

Overseas Market Information



Doing Business with China

China's Automobile Industry - Opportunities for India's Automotive Component Manufacturers

The Chinese automotive industry has demonstrated remarkable advancement over the past decade and China is widely regarded as the world's largest potential market for automotive products. China produced almost 4.5 million vehicles in 2003, topping France as the world's fourth largest producer. Boosted by an explosion in urban middle-class wealth, passenger car output totalled 2.01 million with 1.97 million of the cars finding buyers, an increase of 84.4 per cent and 84.7 per cent respectively. Output of sedans, trucks, vans and buses hit 4.44 million while sales came in at 4.37 million. Compared with 2002, it represents at 36.2 per cent and 34.5 per cent increase respectively. Output of domestically-made passenger cars is expected to surge by more than 50 per cent to 2.7 million units in 2004. It is also believed that both truck and bus output would rise 10 to 20 per cent in 2004. The State Council's Industrial Economy Research Institute predicted that in 2004 growth in domestic demand would drop-off, but in the medium-and long-term China's auto market was positioned to maintain sustained and rapid growth for the next 20 years.

China's top three automakers - First Automotive Works Corp. (FAW), Dongfeng Motor Corp. and Shanghai Automotive Industry Corp. (SAIC) - together make up 51 per cent of the country's production. Together with their foreign joint venture partners, the top three also account for 49 per cent of sales nationwide. Ten leading plants accounted for around 80 per cent of China's automobile production in 2003. Out of the 4.44 million automobiles produced by China in 2003, the top 10 manufacturers produced 3.548 million units, accounting for 79.84 per cent of the total. FAW, top spots with 858,700 units

in 2003. SAIC followed closely with an output of 796,900 units. Dongfeng Motor Corporation, with an output of 470,300 units. The other seven plants reported output in the range of 101,100 units to 406,800 units. They are Chang'an Automobile Group, BAIC, Harbin Hafei, Jinbei Automobile Co., Guangzhou Automobile Industry Group Co. Ltd., Changhe Aircraft Industry Co. and SAIC Chery Automobile Co., Ltd. Among the 10 plants, Guangzhou Automobile Industry Group Co. Ltd., Beijing Automotive Industry Corporation and SAIC Chery Automobile Co. Ltd. experienced the biggest growth.

Automobile Industry in East China

Shanghai

Shanghai, the most industrialized city in China, is one of China's most important bases for automotive industry. It is home to Shanghai Volkswagen (SVW) and Shanghai General Motors (SGM), which combined account for over 34% of China's passenger car overall market. SVW and SGM have the same Chinese joint venture partner - Shanghai Automotive Industry Corp. (SAIC). It has more than 50 member companies, producing sedans, coaches, buses, vans, trucks, motorcycles, tractors and key automotive components. It not only engages in the manufacturing, but also in marketing, trade, R & D, financing as well as investment. As of the end of 2002, SAIC had a total asset worth US\$ 16.06 billion and realised a total industrial output of US\$ 17.61 billion with more than 60,000 employees. Most of its member companies are in Shanghai and those it recently acquired through consolidation are situated in neighbouring Jiangsu and Anhui provinces. The majority of its member companies are joint ventures with US, French, German, Japanese, Italian, Swedish companies, among which are : (1) Shanghai Volkswagen (SVW), SVW was established in 1985 as a 50-50 joint venture in the north-west of Shanghai. As of the end of 2001, it had a total asset

of US\$ 3.8 billion, offering more than 10,000 jobs. In 2002, SVW realised a total sales of over 300,000 cars (Santana, Passat, Polo). (2) Shanghai General Motors (SGM), SGM was started as a 50-50 joint venture with a total investment of US\$ 15.7 billion (US\$ 7.6 billion) in 1997. 23,000 Buick sedans rolled off the production line in 1999. In 2002, SGM has realised a total sale of 110,000 automobiles, with total value of around US\$ 2.9 billion. The sales of Buick sedan has increased by 100% in 2002 over 2001. (3) Shanghai Sunwin Bus Co. Ltd. is SAIC's 50-50 joint venture with Volvo, established in 2000 with a total investment of US\$ 97 million. It will have a annual capacity of 2350 urban buses and 500 coaches for the use in suburban area.

