



# China: Automotive Components Industry

## Overview of Emerging Tier II Markets

# INTRODUCTION

The objective of this report is to provide an overview of the Chinese market for automotive components, with focus on six key emerging markets beyond already established cities such as Shanghai, Beijing, and Guangzhou. A quick but necessary overview of the demand side (the automotive market) is also included, as trends in the component market closely mirror the automotive market.

## EXECUTIVE SUMMARY



**China automotive market.** China is already the world's third largest automotive market in terms of domestic production, and the world's second largest in terms of domestic sales. The market has been growing at the exceptional rate of about 20% CAGR between 2000 and 2006, with strong growth expected to continue for the next few years. Production is highly fragmented with many small producers; foreign OEMs dominate the passenger car market but Chinese OEMs<sup>1</sup> are catching up.

**China automotive component market.** China's automotive component market is estimated to be worth about \$46 billion (2006), with roughly similar levels of import and export, but with a different composition - exports are mostly low-technology products while imports are generally high-tech products or critical components. Imports of automotive components nearly tripled between 2002 and 2006, reaching US\$ 7.9 billion in 2006. Leading countries are Germany, Japan, and South Korea. However, exports are already growing at a faster rate than imports and are expected to overtake imports in the long run. Components are sold either directly to OEMs or through distributors.

**Key emerging markets.** Besides the established Tier I markets, there are opportunities in rapidly growing Tier II cities such as Changchun, Wuhan, Tianjin, Nanjing, Shenzhen, and Chongqing, focus of this report. Changchun, Wuhan, and Tianjin are the biggest production

<sup>1</sup> Original Equipment Manufacturers



bases in China for car manufacturing. Nanjing is important for its proximity to Shanghai and several OEMs (Ford included) are planning new production plants. Shenzhen is an important market because of its proximity to the Guangdong production base. Chongqing has relatively large import volume and OEMs presence. Other emerging markets, not analyzed in this report, include Qingdao, Dalian, and Hangzhou.

**Market access.** The key customers of imported components are large OEMs (mostly foreign) which require parts with a higher level of technology. Tier I automotive component suppliers are also potential customers. OEMs' approach for supplier selection also differ, and can be classified into 4 categories: 1) relationship-driven, 2) technology-driven, 3) market-driven, and 4) cost-driven. While it is very difficult to serve the relationship-driven Japanese and Korean OEMs, US and European exporters may target US, European (e.g. Ford, GM, VW) and selected Chinese OEMs (Chery, Geely).

**Best prospects.** Best prospects for foreign exporters are usually high-tech / critical components that Chinese manufacturers are not able to produce because of lack of technology or economies of scale. Examples include automatic gear boxes, three-way catalytic devices, ABS, testing equipment etc. Also good prospects for import are components that have safety and technological requirements. Other opportunities also exist in areas such as safety, fuel efficiency and environment. However, even if imports are still growing, the trend is toward localization and pure export strategy from foreign countries may be difficult to sustain in the long term.