manufacturing of major parts, including power battery, drive motor, and electronic control system. Most of these minerals are concentrated in a few countries, including the Democratic Republic of Congo, Argentina, Chile, and Australia. The dispersion and concentration of these key materials make the global supply chain vulnerable and susceptible to disruptions caused by developments linked to geopolitics, shifts in trade alliances, and corporate consolidation.

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