

Inside China

The Chinese view their automotive future

Automotive manufacturers and suppliers view China as the largest combination of automotive market and low-cost manufacturing and supply base to appear in decades. Companies are deluged with information about the potential opportunities in China, but typically know very little about what the Chinese think about their automotive future. The steady influx of automotive manufacturers and suppliers over the past ten years has provided the Chinese with first hand experience of what the impact of a world-class, high-volume automotive industry can mean to a country. The Office for the Study of Automotive Transportation (OSAT) at the University of Michigan Transportation Research Institute (UMTRI) and the IBM Institute for Business Value consider this as an opportune time to explore what the Chinese themselves think about their recent automotive experience, and what they think the future will hold for this industry and their country.

Our study focused on the opinions of 20 leaders in Chinese industry and government, as well as academic experts. We asked a wide range

of questions to better understand their perspective of how the industry looks today and how they believe it will look in the future. Our questions focused on their view of the future auto market structure, how the industry will restructure, and what effect external challenges (air quality, oil supply and the transportation infrastructure) will have on the development of the industry.

Future market structure – Actions by the government and the competitiveness in the Chinese market foretell more of a steady growth scenario for the automotive industry. Exportation of vehicles and components are part of the overall plan, but the timing and final destinations of the products differ. Chinese companies are primarily focused on exporting products to emerging markets, while exporting vehicles to developed markets is not imminent. Among automotive companies, there is tremendous room for growth in understanding and catering to the Chinese consumer. Companies that understand the local preferences and leverage this knowledge across the vehicle design and sales processes

will be in a much better position to retain a “customer for life.” Today, the government manages the growth of the market through its restriction of financing as a tool for vehicle sales. As the government’s banking reforms progress and vehicle financing becomes available, there will likely be significant opportunities for growth in auto sales.

Anticipated industry structure – Overall, the success of foreign joint ventures has fallen short of original expectations. Mergers and acquisitions are replacing joint ventures as the next alternative in acquiring industry and technological skill. Chinese manufacturers are also establishing relationships with foreign engineering services firms and specialty and global suppliers in order to develop new products, as well as enhance their skill sets and their own intellectual property. Although government deregulation and policy setting remain key factors, the competitiveness of the China market will likely drive continued consolidation among manufacturers and suppliers for the next five to ten years. In addition, intellectual property violations by domestic Chinese manufacturers



and suppliers are making it increasingly difficult to partner with foreign firms and to have Chinese products accepted in the global marketplace. Long term, quality is key to the viability of domestic manufacturers and an absolute requirement if companies anticipate exporting their products outside of China. The Chinese interviewees anticipate that it will take them 20-30 years before they can compete effectively with other world-class, global manufacturers and suppliers.

Key implications of external challenges – Although the central government is believed to be the key actor in dealing with external challenges, interviewees had different opinions about which challenge was most critical. Government officials and experts view oil supply as the key challenge, due to China's increasing oil dependency. The government may need to increase fuel prices and offer incentives for conservation and alternative fuel vehicle purchases in order to manage China's oil dependency. Taking a different view, Chinese manufacturers, suppliers, and dealers tend to place infrastructure as the more urgent challenge to China's auto industry: connections between rural and urban Chinese cities are lacking, and traffic planning, traffic-flow control and congestion management need improvement. In addition, air quality is an area of concern. The central government and major cities are trying to bring forward stricter air quality standards for new vehicles, but cost constraints for the new technologies hinder this process. Alternative fuel vehicle development

may help the government address oil dependency as well as air quality. Strong relationships between government and industry, and the involvement of consumers, are necessary to help resolve these oil supply, air quality, and infrastructure challenges.

How the industry will look in the future – both near-term and long-term – hinges on how these challenges are addressed. Such decisions will impact China's future market structure, joint venture relationships, and its automotive infrastructure, air quality, and oil supply. We expect the Chinese automotive industry, made up of powerful competitors, to remain a dynamic force – not only in China, but in the global auto industry.

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