



The automotive market in China

China became the world's largest auto market in 2009. From 2001 to 2010, the compound annual growth rate (CAGR) has been at around 25% and in 2010, more than 18 million auto units were sold. By 2020, the market is set to reach 40 million units.¹ The fast growing auto population provides a huge original equipment manufacturer (OEM) and replacement market for auto parts with opportunities existing for EU SMEs with specialised components and equipment to supply to the leading manufacturers of premium cars.

1. Market size

In 2009, China replaced the US as the world's number one auto market. China sold 18 million vehicle units in 2010, marking an increase of 30% year-on-year. Of these, passenger cars made up 13.8 million units. By comparison, Europe sold 13.3 million passenger cars, marking a decline of 5.5%.² The characteristics of the Chinese auto market are:

1. Fast growth driven by rising household income.
2. The passenger vehicle segment is dominated by foreign brands who take nearly 70% of the market, while the commercial vehicle segment is dominated by domestic brands with over 80% market share.
3. First-time passenger car buyers outnumber repeat buyers by a ratio of 73 to 27 (in 2010).

This report covers the following sub-sectors in the automotive market industry:

Table 1. The automotive segments

Passenger vehicle	Bus	Truck	Semi-trailer tractor	Auto parts
Sedan MPV SUV Crossover	Large bus Medium bus Light bus	Heavy truck Medium truck Light truck Mini truck	GVW <=25t 25t < GVW <= 40t 40t <GVW GVW: Gross vehicle weight	<ul style="list-style-type: none"> • Transmissions • Parts and accessories of bodies • Steering wheels, steering columns and steering boxes • Brakes and servo-brakes and their parts • Shock absorbers

¹ www.wantchinatimes.com/news-subclass-cnt.aspx?cid=1302&MainCatID=13&id=20101013000109

² www.acea.be/index.php/news/news_detail/passenger_cars_registrations_in_2010_55_lower_than_in_2009

				<ul style="list-style-type: none"> • Safety airbags with inflator system and parts • Drive axles • Clutches and parts • Mufflers and exhaust pipes • Bumpers and parts • Radiators • Wheels including parts and accessories • Safety seat belts • Non-driving axles and parts • Mounted brake linings • Brake system parts • Chassis fitted with engine • Bodies for motor vehicles
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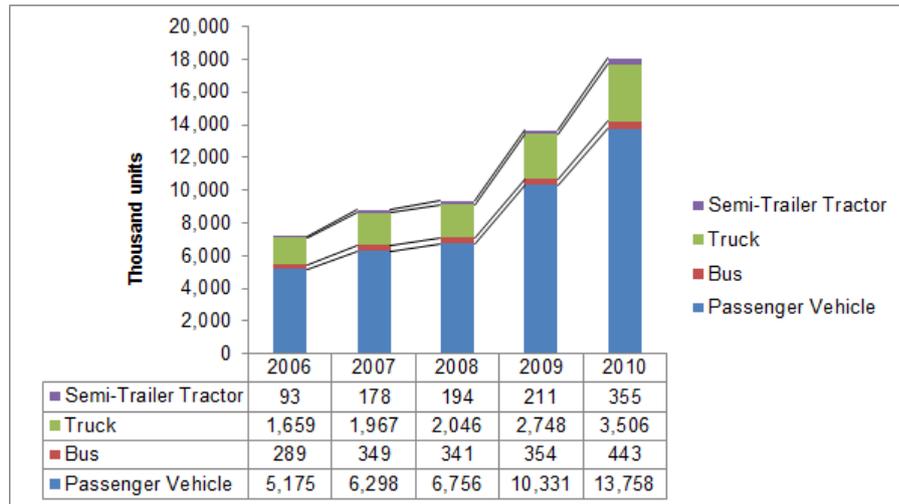
Note:

Crossover	Includes mini buses with seating capacity of nine persons and below
Large Bus	30 seats or more
Medium Bus	10 to 29 seats
Small Bus	9 seats or less
Heavy Truck	14 T <= GVW <= 100T
Medium Truck	6 T <= GVW <= 14T
Light Truck	1.8 T <= GVW <= 6T
Mini Truck	GVW < 1.8T

1.1 Vehicle sales in China

China’s auto industry has seen rapid development at an overall CAGR of 26% from 2006 to 2010. Passenger vehicles accounted for 76% of total auto sales in 2010, followed by trucks, buses and tractors with a share of 19%, 2.5% and 2% respectively.

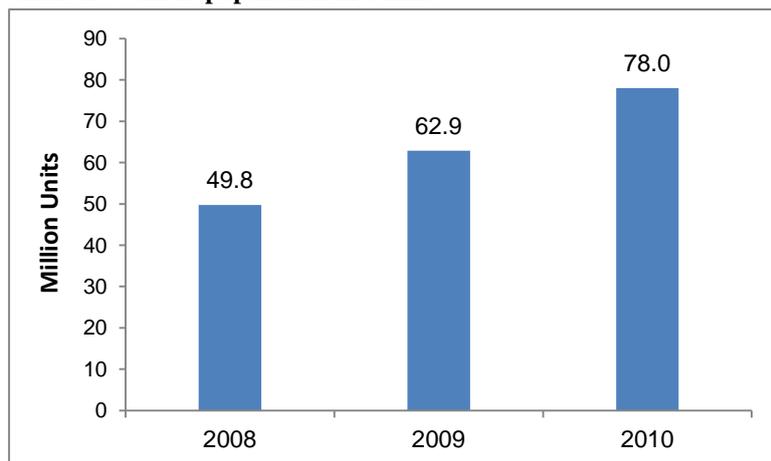
Chart 1: Vehicle sales in China



Source: China auto 21st century publication 2006-2011

As a result of the fast-growing auto sales during the past years, China’s auto population grew steadily and quickly. The Ministry of Industry and Information Technology (MIIT) reported that the auto population in China exceeded 70 million units by the end of 2010 and is forecast to exceed 200 million by the end of 2020 driven by fast economic growth, lower pricing and strong demand from regional cities.