Jiangsu

Jiangsu is one of the few provinces in China that is qualified to make a range of vehicles, including cars, large & medium buses, farm & engineering vehicles etc. Jiangsu produces 15% of the China's auto spare parts. Nanjing, the capital of Jiangsu Province and only 300 kilometers north-west of Shanghai, is home to another automotive conglomerate called Yuejin Automotive Industry Corp. Yuejin was established in 1995 based on Nanjing Auto Works. Similar to SAIC, Yuejin's business activities are very diversified. Its main business is manufacturing of vehicles and automotive parts, R & D and trade in the automotive industry. Today, Yuejin produces three lines of vehicles : Iveco vans, light trucks and cars. Its main foreign partner is Fiat. In 2002, it realised a total sales of US\$ 1 billion and produced over 80,000 vehicles. It has more than 16,000 employees. Its light trucks are exported to some developing countries. Jiangsu has another high profile automotive enterprise : Yaxing - Benz Limited (YBL), which is a joint venture established by Jiangsu Yaxing Motor Coach Group Co. Ltd. and Mercedes-Benz with a total investment of US\$ 95 million. Planned annual production capacity of YBL is 7000 buses.

**EEPC INDIA****Zhejiang**

Zhejiang Province, though lacking in national level automotive assembly plants, is very famous for its automotive SMEs, supplying various OEM and aftermarket parts to big assembly plants home and abroad. Zhejiang also has a very famous car manufacturer called Geely Group. What makes Geely Group different from other car makers in China is that it is a privately owned company and it produces cars which are sold at a very low price. Some models are at a price as low as RMB 30,000-40,000 (US\$ 5000).

Export of automobile and motorcycle parts from Zhejiang province from 2001 to November 2003

<i>Year</i>	<i>Amount (US\$ million)</i>	<i>% growth over the previous year</i>
2001	310	11.3
2002	430	38.3
2003 (Jan-Nov)	590	45

Anhui

The development of the automobile industry in Anhui's is closely linked with

neighbouring Shanghai. Anhui Ankai Automotive Group Co. Ltd. (Ankai), located on the outskirts of Hefei, Anhui Province, specializes in the production of coaches and chassis for coaches. It has a total asset of US\$ 305 million with around 5000 employees and an annual capacity of 5500 units (coaches produced or retrofitted plus chassis). Ankai is well known for its capability of producing high-end, luxury coaches with German technology. The other automotive manufacturer in Anhui is Anhui Qirui Automotive Co., Ltd. It was started in 1997 and the first Chery car rolled off the production line in December, 1999. Qirui Automotive produces cars with prices more acceptable to average Chinese families with an annual capacity of 300,000 engines and 150,000 cars. Qirui Automotive is striving to be the first Chinese automotive company that can mass-produce electric cars. Now, Qirui Automotive is a member company of Shanghai Automotive Industry Group.

China's Automobile Import-Export

According to the statistics issued by China's customs, in the first eight months of 2003,

117,000 vehicles (nearing the total volume of 2002's 127,000 units) were imported - up 43.9 per cent. The imports amounted to US\$ 3.34 billion, exceeding those of the whole of 2002 and suggesting a high-grade tendency for imports.

The average sedan CIF (Cost, Insurance and Freight) reached US\$ 27,400, up 19.6 per cent, with jeep and mini-bus CIFs amounting to US\$ 27,140 and 19,249 - up 15 and 7.5 per cent respectively. Increasingly, the competitive strength of homemade vehicles on the mid - and low-end market and the limitation of import licences were to blame for the high-grade tendency of imports.

