

Automotive Parts



May 2010 US\$395

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AUTOMOTIVE PARTS

Supplier capability in China

EXECUTIVE SUMMARY

China's automotive parts industry is poised for an uptick in the business cycle. After the 17 drop in export revenue last year, most suppliers are anticipating at least 10 percent growth for the coming months.

Customs statistics for the first quarter of 2010 already indicate better sales, with earnings from overseas shipments rising 44 percent year on year to exceed \$5.6 billion. If exports continue to accelerate at this rate, the sector could break \$29 billion by the end of the year.

Among the factors fueling the industry's optimism is the China-ASEAN Free Trade Area agreement, which came into force January this year. Demand from ASEAN members is expected to grow, as CAFTA eliminates import tariffs on more than 7,000 products, including vehicles and related parts.

Orders from North America and the EU are also projected to rise on the back of their recovering economies. Because of their large markets for automotive parts, both remain key destinations even amid the lingering effects of the crisis and the high trade barriers. In 2009, while export sales from the two decreased 18 percent in 2009, these still accounted for 44 percent of China's aggregate revenue in the line.

Many companies also expect Eastern Europe, the Middle East and South America to propel an increase in orders as economies in these regions continue to develop.

Suppliers, however, face several challenges in their efforts to boost export sales. Foremost among these is rising costs, which is eroding their price edge. In some sectors, compounding this are anti-dumping duties that raise the final quotes of their products.

Amid this environment, the following are some of the key trends we see in China's automotive parts industry:

- Many companies will contain price increases to 10 percent in coming months. To ease the pressure of rising costs on margins, several are investing in automated production and testing systems for greater efficiency. Reducing losses from defects and raw material wastage is also an objective.

- Eyeing greater competitiveness over the long term, suppliers are expanding their selections to include more upscale models. To this end, a number have increased allocations for R&D to at least 5 percent of revenue.

- Efforts will focus on improving product performance and meeting environmental standards. Some makers are also increasing releases for electric cars and other "green" vehicles.

This report covers automotive lights, brakes, tires, electronic components, and engine and mechanical parts.

The categories are discussed in separate sections. For each line, details about the different types offered, their common features and price determinants are provided.

The latest trends in design and materials are also discussed. Information on the supplier base and key hubs can likewise be found.

The Industry Overview elaborates on issues affecting production and exports. It also identifies the common strategies manufacturers are employing to cope with challenges and enhance long-term competitiveness and viability.

To reflect the industry structure, the majority of suppliers featured in this report are local, privately owned enterprises. The rest consists of state-, Hong Kong- and foreign-invested businesses.

More than three-fourths of the companies are based in Guangdong, Zhejiang, Jiangsu and Shandong. Shipments from these provinces generate two-thirds of China's export revenue from automotive parts.

In this report

- 33 in-depth company profiles
- 15 additional suppliers
- 148 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that are verified by Global Sources.

Each supplier is confirmed to be authentic with a legally registered business. All companies are visited three or more times to ensure they are export-ready and have real offices and products.

The listed contact person has been verified to represent the registered company. In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials.

All profiled suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry. All survey questions are single choice.

Suppliers are ranked based on a 6-star ranking system. Companies with a higher star ranking provide more business information and verification reports on their Global Sources online homepages.

Suppliers rated 5 or 6 stars have a Credit Check report from First Advantage or Sino-Trust and a Supplier Capability Assessment report provided by Bureau Veritas online.

The rankings are correct at the time of publication and may be subject to change.

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INDUSTRY OVERVIEW

China's automotive parts industry is anticipating stronger export growth in the months ahead, with the increase still driven primarily by aftermarket orders. In 2009, several suppliers posted up to 30 percent gains in shipments of repair and replacement models, while the share of OEM/OES business decreased to 50 percent from 75 percent in 2008.

Demand from the aftermarket is projected to remain on an upturn in the months ahead. Consumers are expected to continue opting for maintenance rather than new vehicles while waiting for the economy to improve.

The first quarter of 2010 saw revenue from overseas shipments rising 44 percent year on year to \$5.6 billion. In contrast, during the first three months of 2009, earnings were down 31 percent from the previous year. Annual sales slid 17 percent to \$20.5 billion, pulled up by deliveries in the latter months.

A major factor for the industry's positive sentiment is the China-ASEAN Free Trade Area agreement, which eliminated import tariffs on more than 7,000 products, including vehicles and related parts. The duty-free arrangement became effective January 2010 for the ASEAN Six, namely Thailand, Indonesia, Malaysia, Singapore, the Philippines and Brunei. Cambodia, Laos, Myanmar and Vietnam will start implementation of CAFTA's provisions in 2015.

ASEAN, together with other countries in the Asia-Pacific region, is China's largest overseas market for automotive components. In the three-month period ending March 2010, products shipped to the area amounted to nearly \$1.8 billion, accounting for more than 30 percent of total exports.

