FUND FOR RESEARCH INTO INDUSTRIAL DEVELOPMENT, GROWTH AND EQUITY (FRIDGE)

NEDLAC

STUDY TO PREPARE VARIOUS SOUTH AFRICAN MANUFACTURING SECTORS FOR EFFECTIVE NEGOTIATIONS FOR THE PROPOSED SACU/CHINA AND SACU/INDIA TRADE NEGOTIATIONS

REPORT NO 10

CHINA

AUTOMOTIVE SECTOR

April 2006

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PARTS OF THE CONTENTS OF THIS REPORT ARE SENSITIVE WITH REGARD TO THE ENVISAGED TRADE NEGOTIATIONS AND ARE TO BE DEALT WITH AS CONFIDENTIAL BY THE COUNTER PART GROUP AND THE CONSULTANTS

ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
AIL	Automatic Import License
AQSIQ	General Administration of Quality Supervision, Inspection and Quarantine
CAAM	China's Association of Automobile Manufacturers
CBU	Completely built up vehicle
CCC	China Compulsory Certification
CCP	Chinese Communist Party
CIF	Cost, insurance and freight
CKD	Completely knocked down
CQC	China Quality Certification Centre
DC	Daimler Chrysler
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FICE	Foreign Investment Commercial Enterprise
FIE	Foreign Investment Enterprises
FOB	Free –on-board
FRIDGE	Fund for Research Into Industrial Development, Growth and Equity
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GM	General Motors
GNP	Gross National Product
GVW	Gross Vehicle Weight
HS	Harmonised (tariff) System
IDZ	Industrial Development Zone
IPR	Intellectual Property Rights
JV	Joint Venture
MES	Market Economy Status
MFN	Most Favoured Nation
MIDP	Motor Industry Development Programme
MOFCOM	Chinese Ministry of Commerce

MUV	Multi Utility Vehicle
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NEDLAC	National Economic Development and Labour Council
NTB	Non-tariff barrier
NTM	Non-tariff measure
OE	Original equipment
OEC	Original equipment components
OEM	Original Equipment Manufacturer
p.a.	per annum
PAA	Productive Asset Allowance
PTA	Preferential Trade Agreement
QR	Quantitative restriction
RCA	Revealed comparative advantage
R&D	Research and Development
RMB	Renminbi (US$ 1 = ± RMB 8)
RSA	Republic of South Africa
SACU	Southern African Customs Union
SAIC	State Administration for Industry and Commerce
SARS	South African Revenue Service
SASAC	State-owned Asset Supervision Administration Commission
SEZ	Special Economic Zone
SKD	Semi knocked down
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SUV	Sports Utility Vehicle
the **dti**	Department of Trade and Industry (of South Africa)
TRIMs	Trade Related Investment Measures
TRIPS	Trade Related Aspects on Intellectual Property Rights
UN	United Nations
US	United States
USD / US$	United States Dollar

VAT	Value Added Tax
VW	Volkswagen
WP	Working Party
WTO	World Trade Organisation

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EXECUTIVE SUMMARY

CROSS CUTTING ASPECTS

1. China is the world's third largest country, with a geographical area of 9.6 million km^2 and a population of approximately 1.3 billion people. In 2004 it was the 7^{th} largest economy and in five years time it can be 4^{th}. Its GDP growth rate has been above 8% over the last number of years. China is able to sustain a high growth rate with the help of an extraordinary high investment ratio equal to 40.2% of its GDP. Foreign investors target China's comparative advantage in low cost labour to supply world markets. In 2003 manufactured goods accounted for 92% of merchandise exports.

2. The bureaucratic hurdle is acute when it comes to starting a business, licensing applications and applying for credit. Foreign investors are also wary of a lack of transparency and high levels of corruption. Despite stronger statutory protection massive IPR infringements still exists.

3. China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries with direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means. In addition there are systematic guidelines to channel FDI into desired industries and various restrictions imposed on foreign ownership, business ranges, and the geographic scope of foreign-funded enterprises.

4. China's WTO accession has lead to its rapid integration into the global trading economy. China has opened its doors more comprehensively than many expected. Tariffs have dropped

drastically, though many doubts over NTBs, possible subsidies, IPR infringement, unsustainable business models and problems in the banking/financial sector cast a shadow over this unprecedented achievement. Nevertheless, China now find itself on a high growth path that had been brought about by the many reforms that were undertaken in China's quest to establish a socialist market economy.

THREATS

5. However, there are threats of a cross cutting nature with regard to a trade agreement with China.

- The Chinese economic system in transition from a communist to a socialist market economy. Pockets of the economy are "marketised" but a mixture of market conditions and state intervention apply in many others. The state (central, provincial and local) participates in capital formation and directs bank financing. Preferential interest and tax rates, subsidies contingent on exports and favourable financing of target industries apply.
- The Chinese government officials intervene in the economy in a way inconsistent with market principles. Subsidies are non-transparent. Practices lead to the creation of unsustainable and surplus capacity (globally) while pricing becomes non-transparent and divorced from market discipline because of interventions and support. Although China is obliged to do away with trade related investment measures, progress seems to be slow.
- The undervalued Chinese currency contributes considerably to competitiveness in international markets.
- Penetration of Chinese exports into the South African market is rapid. This questions the need for preferences as implied by a bilateral trade agreement. The Chinese economy is 9 times South Africa's and its population 28 times. The difference in capacity to trade is to China's advantage.

- NAMA introduce a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature.

OPPORTUNITIES

6. Opportunities of a cross cutting nature lie in the sustained high growth in its economy that makes China a prominent modern day wealth creator. South Africa shares in the prosperity that is generated by the Chinese economy. However, bureaucracy, NTBs and a lack of transparency, frustrates access of manufactured exports into the Chinese market. The Chinese market is more often than not entered in partnership with Chinese counterparts mostly in the form of a JV.

CONCLUSION

7. The cross cutting threats that China poses with regard to a bilateral trade agreement outweigh the opportunities and is reason to be extremely careful in the negotiation of such an agreement with China at least until such time as its economy becomes fully marketised, it fully complies with WTO obligations and a market determined exchange rate has come into operation.

These threats also manifest themselves in the sector specific issues.

SECTOR SPECIFIC ASPECTS

POLICIES

8. The Chinese Government sees a domestically-owned automotive industry as a key-stone of its economic development plans. It sees the automotive sector as a politically and economically strategic industry. For more than a decade, the Chinese Government has made it clear that it wants to develop an independent automotive industry capable of developing its own technology and Chinese

owned companies able to compete globally with the major international players.

9. The 11th Five-Year Plan map out the following blueprint for development by 2010:

- The auto industry will contribute more than five percent to China's GDP;
- China will become the world's third largest automobile manufacturing country after the U.S. and Japan;
- Total export value of automotive products will exceed $50 billion;
- Several large automobile groups in China will become Fortune 500 companies and compete internationally.

10. The **China Automotive Industry Development Policy** covers a wide range of aspects and interventions. Of particular importance are policy objectives which clearly shows the Chinese government's ambitions for the industry to become a major international player; investment management applied to new projects (including the minimum of 50% local interest in assembly); and import management which includes a new measure to promote domestic component production and the designation of only four ports for the importation of new vehicles.

11. China applies various tax and import concessions that benefit the automotive sector. The undervaluation of the currency is a huge subsidy to industry.

12. Independent R&D and product development in the automobile sector and independently owned brands and vehicle models are important targets.

13. Stakeholders in the South African automotive industry strive to establish a viable, competitive industry locally and internationally, capable of achieving both continuous growth and sustainable job

creation. The instrument for achieving this vision is the MIDP which is aimed to develop an internationally competitive and growing automotive industry.

14. The MIDP has proved to be successful in achieving its aims over the past decade and is to remain in force to 2012. Trade agreements with other countries should not be allowed to jeopardise the MIDP. The South African automotive industry is still evolving and restructuring. New variables should not be brought into the equation.

MARKETS AND FEATURES OF INDUSTRIES

15. Vehicle ownership in China (vehicle parc) stood at 27.09 million units in 2004, of which private ownership reached 14.97 million units. Bus and passenger vehicle ownership accounted for 64% or 17.35 million units of all ownership and truck ownership for 32.8% or 8.9 million units.

16. China is now the third largest vehicle market in the world after the US and Japan, with total sales of 5.92 million vehicles in 2005, up 15% on 2004. It is predicted that China's market demand in 2010 will reach 10 million units and that number will double by 2020. China's automobile parc will hit 50 million units by 2010 and 140 million by 2020. It is envisage that domestic independent development will be the cornerstone of future growth.

17. The total South African market for new vehicles was 617 450 in 2005. This means that currently China's market for new vehicles is about ten times that of South Africa. The domestic market will probably not grow at a pace coming close to that of China's market over the longer term.

18. All the top MNC international vehicle assemblers (OEMs) are established in China in the form of joint-ventures. The OEMs in

South Africa are also established in China. In South Africa the OEMs are the drivers of the MIDP while in China their actions are influenced by their JV partners. In some cases the Chinese interest in the JVs are SOEs.

19. Although the assembly sector is still dominated by foreign-Chinese JVs, a large number of domestic Chinese companies have also established assembly operations. It is expected that at least some of the new, home-grown Chinese carmakers will make substantial inroads into the Chinese market and eventually world markets.

20. Most of the world's major Tier 1 suppliers have set up manufacturing facilities in China. While assemblers are limited to 50% foreign ownership of plants designed to serve the domestic market, there are no restrictions on foreign investment for component manufacturing. This is an obvious sign that the Chinese Government’s current focus is to stimulate investment in component manufacture.

21. Currently China has more than 5 800 automotive enterprises with total assets of over Y1 trillion. There are about 180 assembly plants. There are about 60 individual passenger vehicle assemblers. In 2003 international groups had 24 foreign joint-ventures with an annual production capacity of about 2.6 million cars. There were also 11 major independent domestic car makers with a combined production capacity of about 1.6 million cars and a growing number of smaller independent assemblers.

22. Total vehicle production reached 5.7m units in 2005, up 12.5% from 2004. Of these, 3.8 million were passenger vehicles, up 26.9% on a year earlier. The South African passenger vehicle production was 300 963 in 2004 and 324 875 in 2005.

