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The Automotive Market in China



The EU SME Centre helps EU SMEs prepare to do business in China by providing them with a range of information, advice, training and support services. Established in October 2010 and funded by the European Union, the Centre has entered its second phase which will run until July 2018.

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This report is compiled in partnership with the China-Britain Business Council (CBBC) and is an introduction to the automotive market in China. It aims to help EU SMEs gain an understanding of China's automotive market and to identify opportunities that EU SME's could consider exploring.

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The Automotive Market in China

China remains the world's largest automotive market and automotive manufacturing country since 2009. In 2014, the total output and sales of vehicle units both exceeded 20 million. From 2004 to 2014, the Compound Annual Growth Rate (CAGR) was 11.4%; by 2020 the market is estimated to reach 22 million units, which will be larger than the North American and European markets combined. The fast growing number of legally registered automobiles provides a large Original Equipment Manufacturer (OEM) and replacement market for automotive parts with opportunities existing for EU SMEs with specialised components, equipment and technologies to supply to the leading manufacturers of premium cars.

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1. Market Overview

1.1 Market Size

In 2014, 23.7 million vehicles were sold in China, a year-on-year increase of 7.3%. Of these, passenger cars accounted for 19.7 million, an increase of 9.9% year-on-year. In comparison, Europe sold over 12.2 million vehicles, an increase of 5.7% year-on-year¹.

- Sustainable growth driven by rising household income, and China's policies to increase urbanisation.
- The passenger vehicle segment is dominated by foreign brands that account for 62% of the market, while the commercial vehicle segment is dominated by domestic brands with over 90% of the market share.
- Sports Utility Vehicles (SUV, year-on-year increase of 36.4%) and Multi-purpose Vehicles (MPV) recorded higher sales of growth (46.8% year-on-year) than Sedans (3.1% year-on-year increase).

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

Table 1: The automotive segments

Passenger Vehicles	Buses	Trucks	Semi-Trailer Tractors	Automotive Parts
• Sedan • MPV • SUV • Crossover	• Large bus • Medium bus • Light bus	• Heavy truck • Medium truck • Light truck • Mini truck	• GVW² <=25t • 25t < GVW <= 40t • 40t <GVW	• Transmissions • Bodies parts and accessories • Steering wheels, steering columns and steering boxes • Brakes and servo-brakes and parts • Shock absorbers • 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 • Seat belts • Non-driving axles and parts • Mounted brake linings • Brake system parts • Chassis fitted with engine • Bodies for motor vehicles

¹ <http://www.askci.com/chanye/2015/01/20/1010483ika.shtml>.

² Gross vehicle weight (GVW).

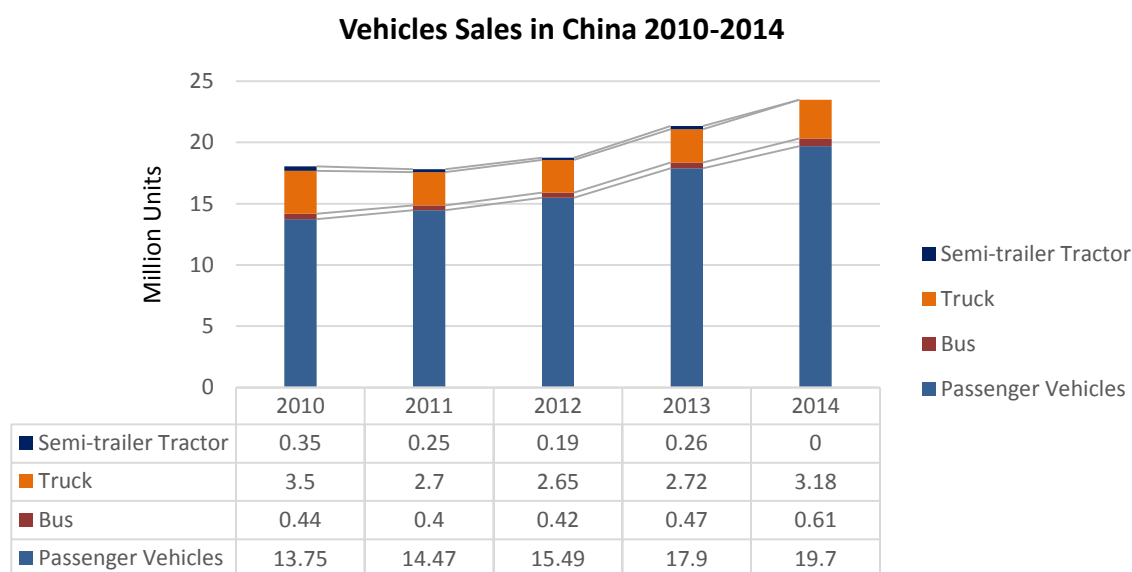
Please see the definition of each category below:

Crossover	Includes mini buses with a seating capacity of eight passengers and below
Large Bus	30 seats +
Medium Bus	10- 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

1.2 Vehicle Sales in China

China's automotive industry has seen rapid development with an overall CAGR of 11.4% from 2004-2014. Passenger vehicles accounted for 83% of total vehicle sales in 2014, followed by trucks (14%), buses and tractors (2.6%).

