ASIA MONTHLY

January 2025

https://www.jri.co.jp/en/reports/asia/

This report is the revised English version of the January 2024 issue of the original Japanese version (published 26th Dec.).

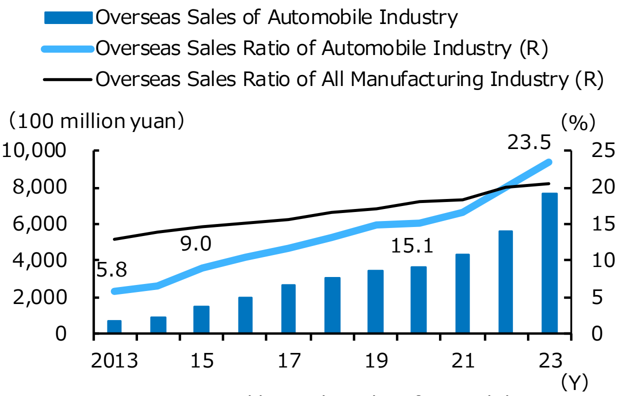
Topics *The overseas expansion of China's auto industry is set to brake*

China's automobile industry is actively expanding overseas, and the share of overseas sales in total sales is rapidly rising thanks to strong cost performance. However, the pace of overseas expansion is expected to slow due to trade friction and other issues.

■ Rapidly rising overseas sales ratio for the Chinese auto industry

China's automobile industry has long been positioned as a domestic demand-oriented industry. According to the financial data of 187 listed automobile companies in mainland China, in 2013 domestic sales were 1,210.7 billion yuan and overseas sales were 74.3 billion yuan, so overseas sales accounted for only 5.8% of the total (overseas sales ratio). In the same year, the average overseas sales ratio of 3,597 listed manufacturing companies was 12.8%, so the auto industry's overseas sales ratio was much lower than the average in the manufacturing industry.

<Overseas Sales Ratios of Chinese Companies>



Source: Prepared by JRI based on financial data from 187 listed companies in the autombile industry and 3,597 listed manufacturing companies, as well as on data from Wind

However, in recent years, the Chinese automobile industry has been actively expanding its overseas operations due to sluggish domestic sales. Although the number of new car registrations in China increased significantly from 4.34 million units in 2003 to 20.31 million units in 2013 thanks to a surge in household income, momentum waned markedly in the face of a worsening employment and income environment and government restrictions on engine-powered vehicles, and Chinese auto market growth remains sluggish, with only 24.53 million vehicles sold in 2023. This situation prompted Chinese automakers to start making serious attempts to develop overseas markets.

As a result, by 2023, the domestic sales of 187 automakers had risen only relatively modestly to 2,505.2 billion yuan, while their overseas sales had jumped to 769.6 billion yuan, causing the overseas sales ratio to soar to 23.5%. This is higher than the average overseas sales ratio in the manufacturing industry, which was 20.5% in the same year. In this way, China's automobile industry has undergone a major structural transformation into an export-oriented sector.

According to the China Association of Automobile Manufacturers, China's vehicle exports rose from 980,000 units in 2013 to 4.91 million units in 2023, and further increased by 23.8% year over year (YoY) in January-October 2024. Given this pace, exports are expected to have reached 5.5 million units in 2024.

Regarding export destinations, Russia and Eastern Europe, South and Central America, the Middle East, and Southeast Asia top the list. According to China's General Administration of Customs, the biggest destination for automobile exports from January to October was Russia, at 960,000 units (on a customs basis, same below). Russia is a market that Japanese, U.S., and European automakers withdrew from one after another. Next was Mexico at 390,000 units, a figure that includes cars that will eventually be sold in the U.S. Mexico was followed by the UAE at 260,000, Belgium at 250,000, Brazil at 220,000, Saudi Arabia at 220,000, the U.K. at 170,000 in the UK, Australia at 150,000, the Philippines at 140,000, Turkey at 110,000, Thailand at 100,000, and Malaysia at 100,000.