23. About 50 Chinese firms manufactured approximately 1.15 million trucks in 2005. China produced about 170 000 buses in the same year. South Africa manufactured about 200 000 commercial vehicles in 2005 compared to China's production of 1.3 million.

24. According to official automotive industry sources, 2.2 million people are employed in the Chinese auto manufacturing sector. In comparison, the South African automotive manufacturing industry employs about 116 000 people.

25. Indications are that Chinese productivity levels are relatively high and rising. Chinese labour rates are probably about 25% of South African rates while the real interest rate in China is calculated at 1.48% compared to South Africa's 6.2%.

26. Massive investments in the industry by international and domestic Chinese automotive assemblers are based on the huge market which is growing at a fast pace in line with China's economic growth and on investors seeing China as a low cost production base. The huge Chinese domestic market means that Chinese companies will be able to leverage large economies of scale, enabling them to produce at very low cost.

27. Passenger cars are the major force behind the growth of China's automobile industry. Small-displacement and fuel-saving models became the mainstream demand in the market. A total of 35 passenger vehicle models are scheduled to be launched in 2006 in China of which 40% will be original Chinese models. The number of small car models to be launched in 2006 will increase from 9 in 2005 to 12 in 2006.

28. Design piracy has been a major feature of the development of the domestic independent Chinese manufacturers.

29. Although the focus of attention in regard to the automotive industry in China is on vehicle assembly, component production is growing rapidly and is due to be further stimulated by recent changes in the Governments automotive policy in terms of which certain configurations of component and subassembly imports are regarded as whole vehicles and therefore subject to the CBU duty.

30. Both assembly and component manufacturing are currently mainly focused on the domestic market, in view of the size and pace of increase in the market. This may change within the next few years as a result of overcapacity being created, the cost advantages of the Chinese industry, improvements in quality and the supportive policies of the State. Although Chinese companies will need access to foreign technology and managerial expertise for some time to come, they are moving quickly to develop an indigenous capability.

31. Despite the expected strength of car sales, state policy-makers, industry executives and analysts have expressed concern that the sector could face crippling surplus capacity. Fragmentation is a major problem with about 180 assembly plants in operation. Capacity utilization among foreign-owned car manufacturers was about 65% in 2003 and among domestic car manufacturers just 40%, less than half the 85% generally accepted as the level needed for car production to be profitable. In spite of this, investments to increase capacity are continuing.

32. The China Association of Automobile Manufacturers (CAAM) is forecasting sales and production to grow 12% in 2006, slightly lower than in 2005. Passenger vehicle production is projected to grow to 7.3 million in 2013, an increase of 92% over eight years.

33. China is not yet a major exporter of automotive products. China became a net vehicle exporter for the first time in 2005. In total the country exported 172,800 cars in 2005, up 120% on a year earlier.

Imports reached 161,900 units. Vehicle exports consist mostly of low-priced commercial vehicles to developing countries while component exports are mainly aftermarket parts. The main reasons for this are probably the pace of growth in domestic demand and that Chinese products are generally not yet of a quality suitable for developed countries and, in the case of components, for OE assembly. However, this is expected to change within the next few years. Production overcapacity that is developing may lead to the export of surpluses at very low prices. This will particularly affect international aftermarket parts and accessories markets and eventually OE markets.

34. Some of the Chinese independent passenger vehicle producers such as Chery and Geely are already planning to enter export markets such as the US market on a large scale with their low priced small vehicles.

35. According to the South African industry, imports of certain aftermarket parts from China are already having an impact on the domestic market and industry. According to recent press reports, a major domestic vehicle distributor group is to start importing low priced small vehicles from China during 2007.

36. According to NAAMSA, South Africa exported about 1 900 large/luxury vehicles to China during 2005. This is an area where export opportunities currently exist as Chinese car production is concentrated in the small and medium vehicle categories. However, this opportunity is not expected to last as Chinese assemblers are moving into this segment.

37. South African automotive manufacturing is a growth sector amongst the manufacturing industries and the economy at large. The industry is becoming more important among manufacturing sectors in terms of fixed investment, production and exports. It is an important

destination of foreign direct investment. More importantly, however, is the progressive integration of local automotive manufacturing into the global industry by international automotive manufacturers in an apparent sustainable manner.

38. The MIDP is trade facilitating and in the past number of years imports increased significantly more than the supply from local production in terms of sales into the domestic market and compared with South African exports.

39. The automotive sector is important in the socio-economic fabric of the manufacturing. It started to generate new work places in the past couple of years. While it employs 6.9% of the manufacturing labour force it pays 8.9% of labour remuneration. Growth in labour remuneration is faster than the average for manufacturing.

40. To the extent that global positioning of local automotive manufacture is still to evolve fully as the MIDP runs its course, it will be prudent for any trade agreement that may involve automotive manufacturing not to interfere with its objectives and mechanisms. Such agreements should only be contemplated in the event that they add additional value over and above the outcomes of the MIDP.

TARIFFS AND NTBs

41. The South African tariffs on vehicles are generally bound at 50% and on components at 30%. The finalisation of the Doha Round of the WTO may require a drastic reduction to the SA bound rates for automotive products.

42. While China's final bound tariffs on most products were implemented immediately or phased in over a short period, the bound tariffs on Chapter 87 were and are to be phased in over a much longer period. Most of the final bound rates were phased in by

January 2005 while the final bound rates for bodies (87.07), passenger vehicles (87.03) and components (87.08) will only be reached by 1 July 2006.

43. China's current applied rate for passenger cars is 28% which is to be reduced to 25%, the final bound rate, on 1 July 2006. The SA rate is 32% which will phase down to 25% in 2012. In respect of vehicles for the transport of goods, China applies rates of 25% for trucks of a GVW up to 5 tons, 20% for trucks of a GVW of 5 – 20 tons and 15% above 20 tons.

44. In respect of components of Heading 87.08, most of China's applied rates are 10% and the rest will be reduced to 10% from July 2006, except for some 25% rates that will remain at that level. The SA rate for OE components is 26%, to be phased down to 20% in 2012.

45. Although China's rates in respect of most components are 10%, in terms of new regulations certain configurations of component and subassembly imports are regarded as whole vehicles and therefore subject to a 28% tariff (25% from July 2006) instead of 10%. Also, as from 1 July, if the value of imported components amounts to 60% or more of the value of the vehicle, the CBU duty will apply to the imported components. The auto industry sees this regulation as 'domestic content' policy. This is when a policy discriminates against imports in favour of domestically produced goods for the purpose of supporting the local industry. A 'domestic content' policy is a violation of WTO rules on Trade Related Investment Measures (TRIMs).

46. On 30 March 2006 both the US and the EU, separately, submitted requests for consultations with China in regard to this policy. If such consultations are not successfully concluded within 60 days, this will lead to the appointment of dispute resolution panel to investigate the claims by the US and the EU.

47. The rationale behind this policy is that Chinese policy-makers were unhappy about the slow localisation of components production by the large JV assemblers, and hence the slow transfer of technologies from the global players to the domestic components producers. Global assemblers mentioned that they were following a pro-active localisation policy but were limited by quality, price, and reliability issues.

48. New fuel consumption regulations of 1 July 2005 set a limit on the fuel that vehicles of different weight classes are allowed to consume. As the limit values are more stringent for high-performance and heavier cars – a segment where only imported cars are currently offered - this would amount to a trade barrier for a number of foreign manufacturers.

49. Support for the Chinese automotive sector can be found in the following areas:

- <u>Support for foreign invested JVs:</u>

This includes that reduced 15% corporate income tax. (Which will be phased out over the next few years), tax exemptions for 2 yrs and reduced for 3 years thereafter in many IDZs; various fixed investment and re-investment of profits tax incentives and reduced municipal rates.

- <u>Industrial policy indirect subsidies:</u>

Debt write-offs and infrastructure funding from Beijing could trickle down into 'hidden' subsidies for the North East automotive industry. State-supported institutes is also taking over the R&D side of the automotive sector development and thus assisting the final assemblers on the bottom line.

- Non-sustainable business model of producers:

According to sources in the auto industry, Chinese businesses are not being run on a sustainable basis. Apparently this is not only an SOE problem. Ownership structures are not clear and this allows management to use political connections to run companies with special support from politicians at the provincial and municipal levels where a lack of control allows them to heavily 'subsidize' private companies through cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through other 'private' funding institutions; waiving various local taxes; and assisting to reduce national taxes.

50. It is feared that the 'national brand' final assemblers are following an irrational pricing model. At the moment the brand power of the global brands is still high enough to prevent a major loss of domestic market share. It is suspected that the 'national brands' were receiving significant financial support and/or long-term guarantees to maintain an unsustainably low-price business model to aggressively gain market share in the domestic and eventually international market.

51. Irrational or 'blind' investment by Chinese enterprises, where investments are made without any regard to normal business principles, has been a common occurrence. This practice leads to overproduction that is accompanied by price cuts and is likely to lead to distortions in international markets.

52. According to the WTO Secretariat's report (released on 19 April 2006) for the Trade Policy Review of China: "While China has made several changes to its import licensing regime since its accession to the WTO, it remains intricate and opaque."

53. It is necessary to have a specific trading and distribution license to trade in any products in China. If their business license includes the import and distribution of automobiles and components, additional criteria have to be met.

54. China's China Compulsory Certification (CCC) mark system is a difficult, time-consuming and costly process. CCC regulations make it necessary to both repeat a number of tests and to provide test vehicles and components even when stringent international standards are fulfilled. South African tyre manufacturers have confirmed this situation.

55. Some companies claim that Chinese customs officials occasionally block shipments of products that should not require a CCC mark. There is a general lack of transparency, and at times a lack of capacity on the side of officials.

56. In the automotive sector, various testing bodies have been granted certification authority. Despite China's WTO commitment that qualifying foreign-owned conformity assessment bodies would be eligible for accreditation, China has yet to grant accreditation to any foreign-invested enterprises.

57. The infringement on trademark, patent and outlook design remains serious and the quantity of counterfeit products have not decreased, but actually risen dramatically in the past few years. The infringement of IPR has been especially evident in the auto components sector.

58. China's fuel standard regulations discriminate against importers. There is apparently little implementation of these regulations at the factory gate while imported engines and vehicles have to face stringent standards inspections.

TRADE

(The analysis that follows is based on trade in the 4-digit tariff headings covered in the study.)