Chart 1: Vehicle sales in China³

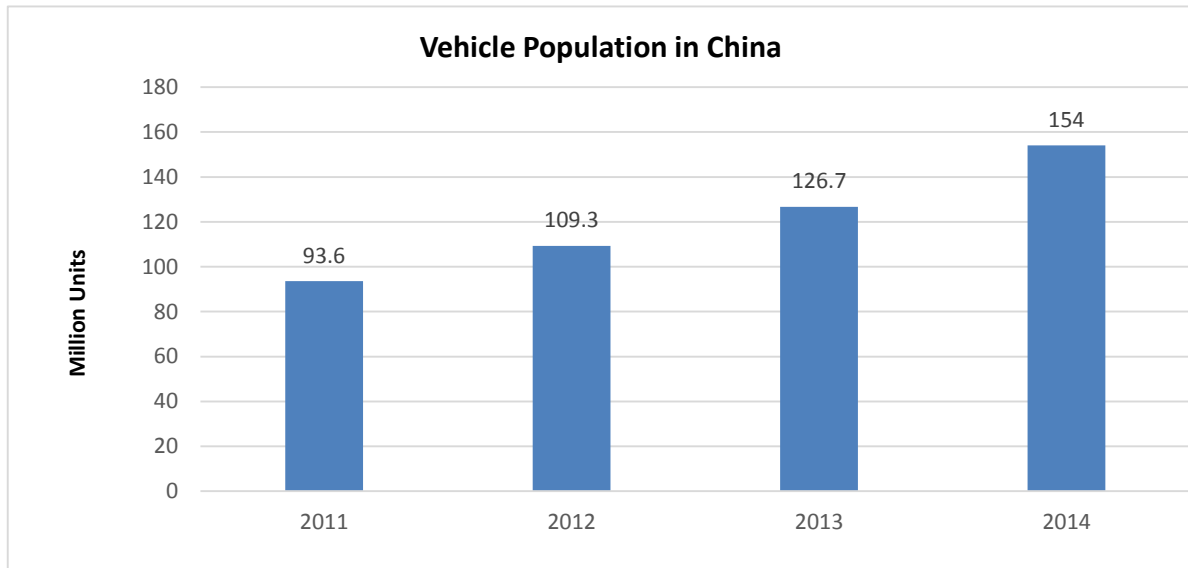


As a result of fast-growing sales during recent years, China's registration of vehicles has grown steadily and quickly. The Ministry of Industry and Information Technology (MIIT) reported that the number of registered vehicles in China reached 154 million by the end of 2014 and is forecast to exceed 200 million by the end of 2020. The increase is driven by fast economic growth, lower prices,

³ Sohu Auto, Analysis on Auto Import & Export of China in 2014, and the China Automotive Industry Development Yearbook, 2011 edition, 2012 edition, 2013 edition and 2014 edition.

and strong demand from regional cities.⁴

Chart 2: Vehicle population in China⁵



1.3 Auto Parts Sales in China

There are three segments in the automotive parts market:

- Domestically made OEM parts for the Chinese market accounting for CNY 1,400 billion (approx. EUR 199 billion) of the market in 2010.⁶
- Exported parts, with market size of CNY 250 billion (approx. EUR 35 billion) in 2010.
- After-sales replacement parts accounted for CNY 400 billion (approx. EUR 56 billion) of the market in 2010.

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

⁴ China Association of Automobile Manufacturers, A summary on the automobile market in 2014 and an estimate on the automobile market in 2015, <http://www.caam.org.cn/xiehuidongtai/20150112/1805144356.html>.

⁵ China Automotive Industry Development Yearbook, 2012 edition, 2013 edition, and 2014 edition, <http://www.askci.com/chanye/2015/01/27/22637zj72.shtml>.

⁶ Exchange rate as of 7th May 2015, RMB 100=EUR14.2 (Yahoo Finance).

1.4 Vehicle Imports to China

Over 1.4 million vehicles were imported to China in 2014, with a total value of over USD 100.3 billion (approx. EUR 88.1 billion).⁷ In terms of volume, off-road vehicles such as the Toyota's Land Cruiser were the most popular segment, accounting for 41%, followed by sedans, which made up 33% of imports.