Chart 2: Vehicle population in China



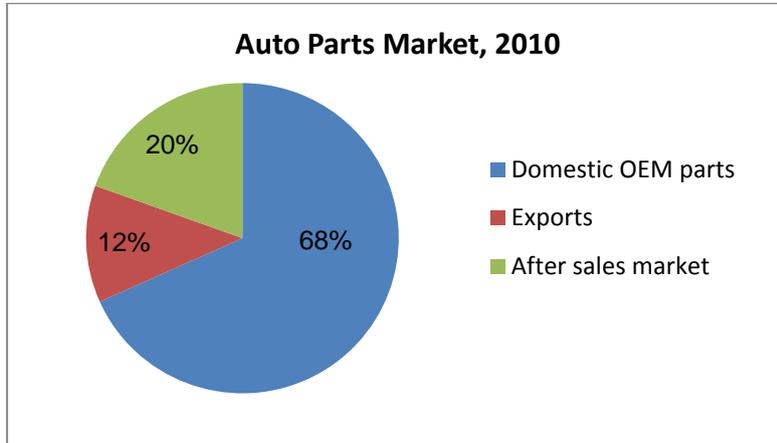
Source: China auto 21st century publication 2008-2011

1.2 Auto parts sales in China

There are three segments in the auto parts market: domestically made OEM parts for the Chinese market, exported parts and after-sales replacement parts, with a market size of RMB 1,400 billion

(EUR 170bn),³ RMB 250 billion (EUR 30bn), and RMB 400 billion (EUR 48bn) respectively in 2010.

Chart 3: Auto parts market by segment, 2010



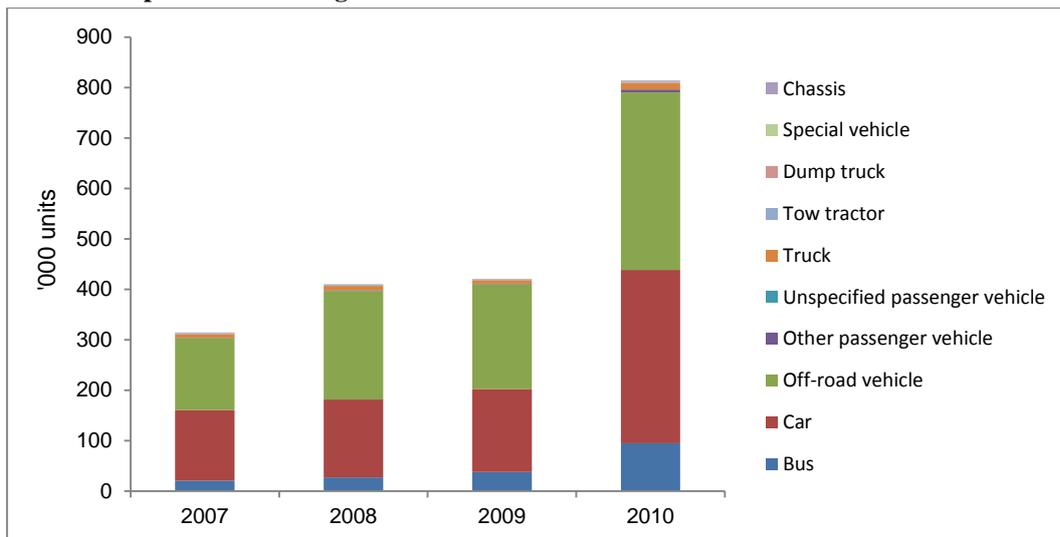
Source: estimate by auto experts interviewed

The domestic production market is strongly related to new car sales. The after-sales replacement parts market has started to take off thanks to the growing car population and is likely to surpass the size of parts supplied for domestic production around 2015.

1.3 Vehicle imports to China

In 2010, 813,584 units of vehicle were imported to China at a total value of over USD 30 billion (EUR 23bn). In terms of volume, off-road vehicles such as the Land Cruiser were the most popular segment, accounting for 43%, followed by passenger cars, which made up 32% of the imports.

Chart 4: Imported vehicle segments in China



Source: China auto 21st century publication 2008-2011

³ Currency conversion as at February 17th 2012: EUR 1 = USD 1.304 = RMB 8.2

Table 2: China's vehicle imports

	2007 (units)	2008 (units)	2009 (units)	2010 (units)
Bus	20,702	26,985	37,595	95,011
Car	139,867	154,521	164,837	343,653
Off-road vehicle	142,228	215,062	207,381	351,408
Other passenger vehicle	625	1,154	1,276	6,083
Unspecified passenger vehicle	227	386	32	53
Truck	7,659	8,719	7,143	13,350
Tow tractor	1,348	1,637	1,054	1,752
Dump truck	175	131	135	124
Special vehicle	435	498	375	333
Chassis	894	990	993	1,817
Total	314,160	410,083	420,821	813,584

Source: China auto 21st century publication 2008-2011

Imports almost doubled from 2009 to 2010 but still accounted for less than 5 per cent of the total China auto market by volume. Most of the imported vehicles fall in the luxury segment, which is small compared to the mass market. On the other hand, almost all the major auto makers have set up joint ventures (JVs) in China to produce locally.

1.4 Top exporters to China

The EU is the largest auto exporter to China followed by Japan, Korea and the US. In 2010, the EU exported 351,000 units of vehicles to China, which accounted for 43% of China's total vehicle import. The volume of EU exports to China was up 120% representing a recovery from the drop in 2009 caused by the financial crisis.

Table 3: Vehicle exporters to China, 2010

	Units of vehicle exported	% Share in China's total import
EU	351,000	43%
Japan	253,000	31%
Korea	87,000	11%
USA	80,000	10%
Other	42,584	5%

Source: China auto industry development yearbook 2010

For passenger cars, the top exporter companies in 2010 were Mercedes Benz, BMW, Subaru and Lexus. Germany is the largest exporter, followed by England and Slovakia.