As for the types of vehicles exported, electric vehicles (EVs) accounted for 1.9 million units, or 36.0% of the total. Reflecting the Chinese auto industry's concerted focus on EVs as it expands overseas, the share of EVs in automobile exports has risen further from the 34.0% recorded in the full year of 2023.

■ The strength of Chinese automakers lies in cost performance

Regarding the trends with major automobile manufacturers in overseas expansion, SAIC Motor has been focusing on developing its business abroad since domestic sales peaked in 2019. Since around 2020, it has been exporting EVs developed and produced in China under the MG marque, which it obtained through an acquisition in 2007.

The MG marque originated in the U.K, and MG-badged EVs have won plaudits for their good cost performance, as despite being of comparable quality to European manufacturers' EVs, they sell for slightly lower prices. According to Fourin, which surveys the global automotive market, sales of MG-badged vehicles in 2023 were 220,000 units in 20 Western European countries, mainly the U.K. and France, 60,000 units in Mexico, and just under 60,000 units in Australia.

SAIC Motor sold a total of 600,000 cars overseas in 2023, but only produced 110,000 cars overseas, mainly in India, Indonesia, and Thailand.

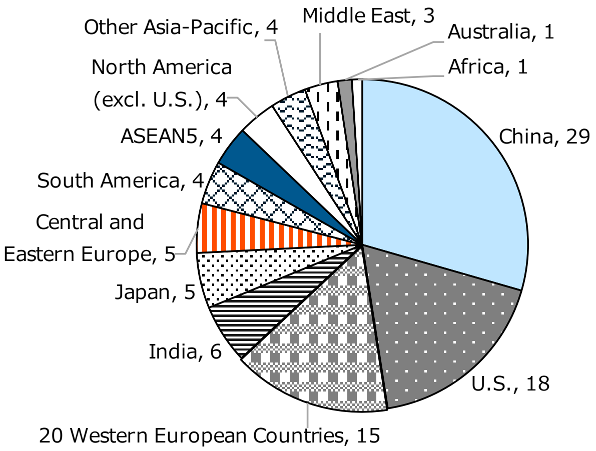
BYD, which mass-produces EVs that offer strong cost performance and holds the top market share in the Chinese EV market, exports its own-brand EVs. In 2023, it sold a total of 100,000 cars overseas. Exports are mainly to ASEAN countries, the Middle East, Oceania, and other regions where the risk of trade problems arising is small. By country, Thailand ranked first as an export destination with 30,000 units, Israel second with 15,000 units, and Australia third with 12,000 units. Exports to North America were zero, and just 17,000 units were exported to Western European countries. Although BYD was not producing any vehicles abroad as of 2023, the company has announced that it will be investing in Eastern Europe, the Middle East, ASEAN countries, and other regions to expand its overseas output.

■ The pace of overseas expansion will slow in the future

Leveraging its cost performance as a strength, China's automobile industry is aggressively expanding into markets where potential trade problems are less of a concern, such as Russia, Eastern Europe, and Southeast Asian countries, but these are not particularly large markets.

According to Fourin's "World Automotive Statistics Annual 2024," car sales in 90 countries around the world in 2023 totaled 88.33 million units, of which 4.26 million, or just 5% of the total, were sold in Central and Eastern Europe, including Russia. In addition, sales in the ASEAN5 countries only amounted to 3.47 million units (Indonesia: 1.01 million, Malaysia: 800,000, Thailand: 780,000, Philippines: 440,000, Vietnam; 400,000), or 4% of the total. Several Chinese automakers have flocked to these markets at the same time, and although their sales have increased significantly so far, there is a high possibility that the markets will soon hit a ceiling, causing a deterioration in the supply-demand balance.

<Shares of Global Market by No. of Vehicles Sold>
(2023, %)



Source: Prepared by JRI based on Fourin, "World Automotive Statistics Annual 2024"

Meanwhile, in the huge U.S. market, which accounts for 18% of the world market, and in the 20 countries of Western Europe, which account for 15%, the intensification of trade frictions will hinder the expansion of Chinese automobile manufacturers. Considering that 29% of the world's cars are sold in China, the expectation is that Chinese automakers that are currently focusing on overseas expansion will sooner or later return to a strategy that prioritizes the domestic market.

