



## 2016 Top Markets Report **Recreational Transportation** Country Case Study

### China

China's recreational transportation market has undergone major changes the past several years, including a national focus on the development of tourism, campgrounds and the RV industry. ITA plans to continue working with the industry to address China's high duty and tax rates for recreational imports and regulatory and standards issues to leverage increased opportunities for U.S. exporters.



#### Recreation Vehicles (RVs)

China's RV market has undergone significant changes over the past several years, including a national focus on the development of tourism, campgrounds and the RV industry. With a growing demand for RVs and a shift in consumers' travel preferences, tourism experts in China anticipate a surge of RV-related businesses in the coming years. More people are choosing to explore the countryside and hit the roads with recreational vehicles.<sup>1</sup>

China's domestic RV market is in the early stages of development. Chinese consumers purchased an estimated 21,000 RVs by the end of 2014, and this number could reach 300,000 by 2020. China's growing economy and rising middle class are fueling an increasing demand for leisure-related goods and activities, such as RVs and RV camping.<sup>2</sup>

In 2015, China ranked sixth as a destination market for U.S. RV exports. ITA expects U.S. RV exports to China to increase to \$11 million in 2018 with a CAGR of 12 percent.

China currently has about 40 RV manufacturers, comprised mainly of converters and specialty vehicle makers. Domestically produced RVs dominate the marketplace, accounting for about 60 percent of overall RV sales. Chinese manufacturers offer a variety of products, from towable RVs to motorhomes, ranging in price from about RMB 44,500 to over RMB 2 million (\$6,800 to over \$304,000).<sup>3</sup>

Despite the growing popularity and demand for RVs, China had only about 200 campgrounds nationwide at the end of 2014. Less than 50 of these were RV-ready. The lack of an adequate RV infrastructure has led to unrealized downstream goods and services needed by RV travelers (such as camping equipment, clothing, gasoline, food, etc.).<sup>4</sup>

In addition to the shortage of campgrounds, growth of the RV industry has also been hampered by the lack of standards and a regulatory framework governing the manufacture and use of RVs. Although some government agencies have adopted their own rules and regulations for RVs, these are not uniform across agencies. Also, existing standards and regulations commonly are based on motor vehicle-related standards without regard to the unique characteristics of RVs.

China has made a push in recent years to develop domestic tourism, including campgrounds and the RV industry. At the national level, China's State Council has repeatedly called on accelerating development of the tourism industry and specified that China should vigorously support the emerging tourism industry, including RVs.

Campground development has received great support from the government in China. In August 2014, the State Council called for the development of campgrounds and campground standards and an updating of existing requirements on travel trailers. In October 2014, it called for "building auto campsites and RV campgrounds," and it included RVs and camping among one of the six growth areas the government is focusing on in an effort "to promote consumer spending on tourism and leisure activities."<sup>5</sup> Also, in August 2015, the State Council set a goal of establishing 1,000 RV campgrounds by 2020 nationwide as part of China's 13<sup>th</sup> Five Year Plan (2016-2020). In a recent government work report (March 6, 2016) presented at the annual session of the National People's Congress, Premier Li Keqiang reiterated the government's support for developing campgrounds in the country.

In addition to public funding for campground development, the government has recently begun promoting private-public partnerships to speed up the development of campgrounds. Also, the Chinese automotive industry has listed RVs as a key emerging sector to boost healthy, rapid and stable development.

At the local level, large cities, such as Beijing and Shanghai, have been actively involved in efforts to develop tourism, campgrounds and the RV industry. In October 2014, the first campground for RVs in Shanghai opened on Chongming Island. It features recreation areas that offer a range of activities for RV owners and visitors wanting to rent RVs onsite.<sup>6</sup>

Newly developed campgrounds continue to emerge monthly across China. Among these include sites in the Anhui, Guizhou, Heilongjiang, Hebei, Henan, Liaoning, Ningxia, Sichuan, Yunnan and Zhejiang provinces. National and local tourism officials have plans to develop other campgrounds in a number of other locations, as well.<sup>7</sup>

## Motorcycles

China has a large per capita usage of "two-wheelers". Virtually all of these, however, are small, two or four-stroke motorcycles producing high levels of emissions and are relatively underpowered when compared to the increasing numbers of autos. This has led to increasing concern over smog, overcrowding on roads and increased accidents on highways.