Table 4: Top European vehicle exporters to China, 2010

	Units of vehicle exported	Value (billion USD)
Germany	239,324	11.7
England	43,255	2.1
Slovakia	25,338	1.4

Source: China auto industry development yearbook 2010

In comparison, China's auto export in 2010 was around 570,000 units (value USD 7bn, EUR 5.4bn), 70% of its import volume and 23% of the import value. The exports were mostly low-end products with the largest segments being trucks (209,000 units) and cars (180,000 units).

1.5 Key auto parts imported by China

In 2010, USD 27 billion (EUR 20.7bn) of auto parts were imported by China. The leading segments are transmission, body & accessory and engine parts & engine. The top five auto part exporters to China are Japan, Germany, Korea, France and the US.

Table 5: Vehicle import category

	Value (million USD)	Share
Transmission	8,335	30.5%
Body and accessory	5,382	19.7%
Engine parts	3,551	13.0%
Engine	2,639	9.6%
Others	2,125	7.8%
Auto electronics	1,629	6.0%
Driving system	1,271	4.6%
Steering system	1,243	4.5%
Braking system	1,190	4.3%
Total	27,366	100%

Source: China auto industry development yearbook 2010

In 2010, the EU27 states exported over USD 9 billion⁴ (EUR 6.9bn) worth of auto parts to China. The leading countries were Germany (38%), Hungary (9.2%), France (7.6%), the UK (2.6%), Spain (2.6%) and Italy (2.3%).⁵

2. Key growth drivers

2.1 Strong GDP growth rate and income growth

China's GDP growth is around 10% per year over the past five years, and the GDP per capita has exceeded USD 3,000 (EUR 2,300) recently.⁶ This provides strong support to the auto market, as auto sales (and therefore auto parts) show a strong correlation with GDP growth.

2.2 Relatively low penetration rate

The auto penetration rate is still very low. By the end of 2010, the auto ownership per 1,000 people was around 60 units, almost half of the worldwide average standard. In major European countries, the rate is 550 – 600 per 1,000.

⁴ Excluding auto electronics and appliances

⁵ International Trade Centre and EU SME Centre analysis

⁶ China Statistic Yearbook 2010

2.3 Stronger demands from lower tier cities with declining prices

The auto markets in lower tier cities show stronger growth compared with first tier cities such as Beijing. These cities have a much lower penetration rate and are more price-sensitive. The drop in average auto retail prices means that increasing numbers of regional consumers can now afford to buy a car.

2.4 Government support

In order to promote lower emission cars, from 30th June 2010, the Chinese government started to provide a subsidy of RMB 3,000 (EUR 365) for cars purchased with an engine displacement of lower than 1.6L and petrol consumption below 6.9L/100 miles. Under the policy, there are around 427 models eligible for the subsidy. The standard for petrol consumption was lowered further to 6.3L/100 miles on October 1st 2011⁷, which means more than half of the models sold in China are now out of the subsidised range.

Released in March 2009, ‘the restructuring and revitalization plan for the auto industry 2009-2011’ also specified the government’s support for environmental-friendly vehicles such as hybrid vehicles, electric vehicles, fuel cell vehicles and other energy-saving and new energy vehicles.

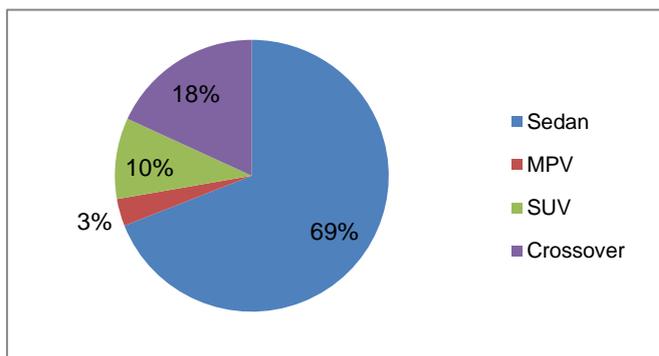
3. Market structure

3.1 Passenger vehicles

In 2010, 13.8 million passenger vehicles were sold, among which 69% were sedans, followed by crossovers (18%). SUVs sold 1.3 million units, accounting for 10% of total sales.

Foreign brands dominate the passenger vehicle segment; the share of domestic brands is increasing though, from 31% in 2009 to 32.4% in 2010.

Chart 5: Passenger vehicle sales by type in 2010



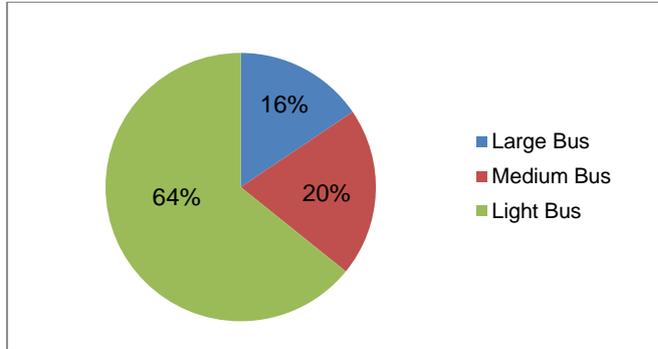
Source: China auto 21st century publication 2008-2011

⁷ Jointly announced by the National Development and Reform Commission (NDRC), the Ministry of Industry and Information Technology of the People's Republic of China (MIIT) and the Ministry of Finance.

3.2 Buses

In 2010, 443,000 buses were sold, among which 64% were light buses, followed by medium buses at 18%.