Chart 4: Imported vehicle segments in China⁸

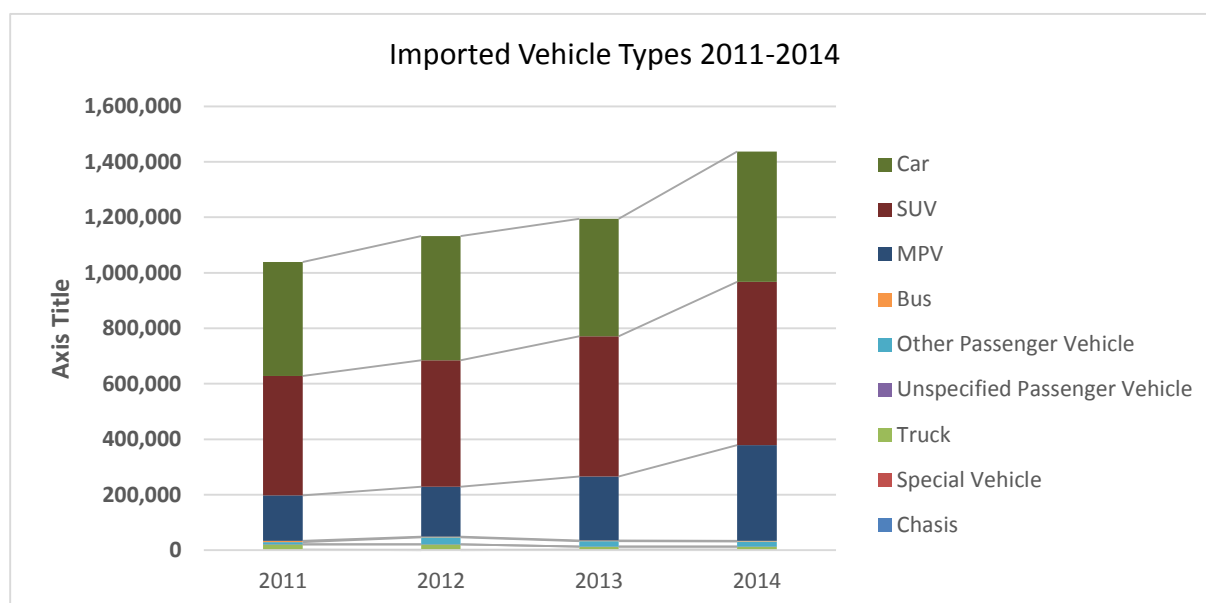


Table 2: China's vehicle imports⁹

	2011 (Units)	2012 (Units)	2013 (Units)	2014 (Units)
Cars	410,270	446,992	423,439	469,639
SUVs	430,886	456,362	505,343	588,921
MPVs	162,911	179,508	230,915	344,179
Buses*	5,196	2,526	2,386	9,853
Other passenger vehicles	7,584	25,628	20,208	
Unspecified passenger vehicles	220	240	74	
Trucks	19,453	19,452	11,197	11,501
Special vehicles*	214	235	224	1,753
Chassis**	1,888	1,088	1,254	
Total	1,038,622	1,132,031	1,195,040	1,425,846

⁷ Exchange rate as of 7th May 2015, USD 100 = EUR 88.1.

⁸ China Automotive Industry Development Yearbook, 2012 edition, 2013 edition, 2014 edition and Analysis on Auto Import & Export of China in 2014, Sohu Auto.

⁹ China Automotive Industry Development Yearbook, 2012 edition, 2013 edition, 2014 edition and Analysis on Auto Import & Export of China in 2014, Sohu Auto.

* Please note that separate information is not yet available for these categories.

** As part of the official data sets available, The China Automotive Industry Development Yearbook includes the import of chassis as part of the vehicle import data.

Imports of SUVs and MPVs increased dramatically, especially between 2012 and 2014, with over 580,000 SUVs and over 340,000 MPVs being imported. The import of trucks however, declined dramatically from 2012 to 2013. Most of the imported vehicles fall into the luxury segment, which is small compared to the mass market. The proportion of imported vehicles to overall vehicle sales remained at 7% for 2011 and 2014. Almost all major automotive manufacturers have set up Joint Ventures (JVs) in China to produce vehicles locally and to bypass restrictions on foreign automobile companies in China.

1.5 Top Exporters to China

Europe is the largest automobile exporter to China followed by Japan, the US and Korea. In 2014, Europe exported over 630,000 vehicles to China, which accounted for 45% of China's total vehicle imports. Europe's volume of exports to China increased by 81% from 2010-2014.

Table 3: Vehicle exporters to China 2014¹⁰

	Units of Vehicles Exported	% Share in China's Total Import
Europe	637,934	45%
Japan	292,552	21%
US	291,690	20%
Other	108,301	7%
Korea	95,448	7%

For passenger cars, the top international export companies in 2010 were BMW, Mercedes Benz and Jaguar Land Rover. In 2014, Germany was the largest exporter, followed by the UK and Belgium.

Table 4: Top European vehicle exporters to China 2014¹¹

Country	Units of Vehicles exported
Germany	287,665
UK	156,319
Belgium	46,853

In comparison, China's automotive exports in 2014 was approximately 950,000 units (value USD 82.6 billion), equivalent to 67% of China's vehicle import volume and 82% of the total import value in 2014. The largest segments of exports were cars (370,943 units) and trucks (350,189 units).

¹⁰ Analysis on Auto Import & Export of China in 2014, Sohu Auto.

¹¹ Analysis on Auto Import & Export of China in 2014, Sohu Auto.

1.6 Key Automotive Parts Imported by China

In 2014, USD 39.33 billion (approx. EUR 34.6 billion) of automotive parts were imported by China. The leading segments were transmissions, body and accessories, engine and engine parts. The top five countries exporting automotive part to China were Japan, Germany, Korea, France and the US.

In 2014, the leading European countries for automotive parts exported to China were:

- Germany (34%)
- France (3%)
- Hungary (2%)
- Czech Republic (1.8%)
- UK (1.4%)
- Italy (1.2%)
- Spain (1%)
- Poland (0.7%)

Table 5: Vehicle Import Category¹²

Category	Value (million USD)	Shares
Transmission	13,740	34.9%
Body and accessory	8,260	21.0%
Engine parts	4,920	12.5%
Automobile electronics	2,870	7.3%
Engine	2,250	5.7%
Driving system	2,080	5.3%
Others	2,040	5.2%
Steering system	2,020	5.1%
Braking system	1,150	2.9%
Total	39,330	100%

¹² Analysis on Auto Import & Export of China in 2014, Sohu Auto.

2. Key Growth Drivers

2.1 Strong GDP Growth Rate and Income Growth

China's Gross Domestic Product (GDP) growth has been, on average, 8% per year over the past four years, and GDP per capita reached RMB 63.6 trillion (approx. EUR 88.4 trillion) in 2014. This provides strong support to the automotive market, as automobile sales (and therefore automobile parts) showed a strong correlation with GDP growth.

2.2 Relatively Low Penetration Rate

The automobile ownership rate is still very low; by the end of 2014, ownership per 1,000 people exceeded 105 units for the first time, but this is still well below the global average of 140 units. In major European countries the rate is 550 – 600 per 1,000 people.