59. China's international trade in automotive products is about 5-6 times the size of South Africa's. Imports by China increased faster than exports between 2000 and 2004. Both countries had substantial balance of trade deficits in automotive products in 2004.

60. Exports of automotive products by China are concentrated in components. China's exports of components under HS 87.08 were almost four times higher at US$ 4.4 billion in 2004 than in 2000. The headings with an electrical content are prominent among exports.

61. China's exports of automotive products to the USA, Hong Kong and Japan represent 54% of the total. They are followed by Korea and Germany that import 4% each.

62. South African imports of automotive products doubled between 2000 and 2004. In 2004 imports of components (including OE) were 72.2% of imports of automotive products. The increase was 82% on the imports of 2000. The import of passenger vehicles in 2004 was four times that of 2000. It came to 24.8% of the import of automotive products in 2004 compared to 16.5% in 2000. The MIDP, therefore, can be regarded as trade facilitating in terms of the import of vehicles.

63. While South African imports of components were 82% higher in 2004 than in 2000 that of OE components were 87% higher and equal to 54.5% of component imports in 2004. Germany and Japan are the dominant suppliers.

64. South African imports of automotive products from China are limited to components which increased fourfold from 2000 to 2004 and

equalled 3.1% of South African component imports compared to 1.5% in 2000. This is a rapid increase from a small base that may continue to expand.

65. In automotive trade between South Africa and China, the latter had a positive trade balance amounting to US$ 177.8 million in 2004.

66. China's revealed comparative advantages in the trade in automotive components are extensive. The products listed in Table 6.11 may be considered to pose a threat to the local industry and tariff concessions to China are to be avoided.

67. Rapid advances in the import of automotive products by China were recorded between 2000 and 2004. Overall imports as well as that of components increased three times on the 2000 level while that of passenger vehicles multiplied six times. The imports of passenger vehicles reached US$ 4.6 billion in 2004.

68. Sixty percent of Chinese automotive products are imported from Japan, Germany and Korea. Imports from the USA, Free zones and Other Asia account for another 23%.

69. With China being a net importer of automotive products the list at which it is at a competitive disadvantage is extensive. Opportunities in the Chinese market may be found among the list of products in Table 7.4.

70. Exports of South African automotive products more than doubled between 2000 and 2004 to reach US$ 6.7 billion in 2004. The export share of passenger vehicles rose to 40.3% in 2004 compared with 34.4% in 2000 while that of components declined to 56.7% from 60.6% in 2000.

71. South African exports of components increased 96% between 2000 and 2004. Rapid export growth was recorded in the trade in spark ignition engines and in parts thereof. 76% of South Africa's export of components is found in six 4HS headings with the export of catalytic converters 36% of all component exports.

72. The MIDP has a decisive impact on the destination of most of South Africa's automotive exports. Germany remains first in the destination stakes but its share dropped from 38% in 2000 to 21% in 2004. Although South Africa's export destinations remain rather concentrated in that 60% of exports have only 10 different destinations a better balance came about among the 10.

73. Between 2000 and 2004 South African exports of components to China increased by 160%. Exports under HS 87.08 (parts and accessories) and 84.21 (centrifuges etc/catalytic converters) were responsible for 70% of component exports in 2004.

74. South Africa has a comparative advantage in a number of automotive products that appear in Table 7.9. They can be considered as candidates for an offensive list with regard to China.

CONCLUSIONS AND RECOMMENDATIONS

GENERAL

75. The most prominent conclusions and impressions from this study are:

- The importance attached to the automotive industry by the Chinese government; support for the industry and in particular independent domestic investors; and extensive government intervention.
- The size and massive growth in the market and the industry. However, the vehicle market is oversupplied which has lead to substantial price reductions.

- Government support for the localisation of component sourcing.
- Non-sustainable business models in the automotive industry and irrational investment.
- The existence of substantial NTBs.

DEFENSIVE

76. In view of

- The very high growth rate and the competitiveness of the Chinese automotive industry as well as its sheer size, compared to the South African industry, and its economies of scale
- The undervaluation of the Chinese currency
- Extensive incentives and other support measures to the Chinese industry by the central and provincial governments
- Chinese policy measures aimed at the development of the industry to a major international player, including the development of domestic technology and independent brands, and the 'local content' measure that will provide huge encouragement for further growth in component production
- The apparent irrational investment and non-sustainable business models of Chinese automotive firms
- The surplus capacity that has been created and is bound to increase which will lead to a fast increase in exports at prices that no other country would be able to match
- The importance of the automotive sector to South Africa and the need not to jeopardise the development of the industry and the integrity of the MIDP
- The possibility of very substantial reductions in MFN automotive tariffs by South Africa under NAMA if the Doha Round is successfully concluded,

the conclusion is that South Africa should not agree to tariff preferences to China in respect of automotive products under the proposed trade agreement between SACU and China.

OFFENSIVE

77. Although the Chinese automotive product market is huge and is growing at a rapid rate, the current oversupply of vehicles and low capacity utilization is a major deterrent for exporting vehicles to China. The sharp expansion in China's component production and the 'local content' policy that supports localization of component production will limit sustainable export growth of components to China.

78. China's support to its automotive industry and the existence of NTBs are also deterrents to exports.

79. It can be expected that the MNC OEMs in South Africa would be the drivers for South African automotive exports to China. A list of concessions to be requested from China should be compiled in close co-operation with the OEMs and component manufacturers based on the lists of products that appear in Tables 7.9 (revealed comparative advantages of South Africa relative to China in automotive trade), 7.4 (revealed comparative disadvantages of China) and 7.6 (South Africa's major automotive export products). Since these lists are only indicative it would not be appropriate for consultants to try to prepare such a list on their own. Large cars can also be considered.

80. However, it is not expected that a substantial and sustainable growth in exports of automotive products to China will be achieved through tariff preferences under a trade agreement.

THE NEGOTIATIONS

81. In view of China's targets for the development of its automotive sector with export growth as a major element, it could be expected the China will request tariff preferences on both vehicles and

components/parts in trade negotiations. The creation of export opportunities for automotive products is obviously also be an objective for South Africa.

82. The first prize for South Africa would be to obtain tariff preferences for automotive exports to China without having to grant preferences in respect of imports from China.

83. If this is not acceptable to China, the fall-back position should be to exclude automotive products from the agreement.

1 BACKGROUND

The Southern African Customs Union (SACU) and China expressed the desire to enter into a trade agreement. NEDLAC launched a study into the implications of the envisaged agreement for a number of South African manufacturing sectors in preparation of stakeholders for the coming negotiations. It is accepted that the trade agreement with China could be selective in the format of a Preferential Trade Agreement (PTA) or it could be a Free Trade Agreement (FTA).

The primary objectives of the study are to obtain an insight into the business environment of doing business in China, and the attributes of its textile, clothing, leather and footwear sector as well as the stainless steel, metals, automotive and chemical industries. Threats and opportunities are to be identified and defensive and offensive strategies developed with regard to the envisaged trade deal.

TRADE AGREEMENTS

China and SACU agreed to encourage and support mutual trade and investment, to expand cooperation in areas of mutual economic interest and to launch FTA/PTA negotiations. No time frame was set out for the negotiations.

China has followed a similar path to that of the large powers such as the EU and US in the trading system that have looked beyond the multilateral trading system to conclude bilateral deals furthering their national commercial interests. China is pursuing an extensive number of FTAs and brought a number of impressive ones to conclusion since its accession to the WTO in 2001. The Chinese are pragmatic in their approach to bilateral economic agreements, recognising differences across economic partners and allowing for linkages along conventional trade interests. The CEPA with Hong Kong focuses on trade in goods, cross border investment and financial activities, while the agreements with Australia and New Zealand will cover a number of wider areas.

Currently China's FTA target partners are selected on a regional basis. From a long-term point of view, China must secure a place in the rising trading block within Asia. This has been achieved in the Asia Pacific-and the Asean agreement. China's next move will be to begin official negotiations with Japan and Korea with the aim of creating an East Asian FTA bringing together China, Japan, South Korea and the ASEAN member states (ASEAN + 3). In this regard, China will be aiming to become the focal point of an East Asian free trade zone that will effectively rival others blocs such the EU and NAFTA (North American Free Trade Area).

China is seeking to penetrate other regions by signing FTAs with strategic countries in each region. For example China's FTA with Chile is seen by many as a gateway to other Latin American countries and indeed the region. As such China's impending FTA/PTA / with SACU can be seen in the same light. Although China has economic and trade relationships with many Africa countries, FTA/PTA negotiations with SACU are the first for China on the African continent.

China's strong bilateral focus in its trade agenda has also been strategically oriented in order to secure commodity supplies. The rate of growth of the Chinese economy requires a constant supply of raw materials (SACU, Australia, and GCC).

By becoming a member of the WTO China agreed to the core principles governing the body. Undertakings by China require adherence to key agreements of the WTO transparency and independent reviews of administrative decisions, technical barriers to trade; sanitary and phyto-sanitary measures; trade-related investment measures (TRIMs) Intellectual Property Rights (TRIPS); subsidies; import licensing; rules of origin; customs valuation; distribution services; non-tariff measures; state-trading enterprises; price controls; and safeguard measures. Compliance to these commitments requires substantial reforms.

Market access to China was greatly improved when China agreed to reduce tariff rates. The tariff rates were reduced and are set out in China's Goods Schedule. Down phasing of tariffs should be substantially completed by December 2007. China has selected to position itself with other developing countries and more specifically with the G-20, in the Doha negotiations.

MACRO MATTERS

China started with market orientated reforms in the 1980's to reduce the constraints on growth of its rigid communist economy. The ruling Chinese Communist Party (CCP) remains in firm control of reforms and its vision is for China to become a "socialist market economy". A FTA/PTA between SACU and China will thus be a trade deal between two different economic systems. Implications arise for cost competitiveness as determined under market conditions in South Africa and non-market conditions in China

The reforms that drive economic growth and transformation in China are the (1) rationalisation of the State Owned Enterprises (SOEs); (2) the regulatory framework of markets; and (3) the internationalisation of the economy.

The norm for growth in GDP in recent years came to more than 8% for China and 4% for South Africa. China is expected to grow at between 7 and 8% in future. South Africa has a vision of 6% growth. The population of China is about 23 times and its GDP 9 times that of South Africa. However it's GDP per capita is more than 3 times less than South Africa's. China is catching up as one of the largest economies of the world. In 2004 it was the 7th largest economy and five years time it can be 4th.