However, the tendency also brought about new problems. In the first half-year, compared to a sales volume of 45 billion yuan (US\$ 5.44 billion) for 90,300 imports, two million homemade cars only amounted to 17-18 billion yuan (US\$ 2.05-2.17 billion), highlighting the big gap between domestic and international levels, which should become a research focus for China's auto industry in the future.

Top 5 auto/auto components imported by China from India*All figures in US\$ millions*

<i>HS code</i>	<i>Item description</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Increase (%)</i>
	Total Vehicles, not Railway	1.738989	4.04384	11.93621	195.17
8708	Part/Access 8701-8705	0.176456	0.986481	9.19952	832.56
8714	Part/Access 8711-8713	1.46927	2.919598	2.436792	-16.54
8703	Passenger Motor	-	0.053432	0.241896	352.72
8701	Tractors	-	0.050616	0.0359	-29.07
8716	Trail, ET, NT, MEC PROPL	0.065839	-	0.020178	-

Top 5 auto/auto components imported by China*All figures in US\$ millions*

<i>HS code</i>	<i>Item description</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Increase (%)</i>
	Total Vehicles, not Railway	4533.735	6478.96	11837.86	82.71
8708	Part/Access 8701-8705	2514.796	2981.483	6180.641	107.3
8703	Passenger Motor	1265.57	2608.846	4444.039	70.35
8704	Motor Trucks	180.011	284.1286	426.3529	50.06
8705	OT Spec. Purpose M Veh	189.7196	186.2859	232.8138	24.98
8714	Part/Access 8711-8713	185.1788	192.1827	176.2384	-8.3

**China's Vehicle Exports**

China's automobile exports skyrocketed during 2003. The nation exported 90,919 automobiles during January to October in 2003, an increase of 151.6 per cent from a year earlier, and the exports, worth US\$ 311 million, according to CBU. The average price of an exported passenger car was US\$ 12,500 per unit, compared with US\$ 25,493 for an imported vehicle.

Recently, the draft of a new government policy on the vehicle industry calls on China's motor manufacturers, including Sino-foreign joint ventures, to speed up their exports and engage more strongly with the international market.

Car makers based in China that have already exported passenger cars this year included Shanghai Volkswagen, Shanghai GM, the Chery Automobile Co., and the Zhongxing Automobile Manufacturing Co. Ltd.

Shanghai Volkswagen becomes first to export cars to the industrialised country. In 1984, Volkswagen became the first foreign automaker to invest in China, helping to launch the land of the bicycle into the age of the car.

Now, Volkswagen is helping to pioneer another first - China as the newest Asian exporter of premium-priced passenger cars to the industrialised world.

Volkswagen will not be alone in the export business for long. Honda Motor Co., which makes Accord sedans in China, built a plant near the southern city of Guangzhou. It is due to open late next year, turning out subcompact cars for export to Asia and Europe.

The Zhongxing Automobile Manufacturing Co., Ltd. exported 7,000 pickups and 100 units of its pickup CKD parts to the Middle East in late July, 2003. There are reports that this is the first largest CKD export by a domestic automaker.

Chery exported 180 units passenger cars to Middle East during last October. As the 13th group of exported Cherys, they will continue their journey to the Middle East from Shanghai port. The Chery series was

warmly received in the Middle East. The exports, containing all of Chery models - the Fengyun, QQ, Dongfangzhizi and Qiyun - have been on the road in the Middle East since October 2001.

Development of China's Automobile Component Industry

Prior to China's entry into the WTO, the government restricted foreign ownership of auto parts companies and foreign investors were limited to no more than 50% ownership. They were also required to invest a fixed percentage of sales into R&D and both automakers and auto parts companies had to comply with local content requirements. The result of these regulations was a local auto parts industry that was not competitive in the global market. Foreign investment activity in the auto parts area have taken off in a big way after China joined the WTO regime and investment rules were relaxed.

