



Development of China's Small & Medium-Sized Parts Suppliers

JI Xuehong

China Automobile Technology & Research Center

Website: [http:// www.catarc.ac.cn](http://www.catarc.ac.cn)

Email: jixuehong@catarc.com.cn

May, 2007

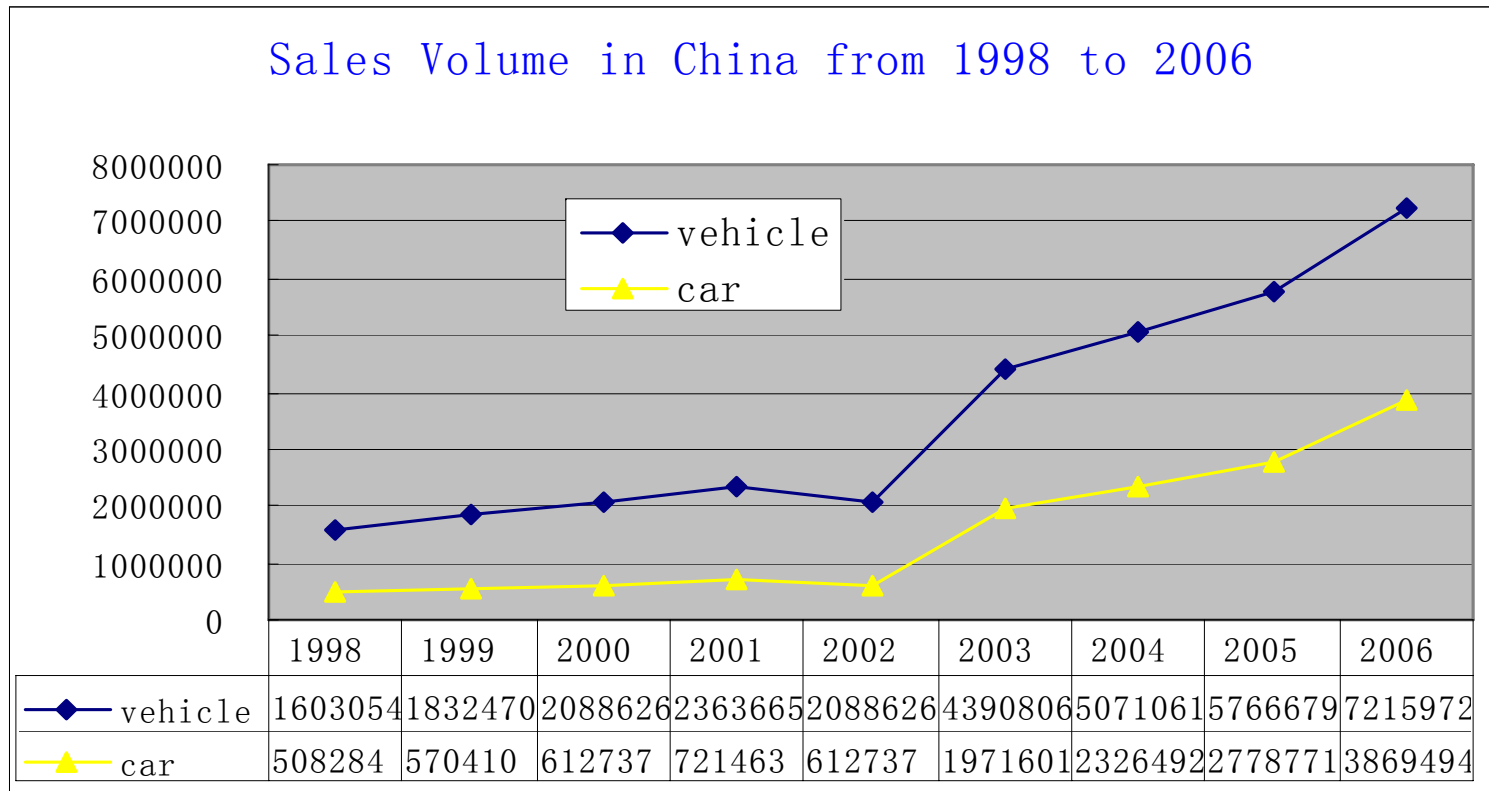


- **Major Characteristics of China's Auto Industry**
- **Opportunities and Challenges for Small & Medium-sized Parts Suppliers in Global Supply Chain**
- **Supporting Policies on China's Small & Medium-sized Parts Suppliers**
- **A Brief Introduction to CATARC**

