2016 Top Markets Report Automotive Parts
Country Case Study

China

Type: Large Market; Small Share

The Government of China has viewed its automotive sector, including the auto parts industry, as a pillar industry for many years. The sector is projected to grow rapidly under the government's latest economic development plans, which devote particular attention to the latest automotive technologies employed in electric and hybrid vehicles.

Original Equipment Rank	Aftermarket Rank
3	3

Overview of the Automotive Parts Market in China

China is the third largest market for U.S. auto parts exports. In 2015, there were $2.3 billion in exports with a decrease of nearly 1 percent from the previous year. China exported $18 billion in auto parts to the United States in 2015, a slight increase over 2014.

BMI Automotive estimates that light-vehicle sales in China will increase 4.4 percent in 2016 to reach 24.3 million vehicles. SUVs are a fast-growing segment in China. China's growth in new passenger vehicle sales and the aging of China's vehicles will inevitably create an increased demand for both original equipment (OE) parts and aftermarket parts.

As the number of new cars continues to grow so does the number of older cars, especially cars that have just gone out of warranty (which is typically three years in China). By 2017, the average car age will be 4.5 years old which will increase demand for aftermarket parts and services.

The emergence of a Chinese aftermarket is relatively new. Most of the service is done through the original equipment manufacturer, where the buyer purchased the vehicle new. There is also service through repair shops authorized by the original equipment manufacturer. Independent aftermarket suppliers are usually small regional companies that that sell through distributors to independent repair shops. This tends to be a complex distribution chain with many layers.

Recently, small direct channels which are owned by a strong brand company, usually foreign, have emerged. This distribution channel has proved to be successful as Chinese consumers tend to be price and brand conscience and worry that they are buying genuine parts.

New auto-related regulations and policies in China continue to be developed as the market grows. The Chinese government continues with directed policies to decrease the number of auto component suppliers and increase their own quality and competitiveness.

Figure 1: 2015 China Automotive Market

Sales (units)	24.6 million
U.S. Auto Parts Exports to China	$2,388,637,302
Total Chinese Auto Parts Imports	$45,741,366,143
Total Domestic Vehicle Production	24.32 million
Vehicles in Operation	145,501,274
U.S. Auto Parts Export Growth 2009-2015	+154%

Challenges and Barriers to U.S. Automotive Parts Exports to China

U.S. automakers and automotive parts manufacturers face significant challenges in China's automotive market as China has implemented a series of policies that have had a discriminatory effect on foreign enterprises, including caps on majority foreign ownership in most cases. Additional problems arose after China's economic policymakers began devoting substantial resources and creating new policies to assist Chinese automobile enterprises in developing cutting-edge New Energy Vehicle (NEV) and hybrid technologies and building domestic brands that could succeed in global markets.

Chinese policy makers have recently hinted that they may be developing their own standards. Having a unique set of standards will make it even harder to export to Chinese markets and will certainly raise the cost of doing business.

Chinese auto and auto parts producers benefit from many Chinese government policies, including import restraints, domestic content rules, technology transfer policies, export requirements, and domestic and export subsidies. Auto parts targeted by these plans include batteries, electric motors, electronic control systems and fuel cells.

China remains a major source of counterfeit auto parts, and it is a concern for the industry worldwide. U.S. companies, whether exporting or not, should be diligent about protecting their intellectual property in China and be on the lookout for any counterfeit products for sale not only in China, but worldwide. Companies should also be aware of pervasive industrial espionage and take precautions to protect computer systems and critical technologies.

China has been slow to update the laws and regulations regarding vehicle modifications, which limit U.S. parts exports of specialty products. In addition, there is concern that there will be certification requirements for aftermarket parts sold in China, which could be burdensome for parts suppliers.

Opportunities for U.S. Companies

While it can be difficult for U.S.-made parts to compete with low-cost Chinese parts, there are many opportunities for exports. Many Chinese consumers appreciate the quality and reliability of U.S.-made parts, and they have the means to pay extra for them. In addition, those parts with advanced technologies or unique features have the potential to be exported.

Original Equipment (OE)

Vehicle sales are predicted to stay strong in 2016, reaching 24 million. The tax cut on cars with engines less than 1.6 liters will encourage consumers to buy. It is projected that auto and auto component makers will increase localization in their manufacturing operations.

China requires foreign vehicle brands that manufacture in China to have a joint venture with a Chinese partner. Currently, over 20 foreign automakers produce vehicles in China, including GM, Ford, Fiat/Chrysler, Daimler, BMW, Volkswagen, Audi, Peugeot/Citroen, Jaguar/Land Rover, Volvo, Toyota, Honda, Nissan, Infiniti, Isuzu, Mazda, Mitsubishi, Suzuki, Hyundai and Proton.