Chart 6: Bus sales by type in 2010

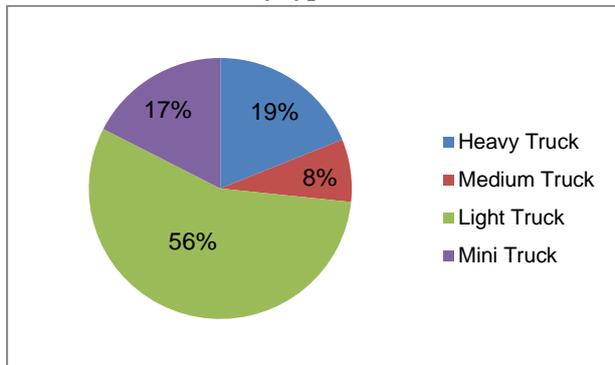


Source: China auto 21st century publication 2008-2011

3.3 Trucks

In 2010, 3.5 million trucks were sold, among which 56% were light trucks, followed by heavy trucks at 19% and mini trucks at 17%.

Chart 7: Truck sales by type in 2010



Source: China Auto 2000 publication

3.4 Market concentration

The crossover market is the most concentrated segment. The top three makers account for 72% of the total market. Heavy duty trucks on the other hand are the most fragmented segment whose top three makers only make up 19% of the total sales.

Table 6: Market concentration by segment

	Sedan	MPV	SUV	Cross-over	Heavy duty truck	Medium duty truck	Light duty truck	Mini truck	Large bus	Medium bus	Light bus
Top 3	29%	45%	29%	72%	19%	33%	40%	50%	49%	37%	57%
Top 5	41%	66%	44%	86%	27%	45%	51%	72%	61%	47%	70%

Source: China auto 21st century publication 2008-2011

3.5 Auto parts

The market share among wholly owned foreign enterprises, joint ventures and domestic auto makers in China is about evenly allocated. However, foreign companies dominate key parts, especially electronic components such as power steering, electronic braking, suspension systems and EMS engine control. Local companies are strong in areas such as wheels and glass.

Global auto makers are aggressively seeking auto parts suppliers in China. For example, Chrysler has around 140 auto parts suppliers now in China from which they purchase about USD 640 million (EUR 492m) worth of goods, representing 3% of their global purchasing. This proportion looks set to rise to 5% over the coming years and implies huge opportunities for JVs in China.

Table 7: Key players by main categories in the auto parts segment

Engine	Weichai, Yuchai, Shanghai Diesel Engine
Tyres	Michelin, Bridgestone, Goodyear
Audio	Continental, Clarion, JVC Kenwood
Glass	Asahi, Pilkington, Shanghai Yaohua Pilkington
Chassis	Mando (Beijing), Pingyuan Hengming, Anyang Gulong
Body	Xiamen Golden Dragon, Hunan Changsha Pingtou, Hebei Qiying
Air Conditioning	Shanghai Delphi, Valeo, Tianjin Sanden

Besides auto makers' 4S (sale, spare parts, service and survey) shops, major auto part makers are aggressively expanding their own dealer network to target the replacement market. For example, Michelin has established more than 600 TyrePlus shops, Bosch has around 1000 franchised shops and Pilkington glass has 20 self-owned shops in China.

3.6 Distribution channels

According to statistics from the Ministry of Commerce and the China Automobile Dealers Association (CADA), in 2010 there were over 60,000 automotive distributors in China, including 15,000 4S stores, of which 1,700 were established in that year alone.

China's automotive distribution industry has two key characteristics:⁸

1. China's large-scale automotive distributors are concentrated in the economically developed eastern, northern and southern regions, each with one to two large leading distributors such as Pangda Group in Hebei, Yaxia Automobile in Anhui and Grand Orient in Wuxi, Jiangsu.
2. As automotive distributors continue to expand, this regional bias will gradually be diluted. Among all automotive distribution businesses in China, new car sales account for an overwhelming proportion, while used car and after-sales service have enormous space for development.

⁸ China Automotive Distribution Industry Report, 2011-2012, research in China

3.6.1 Passenger vehicles - the 4S shop model

This is the dominant model for passenger vehicle sales in China. To gain more shares in the fast growing auto sales market, all auto brands are aggressively expanding their 4S network. For example, Volvo plans to double its 4S shops to 230 in five years' time from 106 in 2011.

EU SMEs have to work with auto makers if they want to penetrate the 4S network across China. This implies a great deal of time and effort from accessing procurement of the auto makers, complying with all the standards and requirements, to setting up regional logistics or wholesaler networks to deliver to individual 4S shops. Some regional auto parts wholesalers have established co-operations with regional 4S shops, which can facilitate their products' entry into these shops. For example, Shandong Youpei, a Shandong based auto parts wholesaler who runs its own chain stores, supplies 4S stores as well. By the end of 2011, it had 29 self-owned chain stores supplying hundreds of auto part products including filters, lighting, brakes, batteries and lubricants. In China, there are over a thousand auto part wholesalers such as Youpei. To find potential wholesalers for your specific product, a consulting or market research firm specialised in the automotive industry can be engaged to carry out targeted research.

3.6.2 Commercial vehicles - manufacturer to wholesaler plus direct sales

Leading truck producers (e.g. Foton) have a dedicated department for key account sales serving large clients as well as appointing wholesalers nationwide. Bus makers mostly maintain their own sales force to cover the key clients such as tourist companies and city bus fleets.

3.6.3 Auto parts replacement – fragmented distributions

Given the sheer number of cars sold every year, the after sales market has become very attractive. Compared to Hong Kong, the after sales market in mainland China is much more fragmented, with thousands of small family run shops.

4S shops are considered to be the most reliable channel for auto parts sales because of their branding efforts and their established links with the auto makers. This channel is especially attractive to new drivers who are less experienced in car maintenance and repair. However, 4S shops are far from being the dominant channel. Most Chinese still go through other channels looking for good prices. Outside the 4S networks, it will still take a while for both individual customers and dealerships to move from price to value.

Auto and gas affiliated chain stores also have good geographic coverage and are attractive to car drivers because of their specialisation. For example, Shell uses regional wholesalers to manage its regional sales. The regional wholesaler is responsible for the retailer network shops in their area. Shell divides China into four regions geographically. There are 30 to 40 wholesalers in each region. Shell also helps wholesalers by supporting the retailer network, which is categorised into 4S shops, repair factories, branded shops and quick-fit shops. Shell provides the retailers with support like signage and promotion kits. There are around 3,000 retailers in Shell's distribution network and it has plans to expand aggressively.