Brief Introduction to China's Automotive Industry



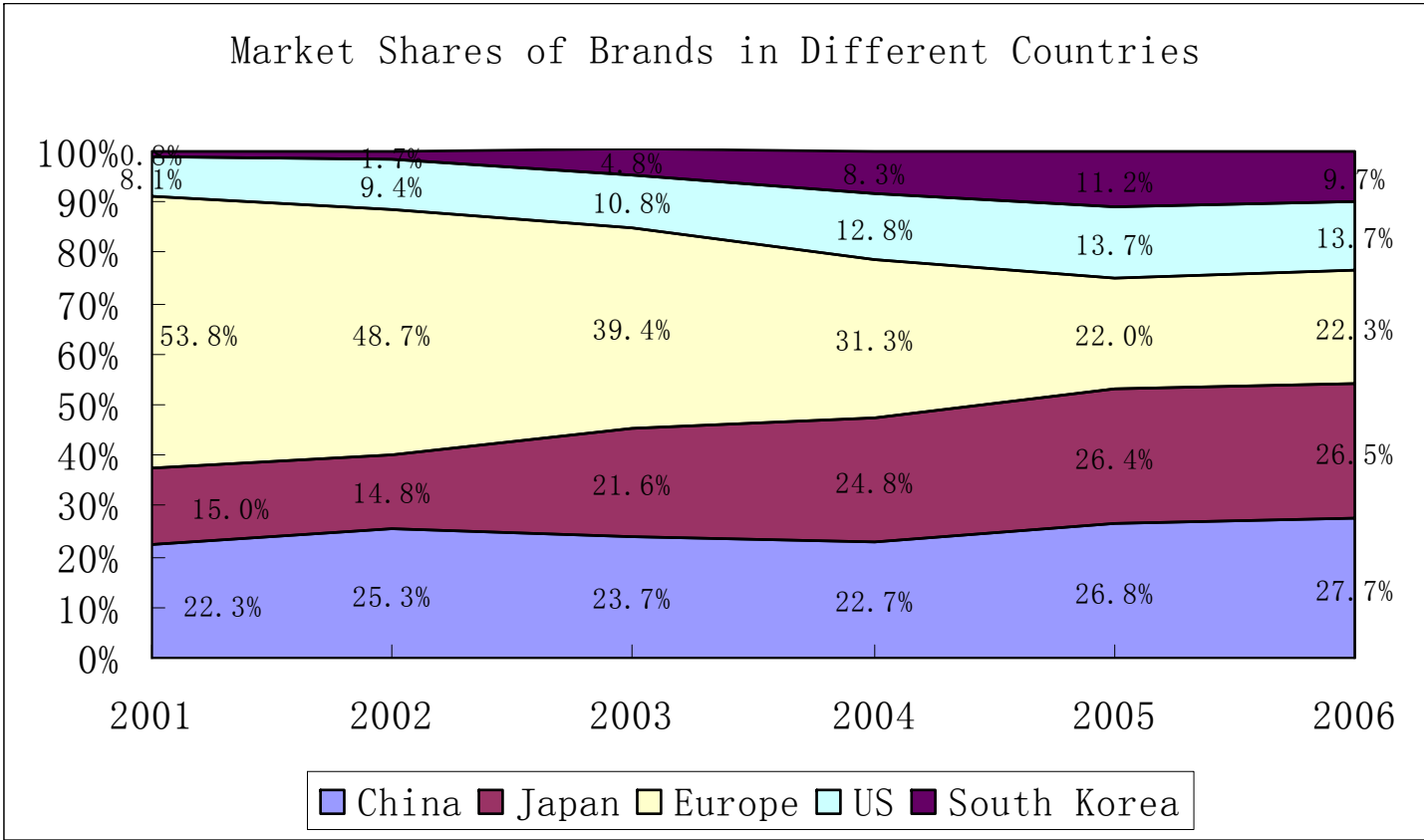
- Over the last five years, China has witnessed a fast increase in vehicle sales.