China is able to sustain a high growth rate with the help of an extraordinary high investment ratio equal to 40.2% of GDP. Foreign direct investment is at the core of the internalisation of the Chinese economy. Incentives and subsidies that China offers to foreign investors are important promoters of foreign investment. The expansion in its foreign trade opened the Chinese economy at an unprecedented rate. Whereas the sum of exports and imports

of goods and services amounted to 38.1% of GDP in 1998 it rocketed to 70.8% in 2004.

The growth in merchandise trade and foreign direct investment are directly related. Foreign investors target China's comparative advantage in low cost labour to supply world markets. Foreign invested companies (FIEs) increased their share of Chinese exports from 20% in 1992 to 54.8% in 2003. The share of SOEs in exports fell from 46.7% in 2000 to 31.5% in 2003. The FIEs are also responsible for the change in the export structure from primary to manufactured goods. In 1985 primary exports was 50% of merchandise exports while in 2003 manufactured goods accounted for 92% thereof.

Total employment in the Chinese economy increased from 740 million in 2000 to 760.million in 2003 as the result of employment by private enterprise.

Accession to the WTO is set to change the present dispensation with regard to incentives. China is now committed to implement a comprehensive programme according to a set time table to prevent appeals to the WTO by trade partners. However, tax reforms to eliminate incentives as the result of accession to the WTO are expected not to come into force before 2007. Membership of the WTO is to benefit China because its exports will now have easier and more secure entry into foreign markets with the clothing industry to benefit immediately with the termination of the Multi-fibre Agreement.

In the mean time it is suspected that the investment that is taking place may remain less disciplined than would be the case in an environment of free capital markets. The inefficient SOE-sector poses a threat to the banking sector. Banking is still overwhelmingly state owned and the overwhelming majority of bank funds are being lent to state linked firms. Rationalisation of the banking sector included steps to allow banks to operate on a more commercially oriented basis. Solvency ratios were improved by state capital injections and by shoving bad loans into government established asset management companies. These actions in effect constitute a subsidy on the cost of capital. Short term interest rates in China is about half of that in South

Africa. The real interest rate is very low and possibly a contributing factor to the high investment ratio.

Chinese companies thus benefit from an uneven playing field. In the mean time rapid expansion of capacity may lead to excesses that may upset the markets of trading partners in the absence of market dictated investment discipline in China. However, a strong plus point of the Chinese economy is its investment in human resources as a long term platform for sustained growth. A high proportion of students are enrolled in engineering and management sciences.

Reforms that introduced private enterprise into manufacturing reduced the importance of SOEs in production from more than 80% of the output before 1980 to 37% in 2003. They are mainly found in heavy industry. The government follows aggressive strategies to improve the efficiency of SOEs through closures, mergers, sale of ownership and by allowing SOEs to shed redundant labour. The drive towards efficiency among SOEs, by necessity, has a serious socio-economic fall out. It is said that about 30 million work places became redundant between 1998 and end 2004. These workers and their families lost extensive social security benefits. As a consequence the government is trying to introduce a new social security system to complement SOE reforms.

The South African production structure conforms to that of a developed country. The Chinese economy apparently has a production structure of its own with inordinately high dependence on manufacturing and a low contribution by the services sector. The latter would be indicative of underdeveloped financial, business and commercial (retail) services and is commensurate with a society with a low per capita income.

BUSINESS ENVIRONMENT

China is the world's third largest country, with a geographical area of 9.6 million kilometres square and a population of approx. 1.3 billion people. The country consists of 23 provinces, 5 autonomous regions, 4 municipalities, and

2 special administration regions directly under the Central Government. The State Council is responsible for exercising unified leadership over the local state administrative bodies and regulates the division of power and the functions of the state administrative organs at the central level and the provincial, regional and municipal levels. The bureaucratic hurdle is acute when it comes to starting a business, licensing applications and applying for credit. Foreign investors are also wary of a lack of transparency and high levels of corruption.

Uniform personal income taxes on locals and foreigners apply ranging from zero to 30% differentiated over nine levels. Concessions serve to reduce the flat tax rate on profits.

For profits in SEZs, ETDZs, EPZs and the western region the income tax rate is reduced to 15%. The 15% tax rate may also apply to investment in transport-infrastructure and some other activities while refunds, tax holidays and allowances apply to targeted activities. A capital gains tax is in force. South Africa and China have signed an agreement for the avoidance of double taxation.

Financial sector reform is ongoing, having being identified as a key area for promoting economic growth and attracting FDI. The banking sector suffers from non-performing loans and government strives to improve the situation in order to avoid a banking crisis.

The Chinese financial system is highly regulated and relatively underdeveloped. A number of international banks have been permitted to open branches in China with only a few being permitted to carry out branch functions in Shanghai and Shenzhen. Participation in the financial sector has been minimal. As part of China's WTO commitments all remaining restrictions on local currency transactions will have to be removed and foreign banks will be able to conduct transactions in yuan renminbi with both Chinese companies and individuals. The rate of reform is slow.

The Chinese stock markets have been described as relatively underdeveloped and in need of internal reform.

The transport infrastructure in China is undergoing improvement, particularly with regards to port development and capacity and the improvement of road and rail networks. China has embarked on several power generation and hydro electric projects and has also urged foreign companies to become involved in the infrastructure development process in the country.

There are many cases where foreign products and brand names have been copied by unscrupulous Chinese operators. Registering a brand name, logo, patent, trademark, and copyright is a priority. Since joining the World Trade Organization, China has strengthened its legal framework and amended its IPR laws and regulations to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Despite stronger statutory protection and committed officials measures taken have not been sufficient to deter massive IPR infringements effectively.

TRADE AND INDUSTRIAL POLICIES

In its latest five year plan the Chinese government has undertaken to increase investment in rural construction; development of the middle and western areas of the country; social causes; science and technology; environmental protection; and infrastructure construction. The Chinese leadership is aware of the growing disparities between the wealth of the urban and rural areas, and endeavours to address these concerns.

A primary objective of its trade policy is to strengthen China's position vis-à-vis trade with the developing world. Presently China is challenged to develop high-technology products locally and is heavily reliant on imported technologies. In order to address this perceived shortfall, it is promoting the development of its high-technology sectors. China is moving to a position where it will potentially be able not only to compete with the developed world in terms of high-technology goods and services, but also simultaneously supply them with all the low-technology goods it currently provides.

Resources companies have strategically positioned themselves vis-à-vis China's booming commodity demand. However, it appears that the Chinese leadership is wary of over reliance on foreign companies and governments for its supplies of raw materials. The past two years have seen an incredible growth in China's direct interaction with natural resource rich regions and countries. Prominent among these are South America and most recently, Africa.

China is extracting significant amounts of raw materials from Africa and has also increasingly been promoting Africa as an investment destination for Chinese multinational corporations. There has been substantial investment in for example oil, construction, telecommunications, and transport and energy assets. A side effect of China's industrial or trade policy has been the further competitive marginalisation of Africa's manufacturing sector. Unable to compete against lesser priced Chinese imports, African economies continue to move further down the manufacturing value-chain. This further entrenches the lack of industrialisation amongst the continent's economies.

China is pursuing its various trade and industrial objectives through a number of means, incentives and initiatives. China relies heavily on foreign investment to build up its industrial sector, especially export manufacturing, high technology enterprises and investment in the central and western regions.

China is attempting to achieve its economic objectives by providing direct support for number of specific industries. Prominent among these are the automotive, agriculture, energy and transport industries. Many of these often appear in reference to certain "pillar industries" which receive direct support from the state. These industries are offered a large degree of protection by the PRC government and some concerns have been raised about the lack of transparency and access in these industries.

Membership of The World Trade Organization (WTO) has been a significant target of its strategy. Within the WTO, and through various bilateral agreements pursued since 2001, China has been trying to acquire Market Economy Status (MES) from as many countries as possible. China is not recognised as a market economy by the US, a status that makes it easier for trade actions to be brought against Chinese firms. Dissatisfied by what it sees as discriminatory treatment and fearful that this status could make it vulnerable to Western protectionism, the People's Republic has embarked on a comprehensive campaign in the international community to gain MES.

China is supporting its manufacturers and industries through the retaliatory mechanisms of the WTO. An example is extensive use of the anti-dumping mechanism to protect its chemicals industry against imports from South Korea, Japan, the United States, and even South Africa.

China is inclined to utilising political influence to support its trade and industrial policies. The most prominent has been the recent close political interaction with Africa and the release of its "Africa Policy" in January 2006. China has also used this appeal in South America, where Venezuela has stated openly a preference for a relationship with China over the US. These overtures are sometimes shored up by providing access to loans, technical assistance, expertise, and physical infrastructure development to countries that are dissatisfied with the assistance received from Western institutions.

China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries with direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means. In addition to these six tools, there are at least two additional important measures. One is the systematic guideline to channel FDI into desired industries. Based on these guidelines the government grants licenses and approval of investment projects. The other is the various restrictions imposed on foreign ownership, business ranges, and geographic scope of foreign-funded enterprises.

The sector specific analysis to arrive at sector strategies for the trade negotiations is taking place with the foregoing in mind. The emphasis of the sector analysis is to be on features of the Chinese automotive industry, the markets and on protection and associated aspects and China's international trade in automotive products. Threats and opportunities are to be identified and defensive and offensive strategies developed with regard to the envisaged trade deal.

2 SECTOR DEVELOPMENT POLICIES

2.1 Introduction

The Chinese Government sees a domestically-owned automotive industry as a key-stone of its economic development plans. It sees the automotive sector as a politically and economically strategic industry. For more than a decade, the Chinese Government has made it clear that it wants to develop an independent automotive industry capable of developing its own technology and Chinese owned companies able to compete globally with the major international players.

Until 1998 the Chinese car market was dominated by just a handful of firms (mostly State Owned Enterprises (SOEs)), with Volkswagen and its joint-venture partners holding more than half of the market, but since then the number of foreign firms with significant facilities in China has risen dramatically. Recent entrants include many of the big global names in the industry such as Nissan, GM, Ford, Honda, BMW and Hyundai, each of which has ambitious plans for the market.