There are many franchised **car service centre** brands in China. The largest company is XinQiTe (NTSCar)⁹, which has around 40 shops in China, mostly based in the east and southeast. Their scope of business covers a wide range of areas including car beauty, maintenance and repairs for cooling systems, steering systems, electronic systems and tyres. Another large car service centre is AiYiHang, which has 20 self-owned shops in China. Most of the shops are in Beijing, and there are two in Chengdu (in the southwest of China). Apart from its self-owned shops, AiYiHang also has around ten franchised shops in China.

Both NTSCar and AiYiHang are national chains. There are also some regional car service chain stores such as YueFu, which has around 15 shops in Beijing. Michelin's regional wholesaler in Henan province, Zhengzhou Zhonghua, has a business network of over 1000 retailers, which gives Michelin the ability to penetrate into lower tier city markets quickly.

If EU SMEs want to enter this market, they should work with local leading wholesalers who can provide logistical and warranty support to retailers. Leading wholesalers are strong in pushing products onto shelves. In addition, EU SMEs should be willing to commit some funds to advertising and marketing to support and give confidence to retailers. A combined push and pull strategy will help entry.

3.7 Consumer behaviour

3.7.1 Passenger vehicles

The top factors when considering the purchase of a new car in China are price, performance, quality and fuel consumption, followed by performance and brand.

Compared with western buyers, Chinese consumers have lower brand loyalty and in general care less about new environment-friendly technologies such as hybrid engines. Cars which are environmentally friendly are seen as a plus rather than a compelling reason to buy. J. D. Power's 2011 study reveals that 60% of Chinese consumers look at more than one brand before purchase. On average they will consider three brands before they buy. In India, by contrast, only 24% of new car buyers look at more than one brand before purchasing.

3.7.2 Commercial vehicles

Compared with passenger vehicles for personal use, commercial vehicles are treated as investments. Therefore, return on investment (ROI) is the top concern. The vehicle must be reliable and have a high weight bearing capacity. Overloading is quite common in both trucks and busses in China.

3.7.3 Replacement auto parts

Consumers have very limited knowledge and brand awareness of auto parts. Therefore, 'trustworthiness' is what they look for in parts replacement. As there is no third party evaluation of the hundreds of parts, consumers assess parts quality by the brand of the sales network and the part's country of origin.

⁹ www.ntscar.com

3.7.4 OEM auto parts

Reliable quality, fast delivery and a competitive price are the key factors for OEM auto makers. Many auto makers do not allow parts suppliers to sell products in the replacement market outside their own 4S shops/networks to protect their profit margin.

3.8 Key players by segment

The automotive sector is a restricted sector for foreign investment. Foreign auto makers have to form a JV with domestic partners to produce autos in China. Therefore, all major auto makers in the passenger vehicle segment are JVs. Domestic players are dominant in the bus and truck segments.

Table 8: Key players by sub-segments

Passenger vehicle	Bus	Truck	Auto parts
<u>Sedan:</u> Shanghai-GM Shanghai-VW FAW-VW Beijing-Hyundai DMC-Nissan PV BYD Chery Geely Group Changan-Ford-Mazda FAW-Toyota Sales Co.	<u>Light Bus:</u> Jinbei Auto JMC Nanjing Yuejin <u>Medium Bus:</u> Zhengzhou Yutong Kinglong United (Suzhou) FAW-Toyota Sales Co. <u>Large Bus:</u> Zhengzhou Yutong Kinglong United (Suzhou) Xiamen King Long United	<u>Light Truck:</u> Beiqi-Futian JAC DMC <u>Heavy Truck:</u> CNHTC Shaanxi Auto Group Baotou Beifang-Benz	Weichai Michelin Continental Asahi Pilkington Mando (Beijing) Xiamen Golden Dragon Shanghai Delphi
<u>Crossover:</u> SAIC-GM-Wuling Changan Auto			
<u>SUV:</u> Great Wall Motor DMC-Honda			

4. Opportunities

Vehicle production and sales are dominated by large foreign and domestic companies due to capital, legal and HR requirements. Opportunities for EU SMEs fall within the auto parts segment, where their high-end, high quality and innovative products will find strong demand.

4.1 Auto part replacement market

European brands in general are considered to be of superior quality to local brands. This provides EU SMEs with an advantage to enter the market. To tackle the highly fragmented distribution channels, EU SMEs should seek to work with large foreign auto/auto electronics/appliance/merchandise makers to enter their sales networks as official parts suppliers.

Major European brands have successfully penetrated the market, for example Bosch, Sonax and Liqui Moly from Germany, Valeo from France, Carplan and Jewelultra from the UK, Remsa from Spain and Cartec from the Netherlands.

Michelin Tire's network TyrePlus has more than 600 shops in China and the network is open to a number of auto accessories such as lubricant and batteries. Working with 4S shops is another way to approach the market quickly.

4.2 OEM - Leading technology products for auto makers

Foreign brand names dominate the passenger vehicle segment. Now that the capital-intensive market entry and cost-savings are dealt with, an even stronger localisation trend than before is underway. As more affluent Chinese buyers become increasingly quality-conscious, Chinese OEM manufacturers have started to look for European components and technologies to improve the quality of their output.

There are two major types of passenger vehicle markets in China - the price-driven Sedan and SUV market with players such as Cherry and KIA and the high-end market with players like Audi and BMW. Many auto parts in the price driven category are fit for the purpose of a 2-3 year life cycle.

“It's not true that products made in China have bad quality, they are built to fulfil a specific purpose.”

- *Arnie Jensen, general manager of the automotive technics division at Jepsen Industrial*

4.2.1 OEM localisation is far from complete

Although OEM localisation by foreign companies using European technology has been on-going for many years, the price gap between high-end cars sold in China and overseas remains to be narrowed. For many OEM companies in China it is time to focus on more refined components, providing opportunities to EU SMEs with advanced technology or components/equipment to access the local market.

