



# German auto industry

## Output in China exceeds domestic production

March 9, 2020

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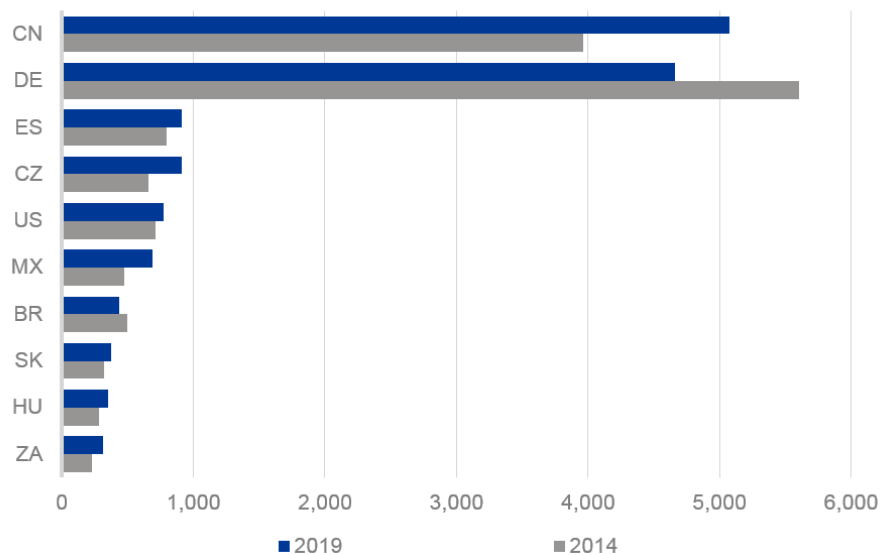


In 2019, German carmakers produced significantly more cars in China than at home. China remains by far the most important foreign production site for the German auto industry. While foreign production is likely to rise further, recent development of domestic production gives cause for concern.

2019 was the first year in which German carmakers produced considerably more passenger cars in China than at home (in 2018, production figures in China exceeded output in Germany only by a small margin). While the aggregate car output by German companies in China fell by 0.9% during the past year, to 5.08 million vehicles, production in Germany slid for the second year in a row, by about 9% to only 4.67 million passenger cars. Thus, domestic production dropped below 5 million for the first time since the recession year 2009 and was lower than in any other year since 1996.

### German auto industry: Output in China exceeds domestic production

Vehicle production by German carmakers (corporate brands) by countries, '000



Source: VDA

During the last few years, China's importance as a production site for the German car industry has steadily increased. Back in 2014, only about 4 million cars bearing a brand of German carmakers were produced in China. The



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country is far ahead of Spain, the Czech Republic and the US in the list of most important foreign production sites (see chart). Most of the cars produced in China are sold there.

Overall, German producers have increased their foreign production considerably over the last few years. In 2019, it was more than 200% higher than in 2000. In contrast, domestic car output was down 9% in 2019 compared to 2000. In 2019, total foreign production by German carmakers exceeded domestic production by more than 140%.

There are many reasons why German companies are increasingly producing their cars abroad. Eastern European locations benefit from a cost advantage. In addition, investments abroad are often a way to get a foothold in local markets. This applies, for example, to China, where local content requirements make it necessary to ensure a certain degree of local value creation. Supply in the US, too, comes largely from US factories of German carmakers. Moreover, German companies deliver to other countries from the US. Foreign production sites also help to avoid tariffs and non-tariff trade barriers. For these reasons, German companies are likely to expand their foreign production further.

During the last few years, the expansion of the German auto industry abroad did not necessarily affect the domestic output. In fact, an aggregate output figure of more than 5 million passenger cars is quite satisfactory for a mature, cost-intensive car market. The production index, which also includes suppliers and qualitative components, such as better equipment, rose 30% in real terms between 2000 and 2019. However, developments in Germany over the past two years give rise to concerns, as they might indicate the beginning of a structural weakness. During the last few years, several factors on the expenses side have deteriorated in an international comparison (take, for example, wage costs, corporate tax rates or electricity prices). Moreover, the growing importance of e-mobility will probably lead to a loss of value added in Germany. Overall, the German auto industry seems to be better prepared for the challenges of the future than Germany as a car production location.

Turning once again to China, the coronavirus outbreak will probably dampen German carmakers' output in China in 2020. According to media reports, car sales slumped by more than 90% year-on-year in the first half of February. However, this temporary external shock will change nothing about the long-term trend that China, as a production site for German carmakers, will gain importance compared to Germany.

See also: [E-mobility: Remaining a niche phenomenon for now – at least without subsidies](#)

Original in German published on March 6, 2020: "Deutsche Autoindustrie: Produktion in China überflügelt heimische Fertigung"



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