A large number of domestic Chinese companies have also established assembly operations. It is expected that at least some of the new, home-grown Chinese carmakers will make substantial inroads into the Chinese market, and eventually world markets.

The massive investments in the industry by international and domestic Chinese automotive assemblers are based on the huge market which is growing at a fast pace in line with China's economic growth and on investors seeing China as a low cost production base.

Although Chinese companies will need access to foreign technology and managerial expertise for sometime to come, they are moving quickly to develop an indigenous capability. Trademark infringements by independent domestic producers seem to be a frequent occurrence.

Although the focus of attention in regard to the automotive industry in China is on vehicle assembly, component production is growing rapidly and is due to be further stimulated by recent changes in the Governments automotive policy. Most of the world's major Tier 1 suppliers have set up facilities in China. They have been encouraged to do so by the Chinese government's more liberal investment policy for auto parts. While automakers are limited to 50% foreign ownership of plants designed to serve the domestic market, there are no restrictions for parts.

Both assembly and component manufacturing are currently mainly focused on the domestic market, in view of the size and pace of increase in the market. Exports of vehicles are low and exports of components are mainly aftermarket parts. This may change within the next few years as a result of overcapacity being created, the cost advantages of the Chinese industry, improvements in quality and the supportive policies of the State.

The huge Chinese domestic market means that Chinese companies will be able to leverage large economies of scale, enabling them to produce at very low cost.

State policy-makers and analysts agree that overcapacity is developing and that consolidation is needed. Fragmentation is a major problem with about 180 assembly plants in operation. In spite of this, domestic and international groups are still planning massive additional investment in capacity increases.

2.2 Strategy/development plan

China regards the automotive sector as one of its pillars of economic growth. The Government sees the automotive sector as a politically and economically strategic industry, and is determined that Chinese-owned companies develop a major presence on the global market.

The 11th Five-Year Plan is to map out the following blueprint for development by 2010:

- The auto industry will contribute more than five percent to China's GDP;
- China will become the world's third largest automobile manufacturing country after the U.S. and Japan;
- Total export value of automotive products will exceed $50 billion;
- Several large automobile groups in China will become Fortune 500 companies and compete internationally.

One of the core messages of the Plan is to call for independent R&D and product development in the automobile sector, according to presentations delivered at a recent forum discussion. A growing number of government officials as well as industry executives now argue that China needs to move away from a dependent auto industry toward an independent one. For China to be competitive in the international automotive market, many speakers pointed to the importance of independently owned brands and vehicle models, which represent the core competitiveness not only of an automaker but also of a nation.

Specific policy measures will be undertaken to favour the use of small-displacement vehicles, improve fuel efficiency, develop alternative fuels and new energy sources and reduce emissions and pollution. The Plan will set a target, for example, to reduce the fuel consumption of new passenger vehicles by at least 15 percent in 2010 compared to 2003.

China has an automotive industry policy, the **China Automotive Industry Development Policy.**

The introduction to the policy reads as follows:

"The Auto Industry Development Policy (hereinafter referred to as the Policy) is so formulated to adapt to the socialist market economy and the new development situation of domestic and international auto industry in the post-WTO entry period, to propel auto industry's restructuring and upgrade, to comprehensively improve international competitiveness of the industry, to satisfy the ever-increasing demands of the customers for auto products and

to ensure the healthy development of the industry. Through the implementation of the Policy, the auto industry should become one pillar industry of national economy prior to 2010 and make greater contribution to the advent of an overall well-to-do society."

While there has been a substantial reduction in State control of the automotive sector, it is clear that there is still very substantial State interference and regulation.

Chapter I: Policy objectives, Article 1 seems to contain a contradiction in the sense of **'**letting the market play its role of allocating resources' and reference to state regulation in the rest of the article and the provisions in the rest of the policy. The relevant article reads as follows:

"*Based on firmly following the principle of letting the market play its role of allocating resources and leaving macro-level control to the government, create a fair and unified market environment, improve legal management system for the auto industry. The government organizations play their managerial roles over manufacturers of autos, farming vehicles (lowspeed trucks and tricars, ditto), motorcycles, parts as well as their products in accordance with administrative laws and regulations as well as the compulsory requirements of technical regulations and regulate the market behaviors of various types of economic entities in the sphere of auto industry."*

China is attempting to achieve its economic objectives by providing direct support for a number of specific industries. Prominent among these are the automotive, agriculture, energy and transport industries. Many of these often appear in reference to certain "pillar industries" which receive direct support from the state.

2.3 Implementation/Incentives/Instruments

The China Automotive Industry Development Policy covers a wide array of interventions and measures. These include:

Policy objectives:

- Facilitate the harmonized development of the auto industry, associated industries, urban traffic infrastructures and environmental protection.
- Create a favorable using environment for autos, nurture a healthy auto consumption market, protect customers' rights and propel private auto consumption.
- Prior to 2010, China should become a major auto manufacturing country, whereas locally made products will basically meet domestic demands and enter the international market in batches.
- Automakers will be encouraged to improve R&D and technical innovation capacities, to pro-actively develop products with their own Intellectual Property Rights (IPR) and practice branding strategies. By 2010, a number of well-known auto, motorcycle and parts brands should have been forged by the manufacturers.
- Promote the auto industry's restructuring and reorganization…..
- Several internationally competitive large auto groups will form by means of market competition and they should strive to become world Top 500 companies by 2010.
- Automakers are encouraged to form alliances based on principles of market economy to realize mutual strength complementarity, share of resources and increase of business scale.
- A number of parts manufacturers with comparative advantages should be cultivated to realize production of large scale and enter the global parts purchasing system.

Development planning:

- The state instructs the formulation of the auto industry's development plan in accordance with the Policy. …. The National Development & Reform Commission (hereinafter referred to as NDRC) is responsible for formulating the mid and long-term industrial development plans and submitting the plans for approval by the State Council. Large auto groups should formulate their group development plans based on the mid and long-term industrial plans.

- An auto group ……whose total domestic market share (of products manufactured by the core enterprise, wholly-owned subsidiaries, holding companies and JVs) or whose group sales revenue of complete vehicles accounts for over 15% of that of the whole industry, is qualified as Large Auto Group and should formulate its group development plans and submit directly to NDRC for investigation and approval.

Technical policies:

- Track the international state-of-the-art technologies, actively carry out international cooperation and develop advanced applicable technologies with own IPRs…..should be internationally competitive and meet international technical standards …..
- The state will provide support to R&D activities that comply with the technical policies in the form of tax preference.
- The state induces and encourages the development of eco-friendly, low displacement autos. The auto industry should…..actively work on R&D and industrialization of new powers as electric cars, power cell for vehicle use….. hybrid vehicle and car-used diesel technologies. The state will take measures …. to promote the production and use of hybrid vehicles.
- The state supports the R&D of new fuels for vehicle use as alcohol fuel, natural gas, mixed fuel and hydrogen fuel, encourages automakers to produce vehicles powered by new fuels.
- The auto industry …….should emphasize on developing and applying new technologies to improve fuel economy of vehicles. Prior to 2010, average fuel consumption of new passenger vehicles should be decreased by minimum 15% compared to 2003.
- The state supports the R&D and production of auto electronic products….

Restructuring:

- The state encourages automakers to become large groups and form new competition structure. …..The objective of strategic reorganization is to support automakers' developing into large auto groups by means of capital reorganization, encouraging automakers to form enterprises alliances ….

Entry management;

- Formulate the *Regulation on Management of Road Power-driven Vehicles*.
- Formulate the compulsory requirements of technical regulations concerning safety, environmental protection, and energy saving ……
- Road power-driven vehicles conforming to the requirements of the entry management system, relative laws/regulations and the compulsory requirements of technical regulations and having obtained the compulsory certifications will be listed in the *Bulletin of Manufacturers of Road Power-Driven Vehicle and the Products* published jointly by the NDRC and the State Administration for Quality Supervision, Inspection & Quarantine …..must be marked with China Compulsory Certification (3C) labels……

Trademarks & brands:

- Manufacturers of auto, motorcycle, engine and parts should strengthen brand awareness for enterprises and products. They should actively develop products with own IPRs, attach importance to IPR protection and endeavor to grow the popularity of brands through production and business operations, and maintain corporate brand images.
- Starting from 2005, all domestically produced complete vehicles and assemblies should bear manufacturers' registered trademarks. ….. should display clearly the manufacturers' product trademarks and manufacturers' names or place of production on noticeable places of the exterior of the products

Product development:

- The state supports manufacturers of auto, motorcycle and parts to set up R&D institutions to form independent R&D and product innovation capabilities. The investment on the construction of R&D facilities could have related expenses be exempted from income tax. The state will release favorable policies to encourage independent R&D activities of enterprises at appropriate time.

- Automakers should endeavor to master the technologies of developing auto bodies … product craftsmanship technologies ……chassis and engines as soon as possible. The state will provide supports to develop advanced complete vehicles or assemblies with own IPRs.

Parts and related industries:

- Auto parts manufacturers should follow the developing trends of the world industry, and actively participate in product development process of OEMs.
- Priority will be given to support the iron & steel enterprises to realize the supply capabilities of sheet for vehicle use……specialized mold designing and manufacturing centers …. technical improvement and product upgrade of the petrochemical enterprises will be supported to produce oils like auto fuels and lubricants oils of world level standard…….

Distribution network:

- ….to protect consumers' rights and make sure they receive quality service …domestic and foreign automakers selling their own products inside China must establish the brand distribution and service systems for their own products as soon as possible.