In June of 2001 China published its 10th Five-Year plan for the Development of the Automotive Industry. This Five-Year plan recognised the problems associated with the auto parts industry and outlined proposed actions to be taken to improve the competitiveness of the auto parts industry in China. For the past ten years investment in the auto parts industry has lagged in comparison to the rest of the auto industry. Till recently, less than 30% of investment in the auto sector went to the auto parts industry. The investment which did take place did so to comply with the local content provisions. With WTO, these provisions are eliminated and companies have started competing based on price and quality.

The increase of the share of the auto component in the Chinese automobile sector, presently estimated at over 40%, is a result of a surge in foreign investment in China and the licensing of foreign technology by Chinese firms. It is estimated that by the end of 2002 there were more than 400 foreign auto parts suppliers with investments in China. More recently, scores of companies have announced new or expanded investments in China. While there are quite a few U.S. owned auto parts companies with operations in China, the biggest investors to

date have been the Europeans. More recently, the Japanese have become the most active investors.

China Automotive Component Industry - Major Players

Delphi Automotive Systems (China) Holding Co. Ltd. with US\$ 400 million in sales in 2003 is the leading auto component manufacturer.

Huanghai Bus is one of China's major manufacturers of buses and coaches and parts.

Shuguang Vehicle Axle is China's largest independent driveline assembly manufacturer.

Benxi Crankshaft is China's top crankshaft foundry for diesel and petrol engines.

518 Die Forging manufacturer automobile parts including diesel crankshafts and piston sleeves.

Jinzhou Jinheng is the only manufacturer of automotive safety system in China.

Auto Switch is the leading manufacturer in the country for auto combined switch and its major product includes "Zhuifeng" combined switch and steering column.

Dongfeng Diesel is a major manufacturer of diesel engines and part of Dongfeng Automobile Group.

Fengcheng D.C. Motor is mainly engaged in producing D.C. motor for automotive.

Fuxin Hydraulic Pressure Parts Factory specialises in producing steering pumps, high-pressure gear pumps, high-pressure and low-noise vane pumps, pneumatic parts and hydraulic system.

Liaoning Tongda Axle Industry Co. Ltd. is specialised in manufacturing drive axle shafts for home made and imported vehicles (excluding car).

Shanghai International Automobile City

Shanghai's planned International Automobile City covers an area of 68 sq. kms. and consists of trade districts, R&D districts, manufacturing park, racing circuit district etc. The key district of the Automobile City is the Spare Parts Assembly industrial zone. The city is expected to be completed

by 2005. Total investment for the project is expected to reach 50 billion yuan (US\$ 6 billion). The industrial zone of Shanghai Automobile City, which is located in Anting city, has attracted many enterprises from countries and areas including USA, Japan, Germany, France, Netherlands, Singapore, South Korea, Hong Kong, Taiwan etc. and major players including Volkswagen, Delphi, Visteon, TRW etc.

The Shanghai International Racing Circuit is located 1.5 kms east of the industrial zone. It covers an area of 5.3 sq. kms. of the circuit zone and 2.8 sq. kms. of the commercial service and tourism leisure zone. The racing circuit, planned to be completed in 2004 will be the largest racing circuit in Asia.

Incentives for foreign investor investing in Shanghai International Automobile City

1. Income tax holiday for the first two years of operation. 50% income-tax levied during the third to fifth year of operation.
2. If yearly export value exceeds 70% of total capacity of production, 50% income tax concession applicable.
3. For those companies involved in high-tech product, 50% income tax concession will be applicable for an additional 3 years.
4. When an investor re-invest its profits, income will not be taxed from such investments, subject to case-by-case approval.