Many companies are also eyeing North America and the EU for growth opportunities. Demand in the two markets stayed strong despite the financial crisis, accounting for over 40 percent of overseas revenue.

North America, in particular, is still the top destination for brakes, tires and other mechanical parts. During the first quarter, it took in \$1.4 billion worth of these and other vehicle components, generating over one-fourth of aggregate sales.

The euro zone accounted for 18 percent of China's earnings from overseas shipments, with imports amounting to \$985.6 million. In the brakes and electronic parts sector, it is the second-largest market next to North America and the Asia-Pacific, respectively.

Several suppliers are also looking to fortify positions in the emerging economies of Eastern Europe, the Middle East and South America, which were less affected by the financial crisis. Brazil, a vehicle production hub with a growing economy, is considered a particularly attractive market.

Maintaining price edge

To ensure that they are able to take advantage of the opportunities in their chosen area, suppliers are gearing up to overcome threats to competitiveness, especially pricewise. Their low-cost advantage has been critical in keeping their businesses relatively insulated from the economic slowdown, as retailers and vehicle assemblers turned to China for less-expensive products when consumers tightened spending.

Foremost among the factors eroding the industry's price edge is the increase

Supplier summary

Suppliers surveyed	33
Export sales	\$460.2mn
Export ratio	55%
OEM business	48%
Capacity utilized	54%
Annual R&D spending	\$13.9mn
Full-time employees	11,200

Data: All surveyed suppliers

in manufacturing outlay. Raw material costs, in particular, have been on the rise due to higher demand.

Tire makers, for instance, saw rates for natural rubber exceed \$3,600 per ton in April, doubling from levels at the beginning of last year. The A356 aluminum alloy, a key material for wheel rims, now ranges from \$2,350 to \$2,500 for every ton, more than 10 percent higher than quotes during the second half of 2009.

As regards labor-related expenses, wages in major production hubs surged between 10 and 30 percent as makers strived to retain and attract skilled workers. Further, several local governments, including those in Guangdong, Zhejiang and Jiangsu provinces, raised the minimum standard salary for both full-time and temporary employees this year.

These and other cost pressures have pushed many companies to increase prices at least 5 percent during the past quarter. In the months ahead, suppliers intend to keep adjustments within 10 percent so as not to upset demand and

Major customers

Company

Fujian Longxi	John Deere, Caterpillar (US); SKF (Germany); Volvo (Sweden); Fiat (Italy)
Kinforest	Euromaster (Switzerland)
Ningbo Lipinge	MTD, Barnes (US); Yanmar (Japan); Mapco (Germany)
Ningbo Motor	ZMZ (Russia); AutoZone (US); Wal-Mart (Mexico)
Usdar	TVA Automotive, Advance Auto Parts/Crossroads Global Trading (US); Scan-Tech USA/Sweden AB (Sweden)

Data: All surveyed suppliers

ARC Industries Inc.



Based in Shandong province, ARC specializes in project management and solutions delivery. For its automotive parts line, the company has invested in three factories, holding a 30 percent stake in each.

ARC's manufacturing partners are located in the provinces of Zhejiang, Hebei and Jiangsu. Occupying 46,000sqm, the plants have a combined monthly capacity of 400,000 starters, 100,000 brake pad sets and 3 million meters of brake hoses.

Production is carried out on eight punching, 12 hot-pressing, 10 CNC

machines, 76 weaving and three spot welding machines. There are also four dry ovens and three assembly lines.

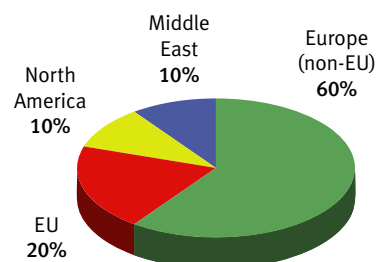
A 318-strong workforce handles operations, including more than 15 personnel in charge of QC.

In 2009, ARC generated \$4 million from exports of car and motorcycle parts. All shipments were under OEM contracts, with Europe absorbing 80 percent. North America and the Middle East each accounted for 10 percent.

For the next 12 months, the company expects outbound sales to increase within 10 percent.

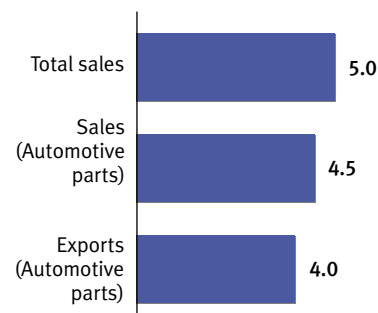
Profile

Export markets



Sales

\$mn/year



Contact details

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Company facts

Year established	1997
Business type	Manufacturer
Company ownership	Mainland China-owned
Head office location	Qingdao (Shandong)
Number of factories	3
Factory location(s)	Lishui (Zhejiang), Hengshui (Hebei), Yancheng (Jiangsu)
Total factory area	46,000sqm
No. of full-time employees	318
No. of R&D/design staff	35
No. of QC staff	17
Annual sales (all products)	\$5.0mn
Annual R&D spending	\$20,000
ISO certification	Yes