In addition, as the standard of living has risen in China, the demand and trade in heavyweight motorcycles has risen as well. The explosive growth of China's emerging middle class has brought sweeping economic change and social transformation, and it is not over yet. By 2022, it is projected that more than 75 percent of China's urban consumers will earn \$9,000 to \$34,000 a year. Furthermore, the upper middle class will account for 54 percent of urban households and 56 percent of urban private consumption.

U.S. exports of motorcycles and parts to China were \$10 million in 2015. U.S. motorcycles peaked in 2013 at \$21 million, which was a CAGR of 36 percent from 2009 to 2013. Since 2013, however, the CAGR was -18 percent. ITA estimates that such exports will increase again, reaching \$12 million in 2018 and growing 8 percent annually. If some improvements on the regulations on usage in cities are made, U.S. exports will easily experience double digit growth.

## Recreational Marine

China has over 11,000 miles of coast line and 32,000 square miles of inland freshwater lakes and rivers. The country has the potential to be a huge market for recreational boats. Unfortunately, there are only 90 marinas and 7,000 wet berths/slips, drystack and drysail berths. By comparison, Brazil has less than half the coastline and freshwater but has 540 marinas and 67,000 similar berths. In addition, China's GNI per capita is slightly less than Brazil at only \$7,400.

The current boat park (registrations) in China is 53,836, of which 58 percent are inflatables, 32 percent outboard motorboats, 7 percent inboard motorboats and 3 percent sailboats. There are over 180 boat builders with virtually all of them producing inflatable boats for both domestic and export purposes.

China imports most of its non-inflatables. Perhaps because there is a lack of adequate marinas and boat

slips, the import market is dominated by yachts and super yachts. The average unit price of boats entering China from the leading suppliers, Italy and France, were over \$970,000 and \$440,000, respectively. The United States was the fourth largest supplier, but the average unit price of its boats was just over \$18,000.

As the number of middle class families increases so too does the potential for more boat sales. In addition, the lending rate is 6 percent, which is rather low given the per capita income of China. Those consumers that have access to loans should have a relatively good rate to pay back the loan.

U.S. exports of recreational marine products to China were \$53 million in 2015, which was a CAGR of 19 percent from 2009 to 2015. ITA estimates that such exports will reach \$66 million in 2018, growing 8 percent annually.

## Challenges and Barriers to Exports

### RVs

The biggest challenge U.S. exports face in China is the country's duty/tax rates for imported RVs. These rates are very high and essentially price most potential Chinese RV buyers out the market. U.S.-made RVs would be very competitive (compared with China-made RVs) if these duties and taxes were lowered.

Currently, motorhomes are subject to an import duty rate of 25 percent, a value-added tax of 17 percent and a consumption tax (up to 40 percent). As a result, imported motorhomes in China can cost up to three times more than the same units sold in the United States when insurance and freight are included. (China does not have a separate tariff classification and duty rate for motorhomes, so they are treated the same as imported automobiles).

Imported travel trailers can cost up to two times more, as they are subject to an import duty of 10 percent and value-added tax of 17 percent in addition to insurance and freight. In comparison, travel trailers enter the United States duty-free, and motorhome imports receive a 2.5 percent duty rate.

Another challenge for U.S. exporters is that China has few dedicated standards and regulations for the manufacture and use of RVs. China's standards system has multiple levels (national, industry, provincial and

city), and each level has mandatory and recommended standards. The few RV-related standards that exist either incorporate outdated ISO standards or reference automobile standards. China is currently in the process of reviewing and/or writing RV-related standards to catch up with the market. According to Chinese standards developing organizations, they plan to have most of the necessary RV standards in place within three years.

The regulatory challenges include registration and licensing requirements for RVs. China does not have a separate category for motorhomes. Passenger vehicles are categorized by the number of seats and vehicle exterior length. For most Class A and Class C motorhomes in China, a Class A or Class B driver's license is required while the majority of drivers have a Class C driver's license. Licensing for travel trailers is inconsistent, as they are often treated as commercial vehicles depending on the length of the car and trailer.

Vehicle registration can be a challenge in China. Large cities, like Beijing and Shanghai, limit registrations via a lottery system. While smaller second and third tier cities do not limit registrations, this can still be difficult because registration officials in those cities are often unfamiliar with RVs.