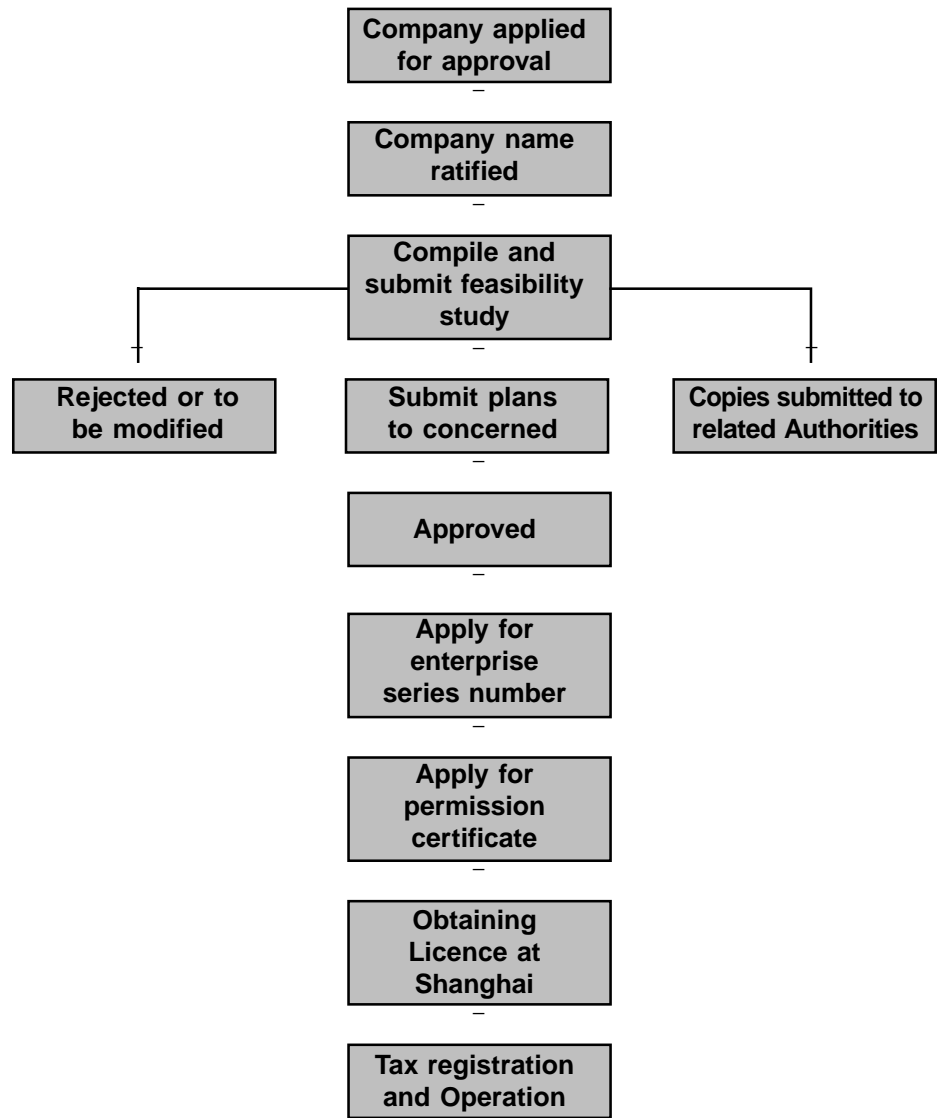
Land cost at Shanghai International Automobile City (only indicative)

<i>Property type</i>	<i>Price</i>	<i>Terms</i>
Industrial Land	About US\$ 28/ sq. mtrs.	50 years

Workshop rent cost

<i>Property type</i>	<i>Price</i>
Workshop	12-16 yuan per month per square metre
Cement ground	2.5 yuan per month per square metre
Original ground	.7 yuan per month per square metre

Approval procedure for foreign investor at the Shanghai International Auto City



Strategy for Indian auto component manufacturers

India's share in China's huge automobile and automotive components market, presently is miniscule. India's exports to China in this sector was a mere US\$ 12 million out of the total Chinese import of US\$ 12 billion in 2003. Presently, in East China, apart from Indian companies like Bharat Forge and Sundaram Fasteners, India's presence in the form of trade or otherwise is still limited. Bharat Forge exports crankshafts to the Wuxi Diesel Engine Works in Wuxi City in Jiangsu Province. Sundaram Fasteners is setting

up a wholly-Indian manufacturing facility at Haiyan in Zhejiang Province for the manufacture of automotive fasteners for the export market. Tata Motor participated in the Shanghai International Auto Fair in 2001 displaying four different vehicle models. One could also think beyond trade and focus could be towards entering the Chinese market either in the form of a wholly owned subsidiary or a JV. As China's automotive industry undergoes restructuring and implements new technologies, there are substantial opportunities for Indian companies in component manufacturing. As mentioned before,

already 40 per cent of total investment in the industry has been invested in key component manufacturing.