2.3 Stronger Demands from Lower Tier Cities with Declining Prices

Automobile markets in lower tier cities show stronger growth compared with first tier cities such as Beijing. Lower-tier cities have a much lower penetration rate and are more price-sensitive. The drop in average automobile 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 from cars, from 1st October 2013 the Chinese government started to provide a subsidy of CNY 3,000 (approx. EUR 426) for cars purchased with an engine displacement of lower than 1.6L and a petrol consumption below 5.9L/100 kilometres. Under the policy, there are approximately 163 models eligible for the subsidy in the first batch of the category announced.

In order to promote new-energy vehicles, the Chinese government decided to waive the vehicle purchase tax for selected new-energy vehicles from September 2014.

'Policies on the development of the automotive industry'¹³ (released in 2009) and 'Planning the development of energy-saving and new-energy vehicles industry'¹⁴ (released in 2012) 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.

¹³ <http://auto.163.com/10/0810/15/6DO16K1C000816HJ.html>.

¹⁴ http://www.gov.cn/zwggk/2012-07/09/content_2179032.htm.

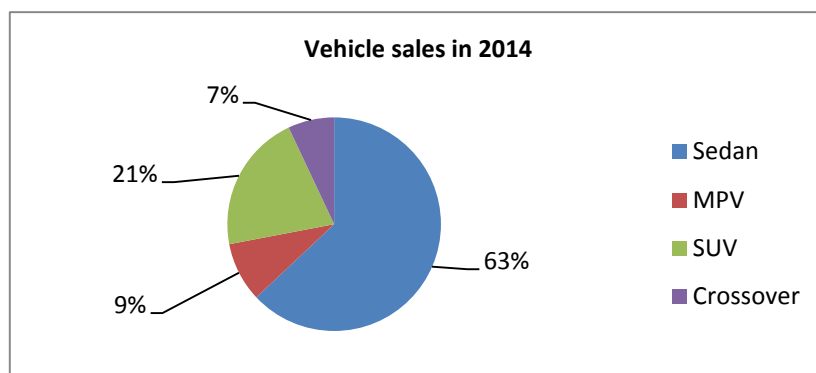
3. Market Structure

3.1 Passenger Vehicles

In 2014, 19.7 million passenger vehicles were sold in China, of which 63% were sedans, followed by SUVs, which sold over 4 million units, and accounted for 21% of total passenger vehicle sales.

Foreign brands dominate the passenger vehicle segment; however, the share of domestic brands increased from 32.4% in 2010 to 38.4% in 2014.

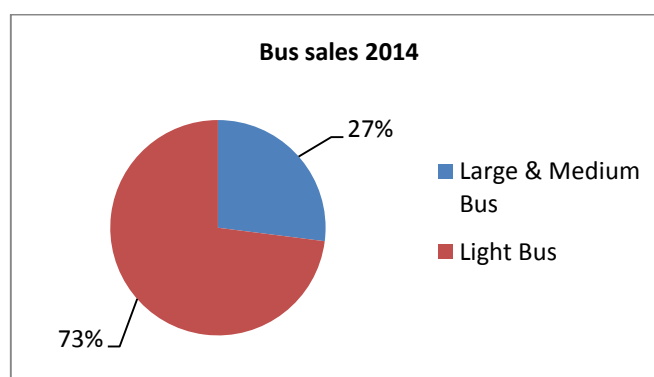
Chart 5: Passenger vehicle sales by type in 2014¹⁵



3.2 Buses

600,000 buses were sold in 2014; of which 73% were light buses, and the remaining 27% large and medium sized buses.

Chart 6: Bus sales by type in 2014¹⁶



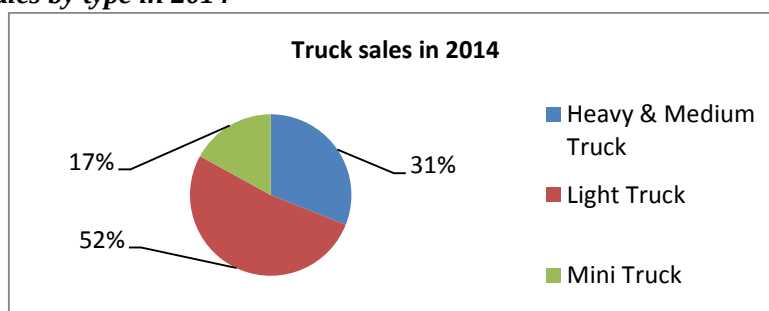
¹⁵ Analysis on Auto Import & Export of China in 2014, Sohu Auto.

¹⁶ Analysis on Auto Import & Export of China in 2014, Sohu Auto.

3.3 Trucks

In 2014, 3.18 million trucks were sold, of which 52% were light trucks, 31% were by heavy and medium trucks and 17% were mini trucks.

Chart 7: Truck sales by type in 2014¹⁷



3.4 Market Concentration

In 2013 the crossover market was the most concentrated segment; with the top three manufacturers (SAIC-GM Wuling, Chongqing Chang'an and Dongfeng) accounting for 79% of the total market. Heavy duty trucks, on the other hand, were the most fragmented segment whose top three manufacturers only make up 19% of the total sales.