Sources: China Automobile Industry Yearbook



➤ Most of the products are owned by multinational names and produced by joint ventures.



Sources: China Automobile Industry Yearbook



- **Locally owned manufacturers master few core technologies, and mainly compete in economical segment.**
- **By 2006, there were 117 approved vehicle manufacturers(not including remanufacturers); the biggest was Shanghai Automotive Industry Group's 1,253,609 cars a year; the smallest ones produced a handful annually.**
- **There have been tough competition between manufactures; prices are continually falling , thereby, profit-making level is declining.**

In a word, China's auto industry is large but not yet strong.

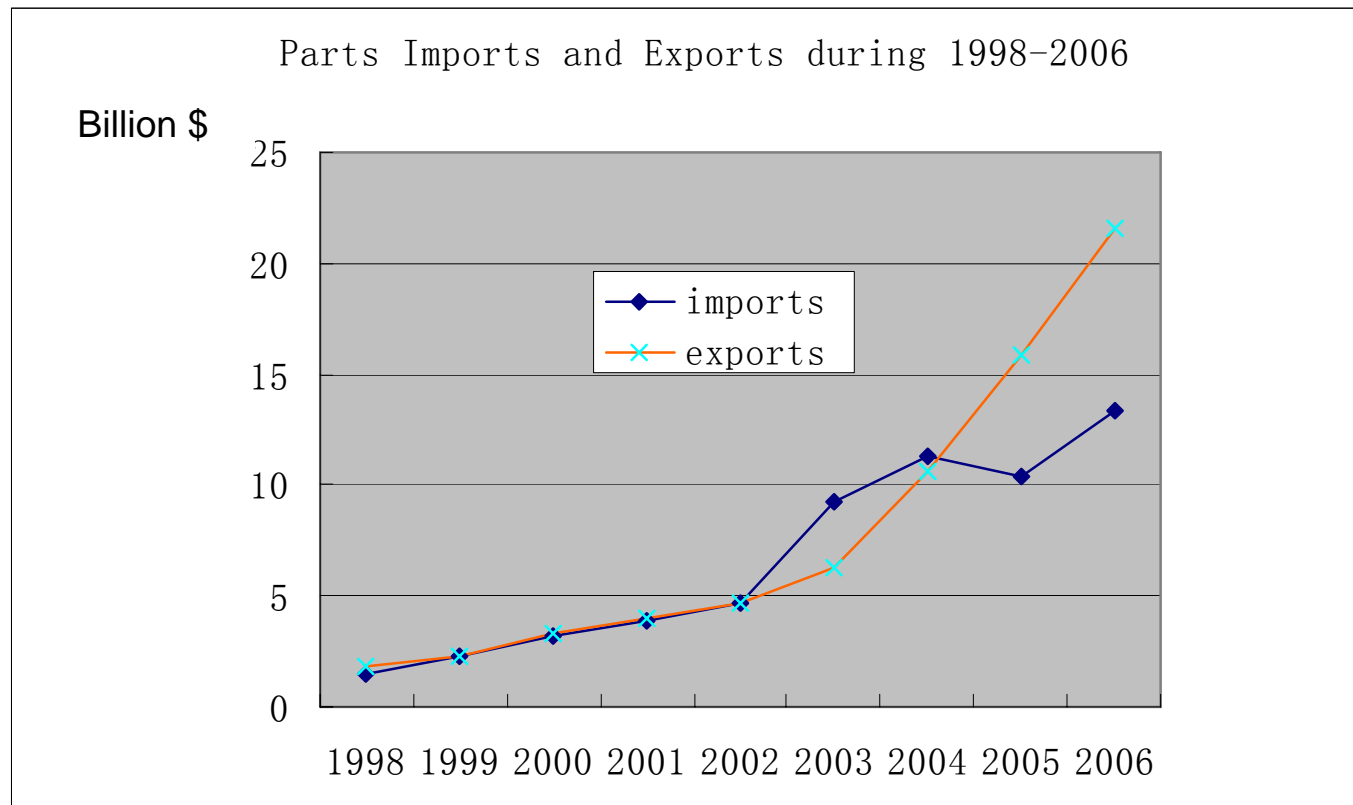


Perspective in parts suppliers

- **There are more than 6,000 major parts suppliers, and another 500 odd enter each year; sales incomes grew by 36.82 % on an average during 2000-2005;**
- **Parts businesses are owned by the state, joint or solely owned foreign ventures or privately; most privately owned businesses are of small or medium size.**
- **About 1,200 multinational parts suppliers produce key and high value-added parts, such as electronics and transmissions; locally owned businesses mainly serve economical and commercial vehicles and aftermarket, mostly labour-intensified.**



- Both export and import are increasing quickly, and export has surpassed import since 2005, however most export are of lower added value.