Development priorities for new technology in China mainly are :

- low capacity and high performance petrol engine
- vehicle body design
- auto safety systems including 'ABS' and 'air bag'
- auto transmissions
- automotive LPG or LNG conversion technology
- high performance friction material for brake system
- tooling technology
- diesel engine between seven and 12-litre capacity and key parts
- development of an 'affordable vehicle' for China's middle class

- new material for auto parts development including magnesium casting parts.

There are a number of key strategies that should be considered when marketing automotive components in China –

1. Liaise with major multinational car makers and component manufacturers with investments in China to establish their specifications and import requirements. Multinationals often resort to imports if the local suppliers cannot meet their quality and pricing requirements.
2. International auto exhibitions are suitable and effective for generic applications and auto-related products are services, including car care products and testing equipment.
3. Promotional activities such as seminars and product launches are useful for new technology and material applications.
4. As automotive technologies and products are industry focussed and specialised,

targeted market visits to potential customers and strategic partners is an effective strategy for initial market development.

Important trade bodies in the automobile sector in East China

1. Shanghai Automobile Industry Association
Rm 501, 1029 Zhongshan Nan Rd. Shanghai, China
Tel. : 86 21 63188421
Fax : 86 21 63778486
E-mail : xhmsc@263.net
2. Automobile Association of Zhejiang
65 Shaoxing Rd. Hangzhou, China
Tel. : 86 571 85370751
Fax : 86 571 85370045
3. Automobile Association of Jiangsu
4 Shanghai Rd., Nanjing, China
Tel. : 86 25 83437788
Fax : 86 25 84711602

Import Duty for automobile/automobile components for PRC

HS Code	Description of Goods	MFN (%)	Gen (%)	VAT (%)
87.01	Tractors (other than tractors of heading 87.09)	6 to 9	20	13 to 17
87.02	Motor vehicles for the transport of ten or more persons, including the driver	4 to 32.5	90 to 230	17
87.03	Motor cars and other motor vehicles principally designed for the transport persons (other than those of heading 87.02), including station wagons and racing cars	34.2 to 37.6	230 to 270	17
87.04	Motor vehicles for the transport of goods	6 to 29.2	20 70	17
87.05	Special purpose motor vehicles other than those principally designed for the transport of persons or goods (e.g. breakdown lorries, crane lorries, fire fighting vehicles, concrete mixer lorries, road sweeper lorries, spraying lorries, mobile workshops, mobile radiological units)	3 to 15	8 to 35	17
87.06	Chassis fitted with engines, for the motor vehicles of headings 87.01 to 87.05	8 to 26.1	14 to 100	17
87.07	Bodies (including cabs) for the motor vehicles of headings 87.01 to 87.05	22.9 to 29.3	70 to 100	17
87.08	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	6 to 25	11 to 100	17
87.09	Works trucks, self propelled, not fitted with lifting or handling equipment, of the type used in factories, warehouses, dock areas or airports for short distance transport of goods, tractors of the type used on railway station platform; parts of foregoing vehicles	8.4 to 10.5	17 to 30	17
87.10	Tanks and other armoured fighting vehicles, motorized, whether or not fitted with weapons, and parts of such vehicles	15	100	17
87.11	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor with or without side cars	43.3 to 45	150	17

(duty figures at MFN column applicable to Indian exporters)