Table 6: 2013 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	34%	63%	30%	79%	54%	57%	42%	69%	53%	50%	44%
Top 5	46%	75%	42%	87%	83%	71%	59%	84%	66%	61%	58%

Source: 2014 China Auto Industry Development Annual Report

3.5 Automotive Parts

The market share of Wholly Owned Foreign Enterprises (WFOEs), Joint Ventures (JVs) and Chinese automotive manufacturers in China is evenly allocated. However, foreign companies dominate in areas such as electronic components including power steering, electronic braking, suspension systems and Engine Management Systems (EMS). Domestic companies are strongest in areas such as wheels and glass.

Global automobile manufacturers are aggressively seeking parts suppliers in China. For example, Chrysler has approximately 140 parts suppliers in China from whom they purchase nearly USD 640 million (circa EUR 570 million) worth of goods, representing 3% of its global purchases. This proportion looks set to rise to 5% over the next five years (2015-2020) and implies large opportunities

¹⁷ Analysis on Auto Import & Export of China in 2014, Sohu Auto.

for JVs in China.

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

Car Part	Company
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 Pingtong, Hebei Qiying
Air Conditioning	Shanghai Delphi, Valeo, Tianjin Sanden

Besides automotive manufacturers' 4S shops (sale, spare parts, service and survey), major automotive part manufacturers are aggressively expanding their own dealer networks to target the replacement market. For example, Michelin has established more than 600 TyrePlus shops, Bosch has 1,000 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 2014 there were over 90,000 automotive distributors in China, including 24,000 4S stores, of which approximately 1,200 were established in 2014 alone.

China's automotive distribution industry has two key characteristics:¹⁸

- China's large-scale automotive distributors are concentrated in the economically developed eastern, northern and southern regions, and each region has one to two large leading distributors such as Pangda Group in Hebei, Yaxia Automobile in Anhui, and Grand Orient in Wuxi, Jiangsu.
- As automotive distributors continue to expand, this regional hold will gradually weaken. Among all automotive distribution businesses in China, new car sales account for an overwhelming proportion, while used car and after-sales services still have the capacity to be further developed.

3.6.1 Passenger Vehicles - The 4S Shop Model

The 4S shop model is the dominant model for passenger vehicle sales in China. To gain more shares in the fast growing automobile sales market, certain brands are aggressively expanding their 4S network. For example, Audi plans to open 450 4S shops in China by the end of 2015.

EU SMEs will have to work with automobile manufacturers if they want to penetrate the 4S network across China. This requires a great amount of time and effort from accessing procurement of

¹⁸ China Automotive Distribution Industry Report, 2011-2012, Research in China.

automobile manufacturers, complying with standards and requirements, as well as setting up regional logistics or wholesaler networks to deliver to individual 4S shops. Some regional auto parts wholesalers have established co-operation with regional 4S shops, which can facilitate product entry into these shops.

3.6.2 Commercial Vehicles - Manufacturer to Wholesaler Plus Direct Sales

Leading truck producers, such as Foton, have dedicated a department for key account sales serving large clients as well as appointing wholesalers nationwide. Bus makers maintain their own sales force to cover key clients, such as tourism companies and city bus fleets.

3.6.3 Automobile 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 far more fragmented, with thousands of small family run shops.

- **4S shops** are considered to be the most reliable channel for automobile parts sales due to their branding efforts and established links with the automobile manufacturers. This channel is especially attractive to new drivers who are less experienced in car maintenance and repairs. However, 4S shops are far from being the dominant channel. Most Chinese consumers still shop around for the best prices, and use other channels. Outside the 4S networks, it will still take a while for both individual customers and dealerships to move from price to value.
- **Automobile 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 its area. For instance, Shell divides China into four geographical regions, and there are 30-40 wholesalers in each region. Shell also assists 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 such as signage and promotion kits. There are almost 3,000 retailers in Shell's distribution network and it has plans to expand this substantially.

There are many franchised car service centre brands in China. The largest company is XinQiTe (NTSCar)¹⁹, which has approximately 40 shops in China, mostly located in east and southeast China. NTSCar's scope of business covers a wide range of areas including car aesthetics, 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 located in Beijing, and there are two stores located in Chengdu. In addition AiYiHang also has 10 franchised shops in China.

¹⁹ www.ntscar.com.

Both NTSCar and AiYiHang are national chains. There are also some regional car service chain stores such as YueFu, which has 15 shops in Beijing. Michelin's regional wholesaler in Henan province, Zhengzhou Zhonghua, has a business network of over 1,000 retailers, which gives Michelin the ability to penetrate the lower tier market.

If EU SMEs are considering entering this market, they should work with local leading wholesalers that can provide logistical and warranty support to retailers. Leading wholesalers are strong in placing products on shelves. In addition, EU SMEs should be willing to commit some funds for advertising and marketing to support and give confidence to retailers. A combined push and pull strategy will assist entry into this market.

3.7 Consumer Behaviour

3.7.1 Passenger Vehicles

The top factors consumers tend to consider when purchasing 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 are less concerned about new environmentally friendly technologies such as hybrid engines. Cars that are environmentally friendly are seen as a plus rather than a compelling reason to purchase. A Boston Consulting Group's (BCG) 2014 study revealed that over 75% of Chinese consumers will change brand when they purchase their next car.²⁰

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 highest concern for consumers. The vehicle must be reliable and have a high weight bearing capacity. Overloading is quite common for both trucks and buses in China.

3.7.3 Replacement Automobile Parts

Consumers have very limited knowledge and brand awareness of automobile parts. Therefore, 'trustworthiness' is sought in replacement parts. As there is no third party evaluation of the hundreds of parts, consumers assess quality of parts by the brand of the sales network and the country of origin.