Overall, the pace of overseas expansion of the Chinese automobile industry is expected to slow significantly in the future, mainly due to trade problems with developed countries in the West and the deterioration of the supply-demand balance in emerging countries.

(Shinichi Seki)

Topics Production transfer from China to Vietnam: expectations and risks

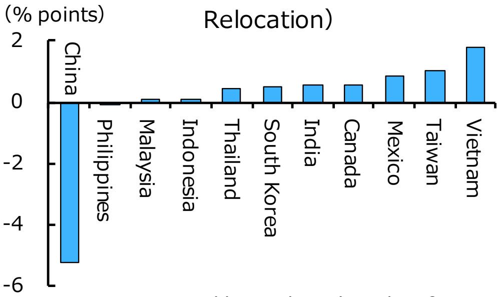
As U.S.-China animosity intensifies, Vietnam is highly attractive as a destination for relocating production from China. However, there are risks on the supply side in Vietnam, creating opportunities for other Asian countries, including Japan, to expand production.

■ Vietnam offers strong advantages as a production center

The U.S. government is ramping up pressure on China. Under the first Trump administration, which lasted for four years from 2017, tariffs were raised on many Chinese products with the aim of protecting domestic industry. Furthermore, the subsequent Biden administration maintained the hardline stance toward China in order to preserve the competitiveness of the U.S. in high-tech sectors. Such trade policies have drastically changed the nature of business with China, and resulted in global companies reviewing their China-centered supply chains and stepping up the relocation of production facilities elsewhere.

In response to these trends, the U.S. trade structure is changing. China's share of total U.S. imports plunged from 21.6% in 2017 to 13.9% in 2023. Conversely, the shares of Asian countries other than China as well as Mexico and Canada have seen their shares expand. In particular, Vietnam's share of U.S. imports has risen significantly, demonstrating that the relocation of production facilities from China has been progressing. Imports of audio/image receivers into the U.S. from China have declined significantly, but Vietnam has been the biggest winner in replacing China as a source of imports for these products. Imports from Vietnam of machine parts, televisions, and other products for which imports from China have declined markedly have also surged. Vietnam can be said to have dramatically enhanced its function as an alternative to China as a global production center, especially in electrical machinery.

<Changes in Shares of U.S. Imports> (Before and After Production Relocation)



Source: Prepared by JRI based on data from the U.S. Department of Commerce
Note: Margins of change from averages for 2016-18 to averages for 2021-23.

The supply chain restructuring trend is expected to continue into the future. President-elect Trump has declared that he will raise tariffs on Chinese goods to 60%. If this happens, not only will moves to relocate production of goods that are already subject to tariffs accelerate, but such moves will probably also spread to goods that are subject to the new tariffs. With many of the goods for which imports from China to the U.S. had increased significantly, imports from Vietnam have also risen sharply, which suggests that Vietnamese products can compete with Chinese ones. If the US government imposes high tariffs on Chinese products for which tariff rates are currently low, Vietnamese products could be prime candidates to make inroads on China's share of U.S. imports.

Even before the U.S.-China clash intensified, Vietnam was attracting attention as a destination for relocating production from China due to such factors as 1) cheap labor, 2) proximity to China, and 3) the conclusion of trade agreements. If the U.S. raises tariffs on China further, Vietnam is

<Rankings of Countries that Have Increased Exports to The U.S. Alongside China>

Item	1st	2nd	3rd
PCs	Vietnam	Taiwan	Canada
Lithium-ion Batteries	South Korea	Hungary	Japan
Smartphones	Vietnam	India	Japan
Video Game Devices	Vietnam	Malaysia	Japan
Other Pharmaceuticals	Switzerland	India	Slovenia
Three-wheelers and Scooters	Vietnam	Indonesia	Mexico
Earphones	Vietnam	Thailand	Mexico

Source: Prepared by JRI based on data from the U.S. Department of Commerce
Note: Averages for 2016-18 were compared with averages for 2021-23, and the top seven items for increase in contribution were extracted. Then, the top three countries for increase in contribution to exports to the U.S. were listed.

likely to gain even more of an advantage as a production relocation destination.

