China’s New Energy Vehicle sector takes centre stage

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Against the background of a pandemic-induced contraction in the global auto industry, China’s New Energy Vehicle (NEV) market has bucked the trend, closing 2020 with growth of 13% year-on-year. Supportive government policies were one of the main driving forces behind this expansion, but the rapidly changing nature of the NEV sector was also a major contributing factor.

One of the critical developments is the arrival of NEV-specific platforms. In the past, most vehicles in the sector were built on traditional vehicle platforms, with modifications to the chassis and appearance. This lack of distinction did little to attract buyers, resulting in weak sales volumes. Key examples are the Volkswagen Lavida and Ford Territory. But as automakers began to appreciate the importance of the NEV market, they focused on developing bespoke platforms such as the Volkswagen MEB, the BYD e and the GAC GEP. These tailored architectures have brought a new level of competitiveness to the sector and will help to bring vehicle costs down over the longer term.

Another critical factor is the improvement in product quality. To take advantage of government subsidies, most NEVs launched by the domestic brands in China were previously destined for use by leasing companies, with most models belonging in the low-cost and economy segments. These segments once accounted for 56% of the overall NEV market, but – based on the latest insurance data figures – this ratio has now declined to 43.5%. This contrasts with 56.2% for the Premium and near-Premium segments in 2020, with the Tesla Model 3 leading the way. When it comes to Intelligent Connected Vehicles, the technology has evolved significantly, with driver monitoring systems becoming increasingly more sophisticated year after year. This is particularly true of Chinese startups, such as NIO, XPeng and Weltmeister, whose collective penetration of the BEV market reached 10% last year.

Further support has come from clearer and more realistic government measures. One example is the local government of Shanghai’s recent release of an ‘implementation plan for accelerating the development of the NEV industry (2021-2025)’. One might argue that the industry is no longer focused solely on purchase subsidies, with infrastructure, parking fees and driving restrictions taking on greater importance.

Finally, the rapid increase in NEV credit value has also influenced the expansion of the market. In 2019, NEV credits were worth around CNY500-800, but this has now risen to CNY3,000.

As these various developments become increasingly entrenched, they will drive further expansion of the NEV market, leading us to forecast growth of around 55% in 2021, on total sales of approximately 2 million units.