3.7.4 OEM Automobile Parts

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

²⁰ http://www.bcg.com.cn/export/sites/default/cn/files/publications/reports_pdf/BCG_The_Battle_for_Automotive_Brand_Loyalty_in_China_Sep_2014_CHN.pdf.

3.8 Key Players by Segment

Foreign investment into the automotive sector are restricted. Foreign automobile manufacturers have to form a JV with domestic partners to produce automobiles in China. Therefore, all international automobile manufacturers in the passenger vehicle segment are JVs. Domestic players are mainly dominant in the bus and truck segments.

Table 8: Key Players by Sub-Segments

Passenger Vehicles	Buses	Trucks	Auto Parts
<u>Sedan</u> - Shanghai-General Motors (GM) - Shanghai-(Volkswagon) VW - First Auto Works (FA)- VW - Beijing-Hyundai - Dengfend Motors Corporation (DMC) -Nissan - BYD - Chery - Geely Group - Changan-Ford-Mazda - FAW-Toyota Sales Co	<u>Light Bus</u> - Jinbei Auto - Jiangling Motors Corporation (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 - Jianghuai Automotive Corporation (JAC) - DMC <u>Heavy Truck</u> - China National Heavy Truck Group (CNHTC) - Shaanxi Auto Group - Baotou Beifang-Benz	- Weichai - Michelin - Continental - Asahi - Pilkington - Mando (Beijing) - Xiamen Golden Dragon - Shanghai Delphi - Bosch
<u>Crossover</u> - SAIC (formerly Shanghai Automotive Industry Corporation)-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 their large capital, legal and HR requirements. Opportunities for EU SMEs fall within the automobile 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 a superior quality compared to local brands. This provides EU SMEs with an advantage when entering the market. To tackle the highly fragmented distribution channels, EU SMEs should seek to work with large foreign automobile manufacturers, automobile electronics, appliance and merchandise manufacturers to enter their sales networks as official parts suppliers.

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

Michelin Tyre's network, TyrePlus, has more than 600 shops in China and the network is open to a number of automobile 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 Automobile Makers

Foreign brand names dominate the passenger vehicle segment; In recent years they have established JVs and have now passed the capital-intensive market entry and cost-savings stages. At present, they are promoting even stronger localisation trends as they have become more established. As more affluent Chinese buyers become increasingly quality-conscious, Chinese OEM manufacturers have started to seek 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 automobile parts in the price driven category are fit for the purpose for a 2-3 year lifecycle.

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 has decreased gradually. 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 Automobile Players in the US and Japan

Compared to the 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

Opportunities highlighted by Jebsen Industrial²¹ in China are:

- Specialised testing equipment;
- Fuel efficiency systems;
- After-treatment of automobile emissions;
- Electricity and fuel hybrid technologies;
- New materials to make cars lighter such as carbon fibre;
- Complex metal or plastic automobile components;
- Precision granulated equipment, balance shafts, vibration dampeners.

4.2.5 Opportunities by Regions

The table below is ranked by the population per province in 2013. The numbers marked in red are the top ten in terms of household income and growth rate. Four regions were strong in both rankings, namely Jiangsu, Liaoning, Shandong and Chongqing.

Table 9: Population and Urban Per Capita Annual Household Expenditure 2013²²

Province	Population (Million)	Household Consumption Expenditure by Region (RMB)	Growth Rate
Henan	96.1	11,782	9.6%
Shandong	90.8	16,728	10.1%
Guangdong	88.4	23,739	6.4%
Sichuan	81.1	12,485	8.7%
Jiangsu	74.1	23,585	16.6%
Hebei	67.4	11,557	10.8%
Hunan	66.3	12,920	8.1%
Anhui	61.4	11,618	3.8%
Hubei	56.7	13,912	10.6%
Guangxi	48.2	11,710	9.1%

²¹ A major European marketer and distributor.

²² China Statistical Yearbook 2014.

Zhejiang	47.8	24,771	7.4%
Yunnan	43.3	11,224	11.7%
Jiangxi	42.2	11,910	10%
Liaoning	42.0	20,156	10%
Guizhou	38.4	9,541	12.7%
Heilongjiang	38.1	12,978	9.7%
Shaanxi	36.6	13,206	10.4%
Fujian	34.8	17,115	7.1%
Shanxi	33.0	12,078	10.5%
Chongqing	28.1	15,270	12.2%
Jilin	27.0	13,676	12.6%
Gansu	25.3	9,616	11.7%
Inner Mongolia	23.8	17,168	9.9%
Xinjiang	19.1	11,401	3.7%
Shanghai	17.1	39,223	7.3%
Beijing	14.2	33,337	6.6%
Tianjin	10.1	26,261	6.7%
Hainan	8.0	11,712	8.2%
Ningxia	5.7	13,537	8.8%
Qinghai	5.3	12,070	11.8%
Tibet	2.7	6,275	16.7%

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 residents and the total number of cars registered. The top provinces according to the number of vehicles registered by the end of 2013 were Guangdong, Jiangsu, Zhejiang and Beijing.²³

4.3 Automobile Parts – Replacement Market

Coastal cities lead in terms of new car sales and vehicle registration. First²⁴ and second-tier²⁵ cities have stronger demand for better replacement parts because of their high vehicle registration numbers and higher purchasing power.

4.4 Automobile Parts – OEM Market

China's auto production is concentrated in 10 regions, which accounted for 72% of China's total output in 2013.

They were:

- Jilin (10.5%)

²³ See Annex 2 below.

²⁴ Major cities such as Beijing, Shanghai, Guangzhou and Shenzhen.