■ A rapid expansion in manufacturing output in Vietnam also poses risks

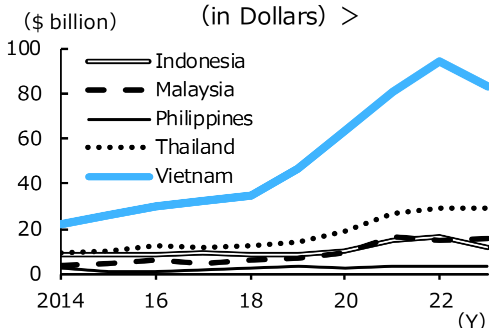
However, there are also risks associated with a rapid transfer of production to Vietnam. Above all, because the factors of production, such as labor and capital, are on a much smaller scale in Vietnam compared to China, rapid relocation could cause supply constraints to emerge in various areas. Among them, particular attention needs to be paid to the following three constraints:

The first is the potential for labor shortages. Although Vietnam's population continues to grow, the pace of growth of both the total population and the working-age population has slowed. Until now, Vietnam has seen an increasing concentration of labor-intensive industries, and the country's abundant and cheap labor has attracted investment, but labor shortages may hinder the expansion of production.

The second is problems with power supply. Vietnam's power generation capacity remains low compared to neighboring countries, and a surge in production relocation would likely see electricity demand outstripping supply. The heavy reliance on hydroelectric power generation, which is affected by the amount of rainfall, and delays in putting together power infrastructure development plans could lead to electricity shortages in the future.

And the third is that the spike in exports has widened trade imbalances. The Vietnamese economy is increasingly dependent on exports (as measured by export value to GDP), with the value of exports having risen to 80-90% of GDP. In response to a big increase in Vietnam's trade surplus with the U.S., the U.S. Treasury, in its foreign exchange report published in November 2024, has put Vietnam on the Monitoring List for currency manipulation. If the U.S. further ramps up trade pressure, Vietnam's exports to the U.S. could be restricted.

<Trade Surpluses with The U.S. (in Dollars) >



Source: Prepared by JRI based on data from CEIC

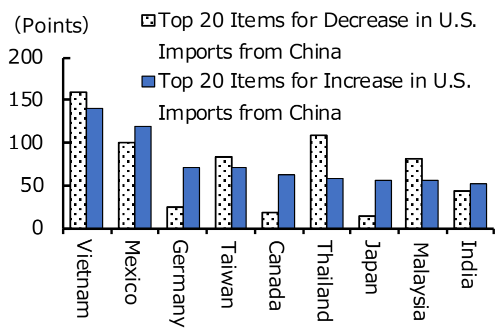
■ Production could also be transferred to countries/territories other than Vietnam

If supply-side constraints in Vietnam become apparent, there will be opportunities for other countries/territories to lure companies. After extracting the top 20 items in terms of margin of increase/decrease of imports from China by the U.S., other countries/territories were ranked according to the amount of the increase in imports of these items from them, and scores were assigned based on the rankings (1st place = 10 points, 2nd place = 9 points, ... 10th place = 1 point). These scores indicate the level of advantage of each country/territory as a production relocation destination. For goods for which imports from China have been declining, the scores show which countries have benefited from the transfer of production from China so far, and they indicate that Vietnam, Thailand, and Malaysia have been beneficiaries. Meanwhile, for goods for which imports from China have been increasing, high scores denote strong candidates as production relocation destinations should China lose competitiveness as a result of future tariff hikes. The scores indicate that in Asia, countries/territories such as Taiwan, Thailand, Malaysia, and India, etc. could benefit from the relocation of production, particularly of electronic devices, but they also suggest that Japan could be a leading candidate for production transfer in fields such as storage battery-related products.

For global companies, Vietnam will remain an attractive option as an alternative production base to China for the time being, but when Vietnam's supply-side constraints are factored in, it can also be said that other Asian countries/territories, including Japan, will also be candidates for the relocation of production facilities.

(Kazushi Morita)

<Scoring of Production Relocation Candidates>



Source: Prepared by JRI based on data from the U.S. Department of Commerce