Investment management:

- Based on the principle of facilitating the independent development of enterprises under effective macro management by the government, two approaches will be adopted to reform the governmental management system on auto investment project: the Filing Management and the Ratification Management.
- Newly-invested projects should meet the following conditions:
- For investment projects of cross-category complete vehicle production, total investment (including original fixed assets and intangible assets) should be no less than RMB1.5 billion, asset/liability ratio lower than 50% and bank credit rated AAA; ……passenger vehicle manufacturers should prove to be capable of batch-producing autos; accumulated after-tax

profit exceeds RMB1 billion for the last 3 years (with tax certificates); asset/liability ratio lower than 50% and bank credit rated AAA;

- New passenger vehicle or heavy-duty truck manufacturing projects should include corresponding engine production for the complete vehicles.
- A product R&D institution should be established and the products should satisfy the state's everincreasing compulsory requirements of technical regulations.
- Production scale requirements for the newly-built investment projects are: for heavy duty trucks, no less than 10,000 units per year; for passenger vehicles equipped with 4-cylinder engines, no less than 50,000 units per year; for passenger vehicles equipped with 6-cylinder engines, no less than 30,000 units per year.
- Sino-foreign JVs producing complete vehicles, special purpose vehicles, farming vehicles or motorcycles should ensure the stakes held by the Chinese parties are no less than 50% of the JVs.
- A foreign investor is allowed to establish no more than two JVs producing the same category of complete vehicles

Import management:

- The state supports automakers to strengthen their localization capabilities of auto products to promote technological advancement of the parts manufacturers and the development of the auto manufacturing.
- The automakers, who use imported parts with complete vehicle characteristics to produce vehicles, should report to the MOFCOM, General Administration of Customs and NDRC strictly by the facts and all imported parts for related models should be declared in the local customs offices, in order to facilitate the effective management by relevant authorities.
- Identification of complete vehicle characteristics consists of: engine assembly, body (including cab) assembly, transmission assembly, drive axle assembly, non-drive axle assembly, frame assembly, steering system and braking system

- The identification of auto assembly (system) characteristics includes the imports of KD parts of the whole assembly, or in the form of divided key parts of the assembly or system. Imported key parts, if it reached or exceeded the regulated amount, would be identified as assembly.
- The followings are identified as to constitute complete vehicle characteristics: (1) Import of both body (including cab) assembly and engine assembly (2) Import of either the engine assembly or body (including cab) assembly, plus no less than three of the rest assemblies (or systems); (3) Import of no less than 5 of the rest of the assemblies (or systems), besides the engine assembly and body (including cab) assembly.

  NOTE: SEE MORE DETAILS ON THIS MEASURE TO PROMOTE DOMESTIC COMPONENT PRODUCTION, UNDER CHAPTER 5: NTBs.

- The state designates the four coastal ports: Dalian New Port, Tianjin New Port, Shanghai Port, and Huangpu Ports……as import ports for imported complete vehicles. Complete vehicles must be imported through above-mentioned ports.
- Starting from 2005, all bonded areas will not be allowed to provide bonded warehousing services for vehicles to enter domestic market.
- The state prohibits the imports of used vehicles, motorcycles and parts in the forms of trade or donations, and the import of used-vehicle assemblies and parts in the name of scrap steel or metals for reuse.

Auto consumption:

- The relevant departments of the state should uniformly formulate and promulgate the auto emission standards, which will be divided into the Current Standard and the Anticipative Standard according to the national conditions. The local governments ….have the option to choose to implement the Current Standard or the Anticipative Standard.
- A nationwide unified motor vehicle registration, inspection and management system should be implemented and the local governments

are not allowed to formulate separate management methods on their own.

The **China Automotive Industry Development Policy** covers almost all possible aspects and interventions. Of particular importance are those articles dealing with

- policy objectives which clearly shows the Chinese government's ambitions for the industry to become a major international player
- investment management, amongst others the fact that new investments are subject to specific procedures; the minimum production scale requirements; the firm level screening in terms of amount of investment, asset/liability ratio, credit rating and profit record; compulsory engine production for certain assembly projects; and that in foreign joint ventures, Chinese interests should have a share of at least 50%
- import management which includes a new measure to promote domestic component production (also see Chapter 5 under NTBs); the designation of only four ports for the importation of new vehicles; and the prohibition on the importation of used vehicles.

It is notable that the policy refers to support measures but is quiet on details thereof. Some of these still have to be developed.

The most obvious subsidy is the undervaluation of the currency, the Yuan or Renminbi. Analysts agree that the Chinese currency is undervalued, which to a major extent assists the competitiveness of China's exports. Estimates of the extent of the undervaluation vary up to a level of 40%, with the average estimate being about 20%.

As stated in Chapter 1, China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries – of which the automotive sector is clearly one - with direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means. In addition to these six tools, there are at least two

additional important measures. One is the systematic guideline to channel FDI into desired industries. Based on these guidelines the government grants licenses and approval of investment projects. The other is the various restrictions imposed on foreign ownership, business ranges, and geographic scope of foreign-funded enterprises.

Details of incentives that are not industry specific appear in Report No 2: China Cross-Cutting Issues. These include tax concessions. Infrastructure development in respect of roads will also directly benefit the automotive sector.

China is granting assistance for the development of brands – an aspect emphasized in the auto development policy - through its promotion of a number of “China Brands”. Since relatively recently, the Chinese Ministry of Commerce (MOFCOM) has released its “Annual Famous Brands Fostered and Promoted by MOFCOM.” Each year a number of companies, both private and state-owned (the majority being the latter) are named by MOFCOM and earmarked for support in promoting their expansion internationally. The ultimate intention is to create a number of world-class Chinese brands that can compete globally. China’s stimulation of the high-technology and education sectors will certainly support the success of such companies.

2.4 Trade discriminatory incentives

Observers believe that China still applies incentives that can be regarded as subsidies. Even the US has not been able to confirm the existence of such subsidies as a result of the highly complex Chinese business environment, a lack of transparency and administrative actions that are not published. Since 2003 China has been promising to submit its obligatory notification of subsidies to the WTO Subsidies Committee. They have been regularly reminded by other members who are filing questions of alleged subsidies in the Committee. China promised to submit its notification first in 2004, then in 2005, but to date has not done that.

2.5 South African Automotive Industry Policy

The automotive sector has since the 1920s been singled out for special assistance. The initial phase, lasting until 1961, lead to simple assembly for the domestic market. Very high protective tariffs on imported vehicles supported the development of an industry of small plants producing a relatively wide variety of models in small volumes at high cost.

This was followed by five new phases of government support for the industry. They featured continued domestic market protection and a variety of incentives and requirements for increased local content. A sixth phase, introduced in 1989, signalled a major policy shift through the promotion of automotive exports. The principal changes included a provision permitting exports to be counted towards local content requirements and a substantial reduction in local content requirements. This led to an increase in the number of different vehicle models being produced. The resulting low volumes per model were a significant cost-raising factor. Exports were also minimal.

The MIDP, introduced in September 1995, is the current phase in this process. It aimed to develop an internationally competitive and growing automotive industry. The automotive industry is regarded as a growth sector in manufacturing. It is in fact the only sector that has a long term programme in place, which stretches until 2012 and gives certainty to participants and investors in the industry and is regarded as the pre-eminent programme aimed at micro reform.

A common vision was formulated for the automotive industry by all stakeholders. The vision is to establish a viable, competitive industry locally and internationally, capable of achieving both continuous growth and sustainable job creation.

The instrument for achieving this vision is the Motor Industry Development Programme (MIDP) which is aimed to develop an internationally competitive and growing automotive industry that would be able to:

- provide high-quality, affordable vehicles and components to the domestic and international markets;
- provide sustainable employment through increased production; and
- make a greater contribution to the economic growth of the country by increasing production and achieving an improved sector trade balance.

These national objectives are to be achieved by:

- encouraging a phased integration into the global automotive industry;
- increasing the volume and scale of production by the expansion of exports and gradual rationalisation of models produced domestically; and
- encouraging the modernisation and upgrading of the automotive industry in order to promote higher productivity and facilitate the global integration process.

The major policy instruments to achieve these objectives have been:

- a gradual and continuous reduction in tariff protection so as to expose the industry to greater international competition;
- the encouragement of higher volumes and a greater degree of specialisation by allowing exporting firms to earn rebates of automotive import duties; and
- the introduction of a range of incentives designed to upgrade the capacity of the industry in all spheres.

The Motor Industry Development Programme (MIDP) is the principal support instrument for the automotive industry in South Africa. It actually consists of two separate development programmes, one for passenger cars and light commercial vehicles (Light Vehicle or Car/LCV MIDP) and one for medium and heavy commercial vehicles (MCV/HCV MIDP).

The Light Vehicle MIDP consists mainly of a combination of customs tariffs and rebate provisions. The main features are the use of customs duties but at reducing levels; a duty free allowance; and import/export complementation through rebated imports based on export performance. Participation by

assemblers is conditional on CKD assembly. The Programme does not have any minimum local content requirement.

The MCV/HCV MIDP consists of customs duties at reducing levels on vehicles; duty-free imports of components (except tyres); and import/export complementation. The programme also does not have a minimum local content requirement.

The Productive Asset Allowance (PPA) is an additional programme specifically for the automotive industry and has become part of the MIDP and was introduced in 2000. The purpose of this programme is to reduce the amount of vehicle platforms and models that are assembled locally coupled with increased investment and exports with increased local content. The incentive provided is in the form of import rebate credit certificates to off-set import duties on built up vehicle imports. Manufacturers that have been granted other government investment incentives may not apply for the PAA. Participants in the MIDP may benefit from other trade and industry support programmes (subject to the limitation in respect of the PAA).

2.6 Considerations

1. The Chinese Government sees a domestically-owned automotive industry as a key-stone of its economic development plans. It sees the automotive sector as a politically and economically strategic industry. For more than a decade, the Chinese Government has made it clear that it wants to develop an independent automotive industry capable of developing its own technology and Chinese owned companies able to compete globally with the major international players.

2. All the top international vehicle assemblers are established in China in the form of joint-ventures. A large number of domestic Chinese companies have also established assembly operations. It is expected that at least some of the new, home-grown Chinese

carmakers will make substantial inroads into the Chinese market, and eventually world markets.

3. The massive investments in the industry by international and domestic Chinese automotive assemblers are based on the huge market which is growing at a fast pace in line with China's economic growth and on investors seeing China as a low cost production base.

4. Although Chinese companies will need access to foreign technology and managerial expertise for sometime to come, they are moving quickly to develop an indigenous capability. Trademark infringements by independent domestic producers seem to be a frequent occurrence.

5. Although the focus of attention in regard to the automotive industry in China is on vehicle assembly, component production is growing rapidly and is due to be further stimulated by recent changes in the Governments automotive policy. Most of the world's major Tier 1 suppliers have set up facilities in China. While assemblers are limited to 50% foreign ownership of plants designed to serve the domestic market, there are no restrictions for parts.