Sales & output: Automotive parts

Annual sales	\$4.5mn
Share of total sales	90%
Annual export sales	\$4.0mn
Total monthly capacity	Brake hose: 3mn meters, starters: 400,000 units; brake pads: 100,000 sets
Average monthly output	Brake hose: 2mn meters; starters: 3,000 units; brake pads: 90,000 sets
Capacity utilized	•
Average monthly exports	Brake hose: 2mn meters; starters: 3,000 units; brake pads: 90,000 sets
Export ratio	100%
OEM % of exports	100%
ODM % of exports	—
OBM % of exports	—
Other products made	Ball valves, pipe fittings, marine hardware

• Information not disclosed

Capability

Production checklist

Makes molds in-house	No
Casting machines	—
Hot-pressing machines	12
CNC machines	10
Plastic-injection machines	—
Powder-coating lines	—
Assembly lines	3
Dynamometers	—
X-ray machines/systems	—
Fatigue testing machines	1

Exports by product

Automotive lights	—
Brake parts	20%
Tires & rims	—
Electronic components & parts	—
Engine & mechanical parts	60%
Motorcycle parts	20%

Exports by market

North America	10%
European Union	20%
Europe (non-EU)	60%
Asia-Pacific	—
Middle East	10%
Other	—

Survey

- **Export prices**
Stayed the same
- **Export sales**
Increase less than 10%
- **Target market**
Europe (non-EU)
- **Capital expenditure**
No increase
- **Major challenge**
Cost of raw materials
- **Export capability**
Improve operating efficiency
- **R&D focus**
Enhanced performance

Popular export models



Brake part

Model	D1278
MOQ	50 sets
Packaging	White or buyer-designed box
Delivery	20 days
Price:	•

Description: Brake pad; semimetallic; in six friction formulations; 0.36 to 0.39 friction coefficient; 30,000 to 50,000km service life; for Ford vehicles



Brake part

Model	43512-26190
MOQ	50 pieces
Packaging	White or buyer-designed box
Delivery	25 days
Price:	•

Description: Brake disc; 3.7 to 3.95% carbon content; zinc-coated, painted or Dacromet finish; for Toyota vehicles



Engine part

Model	1278D
MOQ	200 pieces
Packaging	Inner bag, foam box, carton, wooden box
Delivery	35 days
Price	\$30.00

Description: Starter; 12V, 1.2kW; CW rotation; eight-tooth; for Hyundai Elantra L4 1.8L 1996-04 and Tiburon L4 1.8L 1997-04 and Mitsubishi vehicles

• Information not disclosed

PRODUCT GALLERY

Automotive lights



Auto Dragons
(profile page 42)
Model: T10CB-2LEDs
MOQ: 100 units
Packaging: Blister card
Delivery: 7 days
Price: •
Description: LED bulb; 6, 12 or 24V; two high-power superbright 5050 SMD diodes; white, green, blue, amber, red, pink or yellow; wedge, BA9S or BAX9S base; for OBC displays; built-in load resistor; error-free; replaces 168, 194, 2825, 2821 or W5W stock bulbs; suits European brand vehicles



Auto Dragons
(profile page 42)
Model: H4SMD-98LEDs
MOQ: 100 units
Packaging: White box or blister card
Delivery: 7 days
Price: •
Description: LED bulb; 12/24VDC; 90 radial, eight forward 3528 SMD diodes; superwhite; H1, H3, H4, H7, H8, H9, H10, H11, H13, 9004, 9005, 9006 or 9007 base; for daytime running lamps and fog lights



Auto Dragons
(profile page 42)
Model: 1031SMD-9LEDs
MOQ: 100 units
Packaging: Blister card
Delivery: 7 days
Price: •
Description: LED bulb; 6, 12 or 24V; nine 5050 SMD diodes; white, green, blue, amber, red, pink or yellow; festoon base; for center dome lights; three to four times brighter than standard D31mm counterparts; 10x31mm



Changzhou CLD
(profile page 46)
Model: CLD-L1005
MOQ: 100 units
Packaging: Blister card
Delivery: 5 days
Price: \$0.30
Description: LED bulb; eight diodes; T11x44mm SV8.5 festoon base



Changzhou CLD
(profile page 46)
Model: CLD-L2001
MOQ: 100 units
Packaging: ABS box
Delivery: 10 days
Price: •
Description: LED bulb; 27 5050 SMD diodes; P29T 9004 base; >30,000hr service life; CE



Changzhou CLD
(profile page 46)
Model: CLD-L1602
MOQ: 100 units
Packaging: Plastic box
Delivery: 10 days
Price: •
Description: LED bulb; 18 5050 SMD diodes; H8 base; >30,000hr service life; CE

• Information not disclosed

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