Sources: China Auto Industry Development Annual Report



Advantages and opportunities

- SMEs mainly refer to partial parts suppliers, special vehicle manufacturers, as well as some dealers and garages, most privately owned.
- China's SMEs pay great attention to cost-based competition; They are quick in decision-making and adopt differed strategies;
- Facing a larger market, consisting of not only local OEM, suppliers and after market, but also overseas orders;
- Multinational suppliers are shifting a growing number of core technology ; relocating their plants and purchasing more parts locally and are benefiting more lower Tier suppliers in China.



Disadvantages

- **They are small in size, having difficulties to serve state-owned businesses or joint ventures;**

For example, of hundreds of exhaust gas pipe producers , only 30 can receive orders of more than 50,000 sets a year.

- **They can not supply integrated or modularized parts for the time being**
- **They lag their foreign contemporaries in terms of process management, quality control, R & D**



Challenges

➤ To serve the global supply chain, China's parts suppliers are facing the following challenges:

-R & D:

-Production technology

-Quality control

-Environmental protection

-Professional languages and communications

-Application of supply chain standards

-Creativity of high-caliber staff

-Lean production and cost control

➤ Overall, the key for china's parts supplier to serve the global supply chain is to improve the capabilities in an all-round manner



Problems with overseas purchasers in China

- **Communications problems with so many Chinese suppliers;**
- **Heavy commercial and technical burdens of national sourcing work**
- **Project control;**
- **Door to door integral logistics management;**
- **Engineering support of parts sourcing development;**



Strategies of successful businesses

- **Some of them stick to single products, resulting in profession, lower cost and larger capacity**

Examples: **Wanxiang Group**, the biggest supplier in China, starting from universal joint production in the 1980s;

Wanfeng Auto Group, starting from aluminous wheel in 1994, now being the largest one in Asia.

- **Some manage to serve the foreign aftermarket, and then seek opportunities to join in the domestic supply system.**



Laws and policies on SMEs

- **In 1998, the government department established a specific body for the SME affairs; In 2002, enacted “SME Promotion Act ”; regional authorities have formulated numerous incentives as well.**
- **SME have found quick development in some places, such as Zhejiang province, while there are many complaints on the policy environment , such as taxes, funds and laws, in some other regions.**
- **Would-be incentives: open technology platforms; in some industrial zones, market consultation, technical and certification supports.**



Incentive policies and rules

➤ **“Auto Industry Development Policy”, a long-term and latest version industrial guidance, favors domestically owned suppliers**

including a specific plan; funds supports for the segment

➤ **“Automotive Industry Plan for 2006-2010”, a detailed policy program:**

specific guidance for the segments of mechanics, mechanical electrical combination and electronics; to favor large-sized businesses; to help more suppliers serve auto makers in developing new models;

➤ **In 2006, the government departments named 116 “export-oriented bases”; which are expected to receive special incentives;**



Coordinated work needs to be done

➤ **Government departments**

To offer greater scale of support, and less intervention; to create easier environment concerning funds and law aids; to lower the entry threshold, etc

➤ **Vehicle manufacturers**

Offer SME more help and opportunities

➤ **Agency institutions**

To establish closer relationships between auto makers and parts suppliers in all fields; guarantee services in financing;

➤ **Banks**

Need to launch greater kinds of services, the latest good news comes from the China Communications Bank, having rolled off tailor-made services for parts suppliers

■ Brief Introduction to CATARC



-
- **China Automotive Technology & Research Center (CATARC) has been a research institute owned by the state, serving as one of the authoritative third-party coordinators for the government and businesses.**
 - **CATARC is engaged in formulating standard and technical regulation, product certification and testing research, quality system certification, industry planning and policy research, information service and common technology research.**
 - **Welcome to CATARC.**