Another challenge is highway toll fees. For motorhomes, fees vary according to the size of the vehicle. For travel trailers, even though China's road safety law allows the towing of trailers weighing up to 750 kilograms, toll station personnel often are not familiar with the law and thus, do not allow travel trailers to enter highways. At present, travel trailers are primarily being used in China for destination camping in campgrounds. They are delivered to a campground and rented out for use by campground visitors, remaining there permanently.<sup>8</sup>

Testing and certification requirements for the China Compulsory Certification (CCC) mark also have been a challenge for U.S. manufacturers. The certification process is very expensive, and it was developed for cars and trucks without taking into account the unique nature of RVs. Less costly CCC procedures for domestic manufacturers compared to foreign manufacturers have put U.S. producers at a competitive disadvantage.

Another concern is growing competition from major global RV manufacturers. As growth in the economies of some leading RV producers has slowed, domestic demand for RVs in these markets has declined. Major

RV producers in some of these countries are actively seeking opportunities in China, including involvement in the country's development of campground and RV standards. Adoption of international standards for RVs and campgrounds in China would pose additional challenges, as these generally are not compatible with U.S. RVs.

The rise of Chinese RV manufacturers poses another challenge. Although Chinese manufacturers entered into the RV market within the last five to ten years, they are advancing quickly and, due to their low cost and understanding of the market, have begun competing for market share among China's early adopters. In 2009, Yutong Bus, a traditional bus manufacturer located in Zhengzhou in the Henan Province, established a branch company for manufacturing RVs and specialty vehicles. After six years of development, Yutong now claims a growing share of the Chinese market. Competitive pricing, much shorter lead-time compared to U.S. imports, and nationwide aftersales services are the major factors that drive domestic industry growth.

### Motorcycles

China has adopted some of the world's most onerous motorcycle restrictions to combat pollution and crowding in its cities. Over 100 cities in China have restrictions on motorcycles. In some areas it is just long-term moratorium on new motorcycle regulations. In other cases, they have implemented motorcycle usage bans within specific geographic areas. While some of the reasons for owning large motorcycles are to enjoy the open countryside, most of the consumers who can afford these motorcycles live in these major urban centers. These regulations may not be national rules; they were adopted following recommendations from policy makers in Beijing.

U.S. manufacturers, such as Harley-Davidson, Victory, Orange County Choppers, Brammo and Zero, produce motorcycles primarily used for long distance touring, leisure and law enforcement. They are engineered to meet or exceed the highest safety and environmental standards. These bikes also serve as a partial solution to overcrowding roads, as more consumers will have the choice of space-taking automobiles or these well-powered heavyweight motorcycles. Due to their different uses and design, however, heavyweight motorcycles present different safety concerns for traffic administrators.

An additional challenge is that Chinese consumers are choosing small electric cars over small motorcycles. That trend may help U.S. manufacturers of electric motorcycles, like Brammo and Zero.

### Recreational Marine

The biggest challenge for the Chinese boating market will be to increase the number of marinas and overall boat berths and slips. Without more places to put new boats, sales will be stagnant. In conversations with the Chinese boating industry officials, there was a belief that the European and U.S. industries were dominated by manufacturers of large yachts. This perception of boats being only for the rich could be limiting the demand for small and mid-size boats. These smaller boats are the driver of the U.S. industry.

Another factor limiting demand for recreational marine products is an owner tax. The tax is assessed on the size of the boat. A boat above 30 meters is assessed a tax around \$275 per meter, which at a minimum would be \$8,250. A boat under 10 meters is assessed a tax of \$80 per meter or as much as \$800.

A final challenge facing the sale of boats in China is the lack of adequate and transparent standards. Current standards are outdated and create products that are less safe than products produced using standards developed by ABYC and the EU. In addition there can be different interpretations of the standards at different ports, so many importers have difficulty knowing what the particular standard is.

### **Opportunities for U.S. Companies**

#### RVs

ITA believes there is great potential for U.S. companies in China. A rapidly growing economy, burgeoning middle class with discretionary income, rising consumer interest in RVs and RV camping, and a national focus on RV and campground development all contribute to making China a key target market for U.S. RV exports.