4.2.2 Chinese OEM manufacturers start shopping

In the meantime, as more affluent Chinese buyers become increasingly quality-conscious, Chinese OEM manufacturers have started to look for European components and technology to improve the quality of their output.

4.2.3 EU advantages over auto players in the US and Japan

Compared to US and Japanese companies, European companies are more advanced in diesel tolerant technologies and technologies with higher environmental standards.

4.2.4 Opportunities highlighted by industry expert

A few opportunity areas highlighted by *Jepsen Industrial*¹⁰ in China are:

- Specialised testing equipment,
- Fuel efficiency systems,
- After-treatment of auto emissions,
- Electricity and fuel hybrid technologies,
- New materials such as carbon fibre to make a car lighter,
- Complex metal or plastic auto components,

¹⁰ a major European marketer and distributor

- Precision granulated equipment, balance shafts, vibration dampeners.

4.2.5 Opportunities by regions

The table below is ranked by the population per province. The numbers marked in red are the top ten in terms of household income and its growth rate. There are three regions that are strong in both rankings (Liaoning, Fujian and Tianjin).

Table 9: Population and urban per capita annual household expenditure, 2010

	Population (million)	Household consumption expenditure by region (RMB)	Growth rate
Guangdong	104.4	17,218	13%
Shandong	95.9	11,611	11%
Henan	94.1	7,837	19%
Sichuan	80.4	8,182	19%
Jiangsu	78.7	14,035	17%
Hebei	71.9	8,057	12%
Hunan	65.7	8,922	13%
Anhui	59.6	8,237	21%
Hubei	57.3	8,977	15%
Zhejiang	54.5	18,097	15%
Guangxi	46.1	7,732	12%
Yunnan	46.0	6,724	13%
Jiangxi	44.6	7,972	28%
Liaoning	43.7	12,934	19%
Heilongjiang	38.3	8,906	15%
Shaanxi	37.4	8,273	17%
Fujian	36.9	12,871	18%
Shanxi	35.7	8,159	19%
Guizhou	34.8	5,879	17%
Chongqing	28.8	9,723	17%
Jilin	27.5	9,141	9%
Gansu	25.6	6,035	14%
Inner Mongolia	24.7	11,080	15%
Shanghai	23.0	32,271	9%
Xinjiang	21.9	7,276	21%
Beijing	19.6	25,015	13%
Tianjin	13.0	17,784	17%
Hainan	8.7	7,553	13%
Ningxia	6.3	8,992	14%
Qinghai	5.6	7,234	11%
Tibet	3.0	4,513	11%

Source: China statistical yearbook 2011

Although Beijing and Shanghai are not the highest in terms of growth rate, they are nonetheless important in terms of economic development, purchasing power of the residents and the large auto population. The top provinces by auto population by the end of 2010 were Guangdong, Jiangsu, Zhejiang and Beijing.¹¹

4.3 Auto parts – replacement market

The coastal cities lead in new car sales and auto population. The first¹² and second tier¹³ cities have stronger demand for better replacement parts because of their high auto population and higher purchasing power.

4.4 Auto parts – OEM market

China's auto production is concentrated in six regions which accounted for 52% of China's total output in 2010. They are Shanghai (9.1%), Jilin (9.0%), Chongqing (8.7%), Hubei (8.5%), Guangdong (8.4%) and Beijing (8.1%).

5. Challenges in the market

5.1 Auto parts – replacement market

Despite the huge potential of the Chinese market, EU SMEs will face many difficulties in accessing the auto parts market. The difficulties are related to the development of distributions networks, brand recognition, experienced staff recruitment and combatting counterfeits.

5.1.1 Network development

Due to the wide geographic coverage of the China market, the distribution network is fragmented, with no dominating national distributors. For EU SMEs, setting up a network will be expensive and time consuming. Gaining access to 4S shops and retail outlets controlled by major auto makers or major distributors will be a demanding process, especially as SMEs will be in a weak position to control pricing and sales.

5.1.2 Brand recognition

Brand plays an important role in the replacement part decision making process. Stronger brands that convey 'trustworthiness' to customers will have a distinct advantage. This is especially important in China, where drivers are relatively young and have less knowledge of cars. It will take time and investment for a lesser-known brand to become recognised in the market.

5.1.3 Experienced staff recruitment

Labour, especially skilled labour, is becoming more expensive in China. There is not a ready talent pool; many auto makers have to train their own technicians for their dealer network by working with colleges. After the training, however, the high employee turnover rate becomes another issue, since trained technicians are in high demand in the market.

¹¹ See Annex 2 below

¹² Beijing, Shanghai, Guangzhou and Shenzhen

¹³ E.g. Chengdu, Chongqing, Dalian, Hangzhou

5.1.4 Counterfeit products

Some provincial auto parts producers have the capability to copy brand name parts pretty closely and sell them in the market. It is very difficult to stop these sales because they can quickly penetrate into all branches of the auto part distribution channels. At the same time, intellectual property rights (IPR) enforcement in China is still in the process of development.

5.2 Auto parts – OEM market

The main challenges in winning OEM contracts with major auto makers are high qualification requirements and rising competition from domestic players.

5.2.1 High qualification requirements

Major auto makers have strict standards for a supplier's qualification in the procurement process when it comes to meeting their technical specifications, quality and performance indicators and delivery and payment terms. This means pre-investment of time and capital before a candidate can become an official supplier.

5.2.2 Rising competition from domestic players

Although domestic suppliers are mainly focused on low-end products at the moment, they are upgrading their product portfolio. Therefore, EU SMEs will need to continuously enhance their technology advantages in order to avoid price competition with domestic suppliers.

