

THE BIG PICTURE:

- China and US exchange new blows in trade face-off, with China adding new levies on US sorghum whilst Washington bans business with telecommunications maker ZTE Corp.
- Q1 data: China grows 6.8%, beating the market consensus from strong construction and manufacturing sectors. Slowing services and fixed asset investment, however, suggest a slower growth prospect for H2.
- PBOC cuts reserve rate requirements for China's commercial banks by 1% (effective April 25th), releasing up to \$200 billion of capital into the economy to counter any approaching economic slowdowns.

TOP STORY

CHINA BEGINS OPENING UP OF AUTO INDUSTRY BY RELAXING FOREIGN OWNERSHIP CAPS

- During his address at the annual Boao Forum in Hainan, President Xi Jinping made explicit reference to China's auto industry and his intention to **increase foreign firms' access to it 'as soon as possible'**.
- Beijing began to enact these pledges by laying out plans to **lift foreign ownership requirements on Chinese car manufacturers**, which currently compel external companies to enter into 50-50 joint ventures with domestic partner firms should they desire to operate in China.
- By the end of this year all current caps, introduced in the early 1990s to protect and nurture incipient Chinese carmakers, will be lifted on **electric vehicles, shipping, and aircraft makers**. The policy will be extended to commercial vehicles by **2020**, and to passenger vehicles by **2022**.
- Following the announcement U.S. and German companies **saw their shares rise**, including brands such as VW, Audi (VW-owned), BMW and Mercedes, for whom China is their largest market.
- A removal of the joint-venture condition will allow foreign firms to keep all profits made within China and pursue their own corporate interests without compromising with local partners. **For this exact reason Chinese state-run car makers have long opposed any relaxing of the existing regulation**, which protects the profits they earn from mass-producing foreign-brand cars for the enormous domestic market.
- Given the end-of-year deadline to lift caps on EV, **firms such as Tesla**, which started the week by recalling close to 9,000 models sold in China, **are expected to benefit**. CEO Elon Musk has been negotiating with the Shanghai authorities for over a year for the rights to establish an assembly plant in China but has not come close to a deal due to disagreements over the factory's ownership structure.
- Freedom from local partners may not be entirely beneficial, however, especially for companies that have relationships going back decades. **Last week an executive of General Motors, who have been in business with Beijing-based SAIC Motor Corp. since 1997, said that the US auto giant attributes its growth in China to "working with our trusted joint venture partners," and that it would not go it alone even without the ownership caps.**

OTHER INDUSTRY DEVELOPMENTS

Big month for car sales

- vehicle sales in China were up 4.7% year-on-year in March, according to the China Association of Automobile Manufacturers (CAAM), a sharp uptick in growth compared to the sluggish 1.7% rise posted in January and February, most likely attributable to distortions from the Chinese New Year holiday and a tax hike on small vehicles.
 - the CAAM forecasts that vehicles sales are on track to grow 3% over the course of 2018, equalling last year's growth rate, but far below the enormous 15% rise in 2016.
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EV sales particularly strong

- sales of electric vehicles and plug-in hybrids surged 117% to roughly 68,000 vehicles in March.
 - EV deliveries jumped 106% from a year earlier to around 52,000 while plug-in hybrid sales soared 167% to about 16,000, the China Association of Automobile Manufacturers said.
 - for the entire first quarter, EVs and plug-in hybrids sales were around 143,000 nationwide, a roughly 50% increase on Q1 2017. EV deliveries rose 131% to top 102,000 while plug-in hybrids jumped 243% to over 40,000.
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Guangzhou issues 2025 plan to boost NEV production

- the Guangzhou government published its strategy to increase the city's annual NEV output to 1 million vehicles by 2025, making it one of the top three Chinese cities in the industry.
 - the strategy also includes efforts to begin mass-production of intelligent-connected vehicles and equip 80% of new NEVs with L1 to L4 autonomous driving systems. Project financing will be assisted by an innovation development fund set up by the local government.
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Alibaba-backed EV start-up eyes big investment this year

- Chinese electric vehicle producer Xiaopeng Motors has plans to fundraise RMB17 billion (\$2.7 billion) this year, with investment being led by tech giants Alibaba and Foxconn.
 - speaking at the Boao Forum, company founder He Xiaopeng said that pre-sales of the first model will begin by the end of April.
 - as of January, the start-up collected RMB5 billion, RMB2.2 billion coming from Alibaba and Foxconn combined.
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Tesla to recall close to 9,000 Model S in China

- on Monday China's auto regulator said that Tesla will recall 8,898 Model S vehicles from the country beginning June 28th, with additional recalls in other countries.
- Tesla plan to recall 123,000 Model S sedan cars built before April 2016 due to a defect in the car's power steering component by which some bolts used could corrode in very low temperatures.

China lays out rules for self-driving vehicles

- the Ministry of Industry of Information Technology delineated China's national guidelines for trials of driverless cars.
 - according to the guidelines: vehicles must first undergo testing in non-public zones; road tests are restricted to designated low population streets; and a qualified driver must be in the driver's seat at all times in case of emergency.
 - safety was labelled as a "top priority" by the ministry, following two lethal crashes in the US involving Uber and Tesla.
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Ford targets Chinese market with five new models

- at an event in Chongqing, Ford Motor Co. revealed five new models targeting China's domestic market, in a bid to reverse lagging sales figures in the country. The five new models are the first instalment of a programme to launch 50 new or redesigned cars by 2025. Yesterday's models, all either hatchback or sedan, are expected to go on sale later this year.
 - "these launches are a testament to Ford's ongoing commitment to China's critical midsize car market," said head of Ford's Asia-Pac operations Peter Fleet.
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