As noted, the biggest obstacle for U.S. exports is China's high duty/tax rates for RVs. A crucial way to help U.S. companies is to work with RVIA and Chinese officials to have these reduced. Lower duty/tax rates would not only help U.S. exporters, but they would also allow Chinese consumers greater access to a variety of high quality RVs. Increased competition

would also improve the quality of domestically-produced RVs, further enhancing efforts to develop the RV industry and campgrounds.

Also as noted, because China does not have a separate tariff classification and duty rate for motorhomes, these products are treated the same as imported automobiles. The creation of motorhome-only harmonized tariff system (HTS) codes would help clarify within the Chinese government that these products are a distinct category of vehicle. This should also help in other areas where the government regulates motorhomes (e.g., driver's license type, standards, road travel).

Another key way to increase opportunities for U.S. exports is for industry and ITA to continue support of RVIA's programs and initiatives in China under the association's 2015-2018 MCDP award. Under the award (and the previous 2012-2015 MDCP award), RVIA has worked closely and extensively with manufacturers, industry groups and government agencies (at the national, provincial and city levels) on the development of motorhome, travel trailer and campground standards and on RV-related regulatory issues.

On RV standards, RVIA is working closely with manufacturers and China's standards development organizations. On campground standards, RVIA has been involved in the development of China's first national campground standard. At the provincial level, it has worked with the Beijing Auto Camping and Tourism Association (BACTA) in developing campground standards for Beijing.<sup>9</sup> RVIA is also working with standards working groups on the development of campground standards for Shanghai. Additional work is planned on campgrounds standards with a number of other provinces as well. In 2015, the China Automotive Technology and Research Center (CATARC) invited RVIA to become a member of the RV Standards Working Group. RVIA's involvement in these standards development efforts should leverage additional opportunities for U.S. companies.

Though campgrounds are being developed at a rapid pace across China, most are in the early stages of development, and while many of these have some hook-ups for RVs, most are designed for non-RV visitors. This has created a need at many campgrounds for temporary living quarters, such as RVs, that can be rented out to campground visitors. U.S. companies are

well-positioned to provide these as U.S.-made travel trailers, and park models are viewed in China as being of high quality and well-suited as rental units. Also, because many new campground operators lack expertise, this should create additional opportunities for U.S. companies.

ITA plans to work with U.S. industry to pursue opportunities to ship less costly knock-down units and/or enter into joint ventures with Chinese partners. These are among the ways to help counter some of the growing competition from international manufacturers. As Chinese automakers have begun developing their own RV programs, they are seeking partnerships with U.S. manufacturers.

RVIA has also been involved in work to ease requirements for CCC compliance. Among its efforts include collaboration with the Shanghai Motor Vehicle Inspection Center (SMVIC) to streamline the certification process for RVs.<sup>10</sup> (SMVIC is one of the five agencies in China authorized to perform inspections on imported vehicles.) Less costly and streamlined CCC procedures should create added opportunities for U.S. companies.

Efforts in China to lessen existing regulatory requirements and restrictions on RVs (registration, licensing, toll fees and towing) are expected to follow the recent announcements by the State Council to increase national efforts to develop the RV industry and campgrounds. ITA plans to continue working with U.S. industry to provide support for efforts to remove these obstacles, which would increase significantly the opportunities for U.S. companies.

ITA will collaborate with RVIA to promote RVs and educate consumers and government officials in China about the benefits of RVs and the importance of creating a favorable regulatory environment for RVs. As RVs and campground development have gained increased national focus in China, trade promotion activities, such as outdoor lifestyle events, trade shows and other events that enable the showcasing of RVs, will enable public officials and consumers to learn even more about U.S. RV products.

In September 2015, the United States and China announced a 2016 China-U.S. Tourism Year, a cooperative initiative to expand and shape travel between both countries. ITA plans to work with U.S. industry to develop suitable RV promotional activities

and events under this program to increase opportunities for U.S. companies.

ITA also plans to work with industry in support of RVIA's programs and initiatives under the association's MDCP award to promote the use of RVs for emergency response in China, including post-disaster relief and recovery efforts. U.S. industry has provided RVs for disaster assistance purposes to Japan and other countries as well.

In addition, ITA hopes to bring Chinese buyers to RVIA's National RV Trade Show, which will be held from November 29 to December 1, 2016 in Louisville, KY. The 2016 show is an IBP-Select event (the 2015 and 2014 shows were also IBP-Select events).