6. Report Summary

	Auto parts - replacement	Auto parts - OEM
Opportunities	<ul style="list-style-type: none"> • Favourable image of European brands in general 	<ul style="list-style-type: none"> • Specialised testing equipment • Fuel efficiency system • After-treatment of auto emissions • Electricity and fuel hybrid technologies • New materials such as carbon fibre to make a car lighter • Complex metal or plastic auto components • Precision granulated equipment, balance shafts, vibration dampeners
Challenges	<ul style="list-style-type: none"> • Network development • Brand recognition • Experienced staff recruitment • Counterfeit products 	<ul style="list-style-type: none"> • High qualification requirements • Rising competition from domestic players
Key success factors	<ul style="list-style-type: none"> • Dealer network penetration 	<ul style="list-style-type: none"> • Advanced technology and know-how

Annex 1: Vehicle imports by variety, January-December 2010

Variety		Volume (unit)	% change	Value (USD)	% change
1. Buses		95,011	152.72	2,088,338,237	173.97
a. Airport shuttle bus		11	--	4,441,041	--
b. Large bus (seats >=30)		203	--	10,842,774	--
c. Medium bus (10<= seats <= 29)		4,878	157.96	216,400,887	163.39
d. Small bus (seats <=9)		89,919	151.92	1,856,653,535	173.25
Petrol engine	ED <= 1000 ml	6	--	93,452	--
	1000 ml <ED<= 1500 ml	7	-61.11	181,267	-55.22
	1500 ml <ED<= 2000 ml	19,323	26.67	248,491,301	32.39
	2000 ml <ED<= 2500 ml	51,645	234.40	1,107,958,110	211.44
	2500 ml <ED<=3000 ml	11,440	341.02	225,040,296	386.75
	3000 ml <ED<=4000 ml	5,703	151.01	240,355,208	185.38
	ED > 4000 ml	121	26.04	5,533,705	32.22
Diesel engine	1000 ml <ED<= 1500 ml	0	--	0	--
	1500 ml <ED<= 2000 ml	1,001	--	13,894,923	--
	2000 ml <ED<= 2500 ml	639	--	12,922,529	--
	2500 ml <ED<=3000 ml	32	166.67	2,087,201	180.79
	3000 ml <ED<=4000 ml	0	--	0	--
	ED > 4000 ml	2	100.00	95,543	-49.71
2. Cars		343,653	108.48	14,147,734,762	115.47
Petrol engine	ED <= 1000 ml	4,047	39.74	46,362,000	17.02
	1000 ml <ED<= 1500 ml	7,063	212.94	152,663,779	221.45
	1500 ml <ED<= 2000 ml	117,325	153.75	3,005,017,782	185.58
	2000 ml <ED<= 2500 ml	59,061	132.16	1,552,526,950	133.34
	2500 ml <ED<=3000 ml	99,765	93.00	5,193,733,914	93.68
	3000 ml <ED<=4000 ml	42,274	37.41	2,548,371,077	70.45
	ED > 4000 ml	14,085	155.12	1,646,846,685	182.36
Diesel engine	ED <= 1000 ml	6	--	102,403	--
	1000 ml <ED<= 1500 ml	3	50.00	72,013	161.47
	1500 ml <ED<= 2000 ml	3	50.00	79,542	146.82
	2000 ml <ED<= 2500 ml	0	-100.00	0	-100.00
	2500 ml <ED<=3000 ml	6	50.00	261,015	108.68
	3000 ml <ED<=4000 ml	1	-83.33	36,800	-73.48
	ED > 4000 ml	14	7.69	1,660,802	61.81
3. Off-road vehicles		351,408	69.45	12,711,408,243	79.57
Petrol engine	ED <= 1000 ml	0	--	0	--

	1000 ml <ED<= 1500 ml	2,936	18.53	35,892,444	31.60
	1500 ml <ED<= 2000 ml	36,011	50.72	877,572,764	72.90
	2000 ml <ED<= 2500 ml	87,644	128.54	1,924,691,702	131.60
	2500 ml <ED<=3000 ml	83,493	46.21	3,699,903,449	75.90
	3000 ml <ED<=4000 ml	98,095	44.75	3,495,009,983	34.87
	ED > 4000 ml	26,508	132.59	1,843,338,672	141.05
Diesel engine	1000 ml <ED<= 1500 ml	0	--	0	--
	1500 ml <ED<= 2000 ml	776	-23.55	12,953,634	-13.91
	2000 ml <ED<= 2500 ml	3,651	94.00	129,087,831	112.66
	2500 ml <ED<=3000 ml	11,239	240.27	608,706,336	274.35
	3000 ml <ED<=4000 ml	896	558.82	73,089,892	603.07
	ED > 4000 ml	159	174.14	11,161,536	141.86
4. Other passenger vehicles		6,083	376.72	181,274,457	857.20
5. Unspecified passenger vehicles		53	65.63	1,977,498	-82.14
6. Trucks		13,350	86.90	1,004,822,767	96.23
a. Diesel engine	GVW <= 5 t	65	-45.38	3,041,057	20.04
	5t < GVW <= 14t	146	-31.46	12,342,933	0.68
	14t < GVW < 20t	60	-57.14	4,797,795	-53.18
	GVW > 20t	11,454	89.70	911,444,105	99.32
b. Petrol engine	GVW <= 5t	1,599	163.43	69,131,938	175.21
	5t < GVW < 8t	8	-11.11	506,410	46.12
	GVW > 8t	14	--	647,788	749.27
c. Unspecified trucks		4	-75.00	2,910,741	-30.83
7. Tow tractors		1,752	66.22	126,904,011	66.55
8. Dump trucks		124	-8.15	38,425,743	-21.85
9. Special vehicles		333	-11.20	257,626,368	17.13
10. Chassis		1,817	82.98	81,282,900	74.87
Grand Total		813,584	93.33	30,639,794,986	99.73