Auto/Auto parts fairs in East China in 2004

Shanghai Int'l Auto Parts Show

Duration: September 8-10, 2004
 Venue : Shanghai Ever-bright Convention and Exhibition Centre for 2004
 66 Cao Bao Rd., Shanghai
 Tel. : 86 21 64833607
 Fax : 86 21 64360000
 E-mail : seec@secec.com
 Website : www.secec.com

Nanjing International Automobile Exhibition

Duration: September 30-October 7, 2004
 Venue : Nanjing International Exhibition Centre
 88 Long Pan Rd., Nanjing
 Tel. : 86 25 86891118
 Fax : 86 25 86891007
 Website : www.njiec.com

23rd Jiangsu Bike and Electric Bike Fair

Duration: October 21-26, 2004
 Venue : Nanjing International Exhibition Centre
 88 Long Pan Rd., Nanjing
 Tel. : 86 25 86891118
 Fax : 86 25 86891007
 Website : www.njiec.com

Auto Parts & Equip Shanghai 2004

Duration: October 19-22, 2004
 Venue : Intex Shanghai
 88 Lou Shan Guan Rd.
 Hong Qiao New Area
 Tel. : 86 21 62950205
 Fax : 86 21 62757210
 E-mail : tgfintex@isdnet., sta.net.cn
 Website : www.intex.sta.net.cn

Automachanika Shanghai 2004

Duration: December 2-4, 2004
 Venue : Shanghai New International Exhibition Centre
 2345 Long Yang Rd.
 Pudong New Area
 Tel. : 86 21 28906666
 Fax : 86 21 82906777
 E-mail : info@sniec.net
 Website : www.sniec.net

(Source : Consulate General of India, Shanghai)

Germany and the 10 new EU members

Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia & Slovenia joined EU on 1st May, 2004. This is good news for some German industries-carmakers and automotive suppliers as well as mechanical and electrical engineering companies, which have established strong trade relations with their eastern neighbours, expect the business to boom.

According to a report by German newspaper "Handelsblatt" between 1995 and 2001 German direct investment in the 10 new EU members increased by 430% to nearly Euro 30 billion. A survey by Economic Research Institute at Cologne concluded that German economy will add 0.5% to its growth in both 2005 and 2006 because of the additions of 10 EU members. This conclusion is based on expected expansion of German companies' trade with new members as well as additional direct investments of German business in the new EU member's states, resulting in more efficient production.

Germany and new EU members : Some facts

Country	Germany's Export *	Germany's Imports *	Germany's FDI*	No. of German Companies doing business
Czech Republic	16721	17581	7432	1255
Poland	16391	15786	8309	1438
Hungary	11869	12218	8068	927
Slovakia	5177	7335	1986	279
Slovenia	2440	2427	367	101
Lithuania	1602	734	119	54
Latvia	891	444	324	55
Estonia	713	494	47	31
Cyprus	445	110	166	41
Malta	288	254	194	27

* million Euro

Germany's major investments in Czech Republic are by RWE Gas & EON in energy sector (Euro 2999 and 750 million respectively) and by Volkswagen (Skoda) in automobile sector (Euro 985 million). Substantial investments were also made by plant and machinery manufacturers. Czech Republic is now Germany's 5th most important supplier of machine parts.

In Hungary major German investors are Deutsche Telekom (Euro 1750 million), Audi 8 (Euro 1750 million) and RWE ENBW Consortium in energy sector (Euro 600 million). Hungary has enjoyed a trade surplus with Germany since 1999 mainly because of the strong performance of German subsidiaries in Hungary. German companies have invested especially in the automotive and mechanical engineering sectors.

Major German investors in Poland include Volkswagen in automobile sector (Euro 325 million). Germany is Poland's most important trading partner accounting for about third of Poland's foreign trade.

Slovakia has attracted German investors for Volkswagen (Euro 986 million). Germany's strength in automobile sector documents trade between Germany and Slovakia. Volkswagen accounts for over 20% of the Slovakia's exports. German automotive supplier Leoni AG which supplies car wiring to carmakers, has 4 factories in Slovakia employing more than 2500 workers.

(Source : Consulate General of India, Frankfurt)