²⁵ Large cities not as big as the major cities such as Chengdu, Chongqing, Dalian, Hangzhou.

- Shanghai (9.7%)
- Chongqing (9.1%)
- Shandong (8.7%)
- Jiangsu (8.2%)
- Guangdong (7.2%)
- Zhejiang (6.4%)
- Hubei (5.2%)
- Zhejiang (4.4%)
- Liaoning (2.9%)

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 automotive parts market. The difficulties are related to the development of distributions networks, brand recognition, experienced staff recruitment and combatting counterfeits.

5.2 Network Development

Due to the wide geographical coverage of the Chinese 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 automobile manufacturers or major distributors will be a demanding process, especially as SMEs will be in a weak position to control pricing and sales.

5.3 Brand Recognition

Brand recognition plays an important role in the replacement part decision making process. Well-known 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.

5.3.1 Experienced Staff Recruitment

Labour, especially skilled labour, is becoming more expensive in China. There is no talent pool readily available; many automobile manufacturers have to train their own technicians for their dealer network by working with universities. There is a high employee turnover rate, which poses another challenge, since trained technicians are in high demand in the market and may seek other opportunities.

5.3.2 Counterfeit Products

Some provincial automobile manufacturers have the capability to copy brand name parts and sell them in the market. It is very difficult to prevent these from being sold, because they can quickly penetrate into all branches of the automobile manufacturer’s distribution channels. At the same time, Intellectual Property Rights (IPR) enforcement in China is still in the process of development.

5.4 Automobile Parts – OEM Market

The main challenges in winning OEM contracts with major automobile manufacturers are the high qualification requirements required to establish cooperation and rising competition from domestic players.

5.4.1 High Qualification Requirements

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

5.4.2 Rising Competition from Domestic Players

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

6. Report Summary

Table 10: Summary of the Challenges and Opportunities

	Automotive Parts - Replacement	Automotive Parts - OEM
Opportunities	• Favourable image of European brands in general	• 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	• Network development • Brand recognition • Experienced staff recruitment • Counterfeit products	• High qualification requirements • Rising competition from domestic players
Key Success Factors	• Dealer network penetration	• Advanced technology and know-how

7. Annex

7.1 Annex One: Vehicle Imports by Variety January-December 2013²⁶

Table 11: Vehicle Import by Type

Variety		Volume (Unit)	% Change	Value(USD)	% Change
1. Buses		2,386	-5.50	123,345,337	-16.4
a. Airport shuttle bus		28	100.00	6,919,521	26.7
b. Large bus (seats >=30) (diesel engine)		9	125.00	2,649,578	872.8
Large bus (seats >=30) (non-diesel engine)		0	-100.00	6,919,521	26.7
c. Medium bus (20<= seats <= 29) (diesel engine)		26	23.80	1,466,279	13.3
Medium bus (20<= seats <= 29) (non-diesel engine)		209	-29.9	10,952,610	-50.7
d. Small bus (seats <=9) (diesel engine)		209	364.40	7,936,163	83.6
Small bus (seat <=9) (non-diesel engine)		1,905	-11.10	94,421,186	-18.0
2. Cars		423,439	-5.3	17,621,408,742	-10.0
Petrol Engine	ED <= 1000 ml	15,891	-16.60	175,706,835	-15.4
	1000 ml <ED<= 1500 ml	58,724	-12.50	803,215,141	-17.2
	1500 ml <ED<= 2000 ml	199,077	14.40	5,608,948,961	17.10
	2000 ml <ED<= 2500 ml	47,839	19.0	1,499,630,263	20.30
	2500 ml <ED<= 3000 ml	92,545	-11.0	6,900,658,843	-0.40
	3000 ml <ED<= 4000 ml	22,738	-57.40	1,549,751,765	-58.60
	ED > 4000 ml	6,446	-44.0	1,071,681,121	-34.80
Diesel Engine	ED <= 1000 ml	0	0	0	0
	1000 ml <ED<= 1500 ml	2	-60.00	41,733	-45.90
	1500 ml <ED<= 2000 ml	4	-80.00	140,184	-73.00
	2000 ml <ED<= 2500 ml	0	0	0	0
	2500 ml <ED<= 3000 ml	172	-69.90	11,614,024	-70.10
	3000 ml <ED<= 4000 ml	1	0	19,872	0
	ED > 4000 ml	0	-100.00	0	-100.00
3. SUV		505,343	10.70	23,202,669,127	13.20
Petrol Engine	ED <= 1000 ml	0	0	0	0
	1000 ml <ED<= 1500 ml	3,549	17.10	42,491,251	10.30
	1500 ml <ED<= 2000 ml	109,343	48.40	4,196,163,381	62.50
	2000 ml <ED<= 2500 ml	75,654	-0.10	1,553,311,811	0.10
	2500 ml <ED<= 3000 ml	189,015	17.10	11,018,418,611	21.0

²⁶ China Automotive Industry Development Yearbook, 2014 edition.