China hosts two major RV trade shows: the China Beijing International RV and Camping Exhibition (March) and All In Caravaning (AIC) (June). Beijing International RV and Camping Exhibition is hosted by the Beijing Tourism Development Commission, People's Government of Fangshan and the Beijing China RV & Camping Association. Exhibitors include manufacturers and suppliers from a range of motorized and towable RVs, parts and accessories, and outdoor/camping products, as well as representatives from the campground and park industries.

AIC showcases a variety of products as well, including caravans (also known as travel trailers) and motor caravans (also known as motorhomes), accessories, extension components and campground equipment from manufacturers and suppliers worldwide. AIC is jointly organized by YASN International Co., Ltd. and Messe Dusseldorf (Shanghai) Co., Ltd. European manufacturers and suppliers have major presence at the show.

As part of this collaboration, ITA plans to work with U.S. industry to determine whether AIC or the Beijing International RV and Camping Exhibition would be suitable as a certified show under ITA's Trade Fair Certification program. If so, this would be another way to increase opportunities for U.S. companies in the China market.

### Motorcycles

In 2012, Chinese and American interested parties conducted a workshop in Beijing that addressed China's concerns over the current motorcycle situation

along with the anticipated problems, which will result from the evolving motorcycle country fleet in China. This workshop and future workshops can demonstrate how other economies, which have significant numbers of heavyweight motorcycles, have dealt with these safety issues to create a safe environment that improves safety while improving access.

The upcoming workshops should address all aspects of safety as it relates to operator training programs, licensing, helmet laws and road restrictions. In addition, with the adoption of Asian and global best practices, China's regulators and traffic administrators will have better motorcycle accident data in the future to further improve safety should the need arise.

Keeping this dialogue going should be an important strategy for U.S. export agencies (ITA, the Department of Transportation and the San Francisco Police Department participated in the last workshop). Once Chinese officials realize that these motorcycles will not add to the further pollution and overcrowded city roads, progress can be made. The hope is that this dialogue will lead to city and municipal governments changing their existing policies and removing these bans to allow large motorcycles to be operated in their jurisdictions.

### Recreational Marine

The transformation of China's boat market from an elite luxury yacht market to one driven by demand from middle class families will take time, although coordination between the U.S. government, U.S. industry, Chinese tourism officials and boating marina developers continues to facilitate progress. The continued use of tools like the NMMA's Discover Boating program will help middle class consumers learn about the boating life, likely creating additional opportunities in the future.

If Chinese officials encouraged boating-related tourism, like they have with the RV and campground industry, ITA believes an important opportunity would be created. U.S. industry is encouraged to educate Chinese officials about major market standards, urging them to adopt boating standards along international norms.

### Did You Know?

1. China has recently undertaken a national focus on the development of tourism, campgrounds and the RV industry.
2. Campgrounds are being developed at a rapid pace across China, although most are in the early stages of development.
3. The biggest challenge for U.S. RV exports is China's high duty/tax rates for imported RVs.
4. China hosts two major RV shows: the China Beijing International RV and Camping Exhibition (March) and All In Caravaning (June).
5. Regarding the motorcycle market in China, much of the country's growing middle class live in urban areas.
6. Currently, China lacks marinas and boat slips. As a result, only the wealthy have access to these facilities for the most part.

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<sup>1</sup>Zheng Xin, "RV Enthusiasts at Home on Wheels," China Daily, April 7, 2014.

<sup>2</sup>Robert Paschen, "Kings of the Road: The RV Comes to China," City Weekend, May 14, 2014.

<sup>3</sup>Terril Yue Jones, "China Drives Towards RV Market Boom," Financial Post, June 16, 2012; "Homes on the Wheels," China Daily European Edition, June 30, 2015.

<sup>4</sup>Robert Paschen, "Kings of the Road: The RV Comes to China," City Weekend, May 14, 2014.

<sup>5</sup>RVIA.

<sup>6</sup>Robert Paschen, "Kings of the Road: The RV Comes to China," City Weekend, May 14, 2014.

<sup>7</sup>Ibid.

<sup>8</sup>RVIA.

<sup>9</sup>In 2013, RVIA and BACTA signed a Memorandum of Understanding to work together on campground development in Beijing.

<sup>10</sup>In 2015, RVIA and SMVIC executed a Memorandum of Understanding to streamline CCC requirements for U.S. RVs.