Ford has stakes in two JVs in China, Jiangling Motors Corp. and Changan Ford Automobile. Changan Ford passenger vehicle sales increased 7 percent to 836,425 vehicles for 2015 while Jiangling Motors sales decreased 6 percent to 253,359. Ford also imported 25,340 vehicles last year.

GM has 10 joint ventures in China, its largest market worldwide. GM, along with its joint ventures, sells under the Buick, Cadillac, Chevrolet, Opel, Baojun, Wuling and Jiefang nameplates. GM's joint venture, Shanghai GM, announced in 2015 that it will invest $16.4 billion in new car development from 2016 to 2020. Separately, GM announced in 2014 that it will invest $14 billion in China from 2014 to 2018 and open 5 more auto assembly plants by 2018 with a goal of increasing production from its current 3.5 million units in China per year to 5 million units. In 2015, GM increased sales in China by 5.2 percent to reach 3,612,653 vehicles.

Fiat Chrysler recently established a JV with Guangzhou Automobile Group Co., and Chinese production of the Jeep Grand Cherokee began late last year. Fiat Chrysler forecasts that its sales in China would increase to 850,000 vehicles in 2018 from 195,000 in 2014. By 2018, GAC Fiat will be producing eight models in China. China has become the largest Jeep market outside of the United States.

OE parts suppliers already in the global supply chain for these vehicle manufacturers could have some advantage in supplying these Chinese plants, but in most cases, the parts will be produced there. For example, Delphi, a major U.S. parts manufacturer currently has 28 manufacturing plants in China with plans to increase this further.

According to data from the China Association of Automobile Manufacturers (CAAM), the top-selling models in China in 2015 were SAIC GM Wuling Hongguang, SAIC Volkswagen New Lavida, Great Wall Haval H6, Dongfeng Nissan Sylphy, SAIC GM Wuling Baojun 730, SAIC GM Buick Excelle families, FAW-Volkswagen New Sagita, SAIC Volkswagen New Santana, FAW-Volkswagen New Jetta and SAIC Volkswagen Tiguan.

Aftermarket

Beginning on January 1, 2015, automakers are required to provide maintenance and technical information for all models with independent repair shops. In addition, original equipment suppliers will be allowed to sell their products directly to consumers and non-authorized dealers. These changes will encourage greater competition and will allow component manufacturers more access to aftermarket sales.

Currently, China's after-sales market is still in its development stage with immense opportunities for growth. The average age of the country's vehicle fleet is three years old, and by 2017, the average car age will be 4.5 years old, which will increase demand for aftermarket parts and services. Despite its underdevelopment, the Chinese after-sales market generated $73 billion in 2013, compared to the U.S. aftermarket sales of $131 billion in 2012.

A growing after-sales market and a strong potential for clean energy vehicles will encourage U.S. exports followed by investment from suppliers. U.S. aftermarket companies can meet potential buyers at Automechanika Shanghai, which will be held from November 30 to December 3, 2016.

Specialty

Currently, China has regulations that prohibit many vehicle modifications, constraining U.S. specialty auto equipment exports. ITA is working to inform Chinese industry and government representatives about how the United States safely regulates the American aftermarket, including specialty equipment.

The Specialty Equipment Market Association (SEMA) has a Market Development Cooperator Program (MDCP) award with ITA to help U.S. specialty parts companies increase their exports to China. Each fall, SEMA organizes an event in China where U.S. specialty parts companies can explore the market and meet potential buyers.

Subsector Best Prospects

As the Chinese Government works to reduce pollution and the importation of oil, it has been making regulatory changes that target increasing fuel efficiency. These changes will create opportunities for advanced technology components, such as turbochargers, which decrease fuel consumption.

According to CAAM, domestic electric vehicle (EV) sales are expected to reach 273,150 units by 2017. This is considerably down from previous government predictions of achieving 500,000 unit EV sales by 2015 and 5 million by 2020. The Chinese government is implementing several policies that encourage the adoption of EVs, including its goal to have charging stations in every parking lot. In addition, the government's mandate that 30 percent of its fleet be EV is seen as an incentive for the EV manufacturers.

U.S. companies that specialize in vehicle emissions controls are in a great position to take advantage of the Chinese market as they have more advanced technology than the Chinese suppliers do.

China adopted stricter diesel emission regulations (Euro 4), and China is currently drafting stricter passenger vehicle fuel consumption regulations.