6. Both assembly and component manufacturing are currently mainly focused on the domestic market, in view of the size and pace of increase in the market. Exports of vehicles are low and exports of components are mainly aftermarket parts. This may change within the next few years as a result of overcapacity being created, the cost advantages of the Chinese industry, improvements in quality and the supportive policies of the State.

7. The huge Chinese domestic market means that Chinese companies will be able to leverage large economies of scale, enabling them to produce at very low cost.

8. State policy-makers and analysts agree that overcapacity is developing and that consolidation is needed. Fragmentation is a major problem with about 180 assembly plants in operation. In spite of this, domestic and international groups are still planning massive additional investment in capacity increases.

9. The 11th Five-Year Plan is to map out the following blueprint for development by 2010:

- The auto industry will contribute more than five percent to China's GDP;
- China will become the world's third largest automobile manufacturing country after the U.S. and Japan;
- Total export value of automotive products will exceed $50 billion;
- Several large automobile groups in China will become Fortune 500 companies and compete internationally.

10. The **China Automotive Industry Development Policy** covers a wide range of aspects and interventions. Of particular importance are policy objectives which clearly shows the Chinese government's ambitions for the industry to become a major international player; investment management applied to new projects; that in foreign joint ventures, Chinese interests should have a share of at least 50%; import management which includes a new measure to promote domestic component production; and the designation of only four ports for the importation of new vehicles.

Independent R&D and product development in the automobile sector and independently owned brands and vehicle models are important targets.

11. China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries – of which the automotive sector is clearly one - with

direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means.

China applies various tax and import concessions that benefit the automotive sector. The undervaluation of the currency is a huge subsidy to industry.

12. Stakeholders in the South African automotive industry strive to establish a viable, competitive industry locally and internationally, capable of achieving both continuous growth and sustainable job creation. The instrument for achieving this vision is the Motor Industry Development Programme (MIDP) which is aimed to develop an internationally competitive and growing automotive industry that would be able to: These national objectives are to be achieved by:

- encouraging a phased integration into the global automotive industry;
- increasing the volume and scale of production by the expansion of exports and gradual rationalisation of models produced domestically; and
- encouraging the modernisation and upgrading of the automotive industry in order to promote higher productivity and facilitate the global integration process.

13. The major policy instruments to achieve these objectives have been:

- a gradual and continuous reduction in tariff protection so as to expose the industry to greater international competition;
- the encouragement of higher volumes and a greater degree of specialisation by allowing exporting firms to earn rebates of automotive import duties; and
- the introduction of a range of incentives designed to upgrade the capacity of the industry in all spheres.

14. The MIDP proved to be successful in achieving its aims over the past decade and is to remain in force at least to 2012

3 OVERVIEW OF MARKETS

3.1 Introduction

As a market, China offers significant opportunities for manufacturers and component suppliers, provided they take careful account of;

- the different environment in China,
- the inherent risks involved,
- the dynamic nature of the market,
- the rapidly-changing nature of the regulatory and policy environment.

3.2 Structure, size, products, labels/brands

According to the National Bureau of Statistics of China (NBS), vehicle ownership in China (vehicle parc) stood at 27.09 million units in 2004, of which private ownership, that is vehicles registered under an individual's name, reached 14.97 million units accounting for 55.3% of all vehicle registrations. Private vehicle ownership that comprised 23.7% of all ownerships in 1995 nearly grew by six times in the last 10 years from 2.46 million units in 1995.

A breakdown by vehicle types shows that bus and passenger vehicle (NBS classification) ownership accounted for 64% or 17.35 million units of all ownership and truck ownership for 32.8% or 8.9 million units.

All of the top international passenger vehicle manufacturers are established in China in the form of joint-venture operations, namely the following:

BMW
DaimlerChrysler
Fiat-Renault
Ford/Mazda
General Motors
Honda
Hyundai/Kia
Mitsubishi

Nissan
PSA Peugeot-Citroen
Suzuki
Toyota
VW

In 2003 these international groups had 24 foreign joint-ventures with an annual production capacity of about 2 590 000 cars.

There were also 11 major independent domestic car makers with a combined production capacity of about 1 625 000 cars. They were the following:

Dong Feng Motor Luizhou
Dong Feng Automobile
FAW
Chery
Geely
Great Wall
Guizhou Skylark
Harbin Hafei
Hebei Zhongxing
Rongcheng Huatai
Souest

There are many other smaller domestic firms with their own brands. Many new firms have been entering the sector.

3.3 Growth

Economic growth is the most important factor behind expanding vehicle ownership. While China's GDP in 2004 grew 9.4% to 13.6876 trillion Yuan from a year before, the vehicle parc in China reached 27.09 million units, a 13.7% increase from a year earlier. Since 1995, China's GDP has been maintaining an average 8% growth annually generating an annual approximately 11% vehicle ownership increase. The number of registered

vehicles in China exceeded ten million units in 1995 for the first time and after seven years in 2002 it passed the 20 million mark.

China is now the third largest vehicle market in the world, with total sales of 5.92m vehicles in 2005, up 15% on 2004. China overtook Germany and now only lags the US and Japan.

The Chinese sales figure for 2005 includes 160,000 imported vehicles. The projections for Chinese vehicle registrations up to 2015, according to Ernst & Young's report: "CHINA'S AUTOMOTIVE SECTOR – AT THE CROSSROADS", are as shown in Table 3.1.

Table 3.1 Chinese vehicle registrations (millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Passenger cars	2.61	3.14	3.56	3.95	4.29	4.68	5.10	5.53	6.00	6.42	6.86
Commercial vehicles	2.96	3.17	3.36	3.62	3.83	4.07	4.26	4.42	4.58	4.67	4.84
Total	**5.57**	**6.31**	**6.92**	**7.57**	**8.12**	**8.75**	**9.36**	**9.95**	**10.58**	**11.09**	**11.70**

3.4 Present and expected consumption patterns

By taking into consideration China's steadily growing economy, including the automotive industry, the central government expects vehicle ownership to reach 55 million units by 2010. Ownership of a vehicle is a status symbol for Chinese people and the increase in the market is linked to the fast growing middle class.

A top Government automotive official predicts that China's market demand in 2010 will reach 10 million units and that number will double by 2020. China's automobile parc will hit 50 million units by 2010 and 140 million by 2020. "Independent development will be the cornerstone of our future growth," the

official said. “But we will also continue with our current approach of open cooperation with foreign partners.”

The vehicle ownership in China currently is at a level of about 20 vehicles per 1 000 of the population. A huge further potential therefore still exists and that is probably the driving factor for additional investments in capacity increases in spite of apparent overcapacity developing.

Continuous new investment in production capacity has been driving down vehicle prices and as a result pushing up vehicle ownership. In 2004 intense price competition in the passenger vehicle market lead to price reductions, making private passenger vehicle ownership a reality for a larger number of consumers. In the coming years, vehicle ownership is expected to rise in light of a further growth in passenger vehicle market.

Infrastructure spending on new roads will also assist in boosting vehicle ownership.

3.5 Distribution

Vehicles are sold through dealerships.

China published an Automobile Trade Policy in 2005. This is aimed mainly at safeguarding the interests of consumers, vehicle owners and buyers. The policy amongst others prescribes the behaviour of sellers of vehicles, branding, product quality, service of vehicles, selling of used vehicles, scrapping of used vehicles, recycling and various other issues. The distance between a dealership’s business location, its components and parts suppliers and after sales service points is required to be within 150km.

Analysts expect the new rules, which are designed to improve service standards, will result in the disappearance of more than half of China’s 30,000 automobile dealerships.

Unqualified car dealerships will have six months to comply with the new rules, but observers expect as many as half will have failed to do so, partly for lack of funds to provide after sales service. According to the China Association of Automobile Manufacturers, only 2,000 of the 30,000 dealers currently registered by the government are authorised by manufacturers, and a third of them made losses in 2004 as the market slowed and became more price-competitive.

This policy also encourages foreign investment in distribution through dealerships.

The China Automotive Industry Development Policy specifically makes provision for promoting vehicle ownership. In regard to distribution, the Policy prescribes, amongst others, that in order to protect consumers' rights and make sure they receive quality service through the process of auto purchasing and ownership, domestic and foreign automakers selling their own products inside China must establish the brand distribution and service systems for their own products as soon as possible. Domestic and foreign automakers can build the system by their own investment or through authorizing the dealers to invest. Both domestic and foreign investors can engage in brand distribution and service of local or import vehicles in China under authorization of manufacturers and after having gone through the necessary procedures according to thee relevant regulations.

3.6 South African market

The total South African market for new vehicles was 617,450 vehicles in 2005. This means that currently China's market for new vehicles is about ten times that of South Africa. The domestic market will probably not grow at a pace close to the pace of growth in China's market over the longer term.

3.7 Considerations

1. According to the National Bureau of Statistics of China (NBS), vehicle ownership in China (vehicle parc) stood at 27.09 million

units in 2004, of which private ownership reached 14.97 million units. Bus and passenger vehicle ownership accounted for 64% or 17.35 million units of all ownership and truck ownership for 32.8% or 8.9 million units.

2. All of the top international passenger vehicle manufacturers are established in China in the form of joint-venture operations. There are also a substantial number of major and smaller independent domestic assemblers with their own brands.

3. China is now the second largest vehicle market in the world, with total sales of 5.92m vehicles in 2005, up 15% on 2004. China overtook Germany and now only lags the US and Japan.

4. It is predicted that China's market demand in 2010 will reach 10 million units and that the number will double by 2020. China's automobile parc will hit 50 million units by 2010 and 140 million by 2020. It is envisage that domestic independent development will be the cornerstone of future growth.

5. The total South African market for new vehicles was 617 450 vehicles in 2005. This means that currently China's market for new vehicles is about ten times that of South Africa. The domestic market will not grow at a pace coming close to the pace of growth in China's market.

4 FEATURES OF THE INDUSTRY

4.1 Production, no of producers, capacity

Currently China is estimated to have more than 5 800 automotive enterprises with total assets of over Y1 trillion. There are about 180 assembly plants.

There are about 60 individual passenger vehicle assemblers. They assembled about 3.8 million passenger vehicles in 2005. A list of the manufacturers and their production during the first ten months of 2005 appears in ANNEX A.

The South African production of passenger vehicles in 2004 was 300 963 and during 2005 it was 324 875.