	3000 ml <ED< =4000 ml	70,190	-10.2	2,501,364,770	-12.40
	ED > 4000 ml	19,927	-37.20	1,637,676,058	-34.40
Diesel Engine	1000 ml <ED<= 1500 ml	0	0	0	0
	1500 ml <ED<= 2000 ml	1,328	-33.40	36,259,349	-26.20
	2000 ml <ED<= 2500 ml	7,424	79.20	281,867,112	85.90
	2500 ml <ED< =3000 ml	28,902	12.0	1,934,229,056	20.10
	3000 ml <ED< =4000 ml	0	-100.00	0	-100.00
	ED > 4000 ml	11	-98.40	887,728	-98.50
4. MPV		230,915	28.60	6,033,670,775	26.30
Petrol Engine	ED <= 1000 ml	1	0	14,970	0
	1000 ml <ED<= 1500 ml	325	1,931.30	8,778,360	3,111.30
	1500 ml <ED<= 2000 ml	107,605	34.70	2,597,014,831	32.10
	2000 ml <ED<= 2500 ml	57,899	11.70	1,260,967,200	17.40
	2500 ml <ED< =3000 ml	33,636	18.70	1,162,508,887	11.60
	3000 ml <ED< =4000 ml	22,912	87.20	788,753,244	44.60
	ED > 4000 ml	647	1,370.50	33,100,822	1,362.80
Diesel Engine	1000 ml <ED<= 1500 ml	5	0	71,894	0
	1500 ml <ED<= 2000 ml	720	2.00	14,903,703	24.00
	2000 ml <ED<= 2500 ml	7,129	11.00	165,221,671	25.60
	2500 ml <ED< =3000 ml	17	-51.40	1,248,514	-54.60
	3000 ml <ED< =4000 ml	18	0	1,044,180	0
	ED > 4000 ml	1	0	42,499	0
4. Other passenger vehicles		20,208	-21.20	591,258,603	-4.20
5. Unspecified passenger vehicles		74	-69.20	4,267,463	-57.20
6.Trucks		11,197	-42.40	1,122,656,383	-39.70
A. Diesel Engine	GVW <= 5 t	85	4.90	3,252,271	8.60
	5t < GVW <= 14t	283	35.40	26,547,765	61.80
	14t < GVW < 20t	206	43.10	21,347,970	58.40
	GVW > 20t	5,035	-63.40	596,104,719	-55.10
B. Petrol Engine	GVW <= 5t	3,750	1.30	186,817,314	4.10
	5t < GVW < 8t	26	-27.80	1,508,897	-22.10
	GVW > 8t	39	5.40	2,087,526	26.30
c. Unspecified trucks		2	-90.50	1,795,977	-89.60
7. Tow tractors		1,537	26.70	138,122,073	24.90
8. Dump trucks (electric driven)		18	-70.50	33,130,763	-75.40
Dump trucks (non-electric driven)		216	19.30	111,941,108	91.40
9. Special vehicles		224	-4.70	163,249,194	33.70
10. Chassis		1,254	15.30	135,823,413	70.70
Grand Total		1,195,040	5.60	48,999,349,037	2.80

7.2 Annex Two: New Registrations of Civilian Vehicles in China per Province in 2013

Please note that this table does not include government registered vehicles.

Table 12: The Number of Passenger Vehicles by Province²⁷

	Total	Passenger vehicles	Trucks
Guangdong	1,611,605	1,412,843	194,968
Jiangsu	1,568,341	1,448,610	112,613
Zhejiang	1,409,464	1,272,408	133,565
Beijing	589,346	552,069	34,144
Henan	1,264,528	1,075,941	184,507
Sichuan	961,575	847,426	110,887
Liaoning	634,207	548,340	83,032
Shaanxi	595,002	519,002	71,884
Yunnan	609,577	508,172	99,025
Shanxi	590,604	518,234	70,090
Hunan	686,026	593,615	90,067
Anhui	693,353	564,308	125,842
Hubei	643,371	548,079	90,702
Fujian	556,857	468,041	86,661
Inner Mongolia	433,257	380,093	51,275
Shanghai	349,923	303,841	36,186
Heilongjiang	373,898	315,841	56,135
Tianjin	421,659	386,280	34,326
Guangxi	445,913	371,784	72,090
Jilin	352,333	303,426	47,472
Jiangxi	454,788	369,592	82,222
Chongqing	429,496	364,299	60,885
Guizhou	409,790	330,023	76,170
Xinjiang	347,355	268,185	75,651
Gansu	284,353	216,884	65,075
Hebei	1,385,247	1,156,968	223,647
Hainan	101,416	85,505	15,374
Ningxia	130,966	97,536	32,421
Qinghai	100,985	79,310	20,702
Tibet	36,355	19,164	17,005

²⁷ China statistical yearbook 2014.

8. Resources

8.1 Exhibitions

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. 19th – 22nd September 2015 (National Exhibition and Convention Centre, Shanghai) E-mail: info@apechina.com
The 12th 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. 26th – 28th February 2016 (Shenzhen Convention & Exhibition Centre, Shenzhen) 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 had 3,124 exhibitors and 167,482 visitors in 2011. 25th – 28th February 2016 (China International Exhibition Centre (New Venue) Beijing) E-mail: info@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. 3rd – 6th March 2016 (New China International Exhibition Centre) E-mail: wangyanyan@traderslink.com.cn; zhangcui@traderslink.com.cn
The 13th China (Guangzhou) International Automobile Exhibition www.autoguangzhou.com.cn Auto Guangzhou, jointly organized by the China National Automotive Industry Corporation (CNAIC) and China Council for the promotion of International Trade, is the leading auto and auto parts exhibition in China. 25th–29th April 2012 (International Exhibition Centre (CIEC) & New International Exhibition Centre (NCIEC)) E-mail: service@autoguangzhou.com.cn; autoguangzhou@auto-ccpit.org
China International Auto Products Expo 2015 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. 19th – 22nd September 2015 (National Exhibition and Convention Centre, Shanghai) E-mail: huoli@jmexpo.com.cn

8.2 Useful Websites

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.org.cn/autoinfo_eng/index.html
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/index.html
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