Annex 2: New registrations of civil vehicles in China per province in 2010

	Total	Passenger vehicles	Trucks
Guangdong	1,319,362	1,125,126	188,729
Jiangsu	1,222,552	1,085,981	122,918
Zhejiang	1,224,714	1,063,042	157,199
Beijing	869,532	832,899	31,363
Henan	889,887	705,657	179,688
Sichuan	805,637	672,303	129,398
Liaoning	545,807	423,135	118,568
Shaanxi	474,161	379,713	90,309
Yunnan	484,866	374,680	107,271
Shanxi	477,054	373,873	100,540
Hunan	469,423	373,824	93,350
Anhui	482,003	354,609	124,220
Hubei	428,549	332,420	92,506
Fujian	404,293	320,436	82,134
Inner Mongolia	398,478	313,464	81,041
Shanghai	345,693	312,169	25,609
Heilongjiang	363,133	274,432	85,893
Tianjin	310,934	273,846	35,388
Guangxi	328,786	251,726	75,078
Jilin	309,763	248,520	59,367
Jiangxi	324,893	245,121	77,480
Chongqing	275,378	215,860	56,222
Guizhou	252,451	194,748	56,353
Xinjiang	241,262	172,071	65,904
Gansu	220,419	152,249	66,150
Hebei	132,658	108,756	23,381
Hainan	89,009	69,712	18,599
Ningxia	102,373	69,694	31,339
Qinghai	70,455	50,864	18,568
Tibet	23,927	15,977	7,899

Source: China statistical yearbook 2011

Resources

Further reading

Analysis: A decade of development in the Chinese automobile industry

autonews.gasgoo.com/commentary/analysis-a-decade-of-development-in-the-chinese-a-111120.shtml

Published by: Global Auto Sources

Accessed on: November 20th 2011

A bumpy ride ahead? – How automotive OEMs can plan for a smoother journey

www.adlittle.fr/reports_fr.html?view=528&source=rssreports

Published by: Arthur D Little

Accessed on: September 2011

Analysis and forecast of China auto market in 2011

www.chinabuses.org/news/2011/0720/article_4445.html

Published by: Chinabuses.org

Accessed on: July 20th 2011

Report on China auto parts industry, 2011-2015 (paid report)

www.ocn.com.cn/reports/China-Auto-Parts-Industry118.htm

Published by: OCN

Accessed on: July 2010

Automotive industry reports (paid report)

www.askci.com/search/1/baogao/automotive/

Published by: Askci.com

Accessed on: December 2011

Exhibitions

China International Auto Parts Expo

www.apechina.com/en/

China International Auto Parts Expo is the largest exhibition for auto parts, equipment, new-energy, tuning cars, services & accessories in China.

October 26th – 28th 2012 (China International Exhibition Centre, Beijing)

E-mail: info@apechina.com

The 8th China Int'l Automotive Aftermarket Industry and Tuning (Guangzhou) Trade Fair

www.aaitf.org/en

AAITF is the premier trade show accompanying the fast development of China's automotive aftermarket and tuning industry.

February 10th – 12th 2012 (China Import & Export Fair Complex, Guangzhou)

E-mail: info@aaitf.org

The 14th China Int'l Expo for Auto Electronics, Accessories, Tuning & Car Care Products

www.ciaacexpo.com/

CIAACE, one of the most famous platforms of China's auto aftermarket industry, is one of the biggest expos for auto electronics, accessories, tuning and car care products in China. It drew 3,124 exhibitors and 167,482 visitors in 2011.

February 14th – 17th 2012 (China International Exhibition Centre (New Venue) Beijing)

E-mail: ruby.yang@yasn.com.cn

AMR 2012 - Auto Maintenance & Repair

www.auto-maintenance.com.cn/index_en.jsp

One of the biggest trade fairs in Asia in the auto industry.

February 27th - March 1st 2012 (New China International Exhibition Centre)

E-mail: sophiawang@traderslink.com.cn; kellyli@traderslink.com.cn

Beijing International Automotive Exhibition 2012

www.china-autoshow.com/2010bjx/En/

Auto China, jointly founded by the China National Automotive Industry Corporation (CNAIC) and China Council for the promotion of International Trade in 1990, is the leading auto and auto parts exhibition in China.

April 25th – 29th 2012 (International Exhibition Centre (CIEC) & New International Exhibition Centre (NCIEC))

E-mail: wangxiaauto@vip.163.com

China International Auto Parts Expo 2012

www.expo-capa.com/en/

CIAPE, held by the Chinese Government, is an access to the Chinese market. CIAPE opens a window for both Chinese and international automobile and auto parts industries by introducing their development level and trend of growth.

September 4th – 6th 2012 (China Int'l Exhibition Centre, Beijing)

E-mail: ciapexpo@163.com; ciapexpo@126.com

Useful websites

China Automotive Information Net (CAIN)

Managed by China Automotive Technology And Research Center, CAIN serves as a professional data source for market and policies information on the auto industry in China.

english.autoinfo.gov.cn/autoinfo_eng/index.htm

Wheelon Info Net

Wheelon Info Net publishes information on auto regulations, standards, statistics, companies and products, strategies and past investments and market analysis.

www.wheelon.net/

CATARC

China Automotive Technology & Research Centre (CATARC) is a technical administration organisation providing technical support to government authorities in the auto industry, such as standard and technical regulations, product certification testing, quality system certification, industry planning and policy research, information service and technology research.

www.catarc.ac.cn/ac_en/business/branches/webinfo/2007/12/1300751242699669.htm

China Autoweb

A guide to China's auto industry.

chinaautoweb.com

China Automotive Review

China Automotive Review provides auto related daily news, periodical publications and supplier and consulting service databases.

www.chinaautoreview.com

China Association of Automobile Manufacturers

China Association of Automotive Manufacturers (CAAM) is a non-profit organisation consisting of enterprises and institutions engaged in the production and management of automobiles (motorcycles), auto parts and vehicle-related industries in China.

www.caam.org.cn/english



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- Legal – legal information, 'ask the expert' initial consultations and practical manuals
- Standards – standards and conformity requirements when exporting to China
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- Access to a service providers directory and information databases
- Hot-desking – free, temporary office space in the EU SME Centre to explore local business opportunities
- Any other practical support services to European SMEs wishing to export to or invest in China.

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