All the top international passenger vehicle manufacturers are established in China in the form of joint-venture operations (named in paragraph 3.2). All of the international groups that assemble passenger vehicles in South Africa have major joint-venture operations in China. In 2003 these international groups had 24 foreign joint-ventures with an annual production capacity of about 2 590 000 cars.

There were also 11 major independent domestic car makers with a combined production capacity of about 1 625 000 cars. (They are named in paragraph 3.2).

There are many other smaller domestic firms with their own brands. Many new firms have been entering the sector.

About 50 Chinese firms manufacture trucks. Their combined production in 2005 was about 1 147 000 trucks consisting of:

Heavy trucks	65 000
Medium trucks	125 000

Light trucks	737 000
Mini trucks	220 000

A list of the manufacturers and their production over the first ten months of 2005 appear in ANNEX A.

In 2005 China produced about 170 000 buses consisting of:

Large buses	17 000
Medium buses	20 000
Small buses	133 000

According to a key official in charge of the country's foreign trade in machinery and electronics, China's export revenue in 2004 from automobiles as well as parts and components reached $8.16 billion, up 73 percent year-on-year. In the first eight months of 2005, export revenue reached $6.81 billion, up 37.2 percent year-on-year. He expects China's automotive export to continue to grow at an annual rate of more than 30 percent. According to the official, China has some 8 500 enterprises that are engaged in the export of motor vehicles, parts and components. Of the total, 130 have annual export revenue of over $5 million each and 621 exceed $3 million in revenue.

A total of 35 passenger vehicle models are scheduled to be launched in 2006 in China. The 11th 5-Year Plan of China's automotive industry is putting an emphasis on independent development of Chinese models. Supported by government incentives, 40% of all new models to be launched in China during 2006 will be original Chinese models. Possibly due to high oil prices and fuel consumption regulations introduced in 2005, the number of small car models to be launched in 2006 will increase from 9 in 2005 to 12 in 2006.

Despite the expected strength of car sales, there are growing concerns among industry executives, government officials and analysts that the sector could face crippling surplus capacity. Ascertaining reliable figures of capacity utilization rates is notoriously difficult in China, but according to calculations undertaken, capacity utilization among foreign-owned car manufacturers was

around 65% in 2003, and among domestic car manufacturers just 40%, less than half the 85% generally accepted as the level needed for car production to be profitable. The main reason for the excess capacity among domestic producers may well be that many Chinese provinces are trying to build their own automotive sectors. According to analysts, these investment plans are generally being financed by state-owned banks with little regard for commercial criteria.

There is no doubt that capacity is going to far exceed the requirements of the Chinese market, yet the official projection of over-capacity is almost certainly an exaggeration as it assumes that all the planned capacity will actually be built. Analysts suggest that foreign companies are already revising their investment plans, and that more will do so once it becomes apparent that their investment plans are built on excessively optimistic assumptions about sales. Moreover, although the Chinese government has struggled to contain this growth in capacity, its drive to reduce inefficient investment more generally by clamping down on the poor lending practices of the state-owned banks will eventually force some of the weaker domestic automotive players out of business.

The long term strategic goal of FAW Group, China's largest automobile group, is to realize annual output of two million units by 2010, digitize company management and operate as a global company, said Xu Xianping, assistant to FAW president Zhu Yanfeng. Xu predicts that China's market demand in 2010 will reach 10 million units and that number will double by 2020. China's automobile parc will hit 50 million units by 2010 and 140 million by 2020. "Independent development will be the cornerstone of our future growth," Xu said. "But we will also continue with our current approach of open cooperation with foreign partners." Of the two million units planned for 2010, one million will be independent FAW brands. By 2010 FAW Group will have a 20 percent domestic market share with sales revenue of Y220 billion. Through partnership with Volkswagen, Toyota and Mazda, the FAW Group has built three major production bases.

The output target for SAIC for 2010 will be two million units, according to vice president Chen Yinda. Of the total, 600 000 units will be independently developed vehicles and 500 000 are to be powered by alternative fuel and new energy sources. SAIC will also expand into commercial and heavy-duty vehicles.

No production figures for components are available. Massive investment is also being made in this sector. Most of the world's major Tier 1 suppliers have set up facilities in China. They have been encouraged to do so by the Chinese government's more liberal investment policy for auto parts. While automakers are limited to 50% foreign ownership of plants designed to serve the domestic market, there are no restrictions for parts. "Cost advantage plus a less stringent regulatory environment encourage exports of labor-intensive and material-intensive products," said a recent report by investment bankers Merrill Lynch.

4.2 Focus of the industry and types of products

Passenger cars are the major force behind the growth of China’s automobile industry. Small-displacement and fuel-saving models became the mainstream demand in the market in 2005 as the 1.6-liter and below segment reached sales of 722,500 units. The sales of 1.0-liter and below models totaled 183,300 units, more than twice that of the previous year. The market share of the Volkswagen joint-ventures continued to decline and the General Motors joint-ventures have taken over as the market leader.

Design piracy has been a major feature of the development of the domestic Chinese manufacturers. Recently GM announced it had reached a settlement resolving legal disputes with Chery – the US automaker had accused Chery of copying the design of its Spark minicar, which looks similar to the Chery QQ, and had threatened legal action over Chery's name, which it said sounds too much like "Chevy," the nickname of its Chevrolet brand. Last September Chery agreed not to use that brand name in the United States.

A recent policy directive banning restrictions on the use of small-displacement cars could have a major impact on the development of China's vehicle market.

Currently vehicles with engines under 1000 cc are banned on two of Beijing's major roads and in 80 cities, ostensibly to alleviate traffic. However the real reason, according to analysts, is that large cars are a government status symbol and that driving small cars in the city centre damages the country's image. As the Chinese market becomes more dependent on consumers rather than institutions for its customers, demand for small cars is increasing. In contrast government institutions tend to generate demand for larger, luxury cars. A lengthened version of the Audi A6 is currently the 'official sedan' for senior government officials.

The policy directive also appears to be addressing the fact that energy consumption has become a major issue for a country increasingly dependent on oil imports, and environmental protection is on the agenda in preparation for the 2008 Olympic Games in Beijing. The measure would benefit China's domestic OEMs such as Geely and Chery, and possibly lead to the emergence of more local Chinese brands.

A further increase in consumption taxes on higher engine displacement cars that is on the cards is also likely to shift production to passenger vehicles with low engine displacement and in turn limiting that of larger vehicles with high engine displacement.

In China vehicles are subject to three fixed levels of consumption tax: 3 percent for cars with engines under 1 litre, 5 percent for cars with engines between 1 litre and 2.2 litres and 8 percent for engines 2.2 litres and up. SUVs are subject to a different standard, with a 2.4-liter engine subject to only 5 percent in consumption tax. According to the new regulation, passenger cars, MPVs and SUVs will fall within the category of passenger vehicles and be subject to five graduated levels of consumption tax: 3 percent (under 1 litre), 5 percent (1-2.2 litres), 9 percent (2.2-3 litres), 14 percent (3-4

litres) and 20 percent (over 4 litres). One major response to the draft rule from a number of government agencies was to further reduce or even eliminate the consumption tax for mini-vehicles under 1 litre. Once promulgated, the new consumption tax, together with the fuel consumption limit and new emissions standards, will have a major impact on the behaviour of not only consumers but also manufacturers.

4.3 Performance (expansion/decline), outlook

Total vehicle production reached 5.7m units in 2005, up 12.5% on a year earlier. 2.95m of these were cars, up 26.9% on a year earlier. This is after production and sales were only very slightly up in the first quarter of 2005.

For 2006, Reuters reported that the China Association of Automobile Manufacturers (CAAM) is forecasting sales and production to grow 12%, slightly lower than in 2005. However an executive of the Union of National Passenger Car Market Information, quoted in Shanghai Daily, is slightly more optimistic and expects growth in 2006 to match 2005's growth of 15%. This means sales would reach 6.4m units.

A Deutsche Bank analyst quoted in the Shanghai Daily expects sales in 2006 to be fuelled by a drop in the price of raw materials and strong demand from the growing middle classes.

China became a net vehicle exporter for the first time in 2005, according to Reuters, citing the China Association of Automobile Manufacturers. In total the country exported 172,800 cars in 2005, up 120% on a year earlier. Imports reached 161,900 units. The exports are mainly low-cost models for developing markets, produced by makers such as Chery, Geely and Great Wall.

High raw material prices and a price war in 2005 contributed to a decline in profit margins at Chinese vehicle manufacturers. According to the National Bureau of Statistics, the average profit margin in 2005 was 4%, well below

the 6.86% recorded in 2004 and 9.11% in 2003. Profit margins are unlikely to reach 2003 levels again.

In the medium and longer term the prediction is that demand in 2010 will reach 10 million units and that number will double by 2020.

According to PRICEWATERHOUSECOOPERS Automotive Institute's AUTOFACTS Global Automotive Outlook, 2006 Q1 Release, the projected passenger vehicle production by country up to 2013 will be as shown in Table 4.1.

Table 4.1 Projected passenger car sales per country up to 2013

Country	Year								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	**56,612,572**	**57,981,404**	**60,113,309**	**62,037,660**	**62,613,881**	**63,314,027**	**63,880,879**	**64,571,534**	**64,723,316**
USA	11,636,905	11,587,896	12,046,491	12,312,440	12,485,537	12,725,637	12,599,679	12,674,115	12,692,474
Japan	9,852,067	9,815,798	9,912,069	10,091,904	9,993,033	9,940,236	9,888,083	9,884,986	9,711,872
Germany	5,150,350	5,160,489	5,063,211	5,209,820	5,277,111	5,376,412	5,394,503	5,440,256	5,416,218
China	4,178,096	4,921,797	5,507,491	6,036,210	6,230,391	6,484,291	6,762,365	7,112,128	7,333,615
France	3,571,071	3,433,798	3,552,493	3,757,613	3,781,212	3,705,542	3,683,782	3,777,069	3,787,742
South Korea	3,370,270	3,361,995	3,264,515	3,391,584	3,328,844	3,256,544	3,270,449	3,309,283	3,262,046
Spain	2,637,597	2,506,113	2,561,136	2,492,400	2,434,694	2,454,377	2,505,674	2,457,054	2,454,185
Canada	2,604,471	2,540,500	2,673,426	2,625,212	2,464,466	2,456,852	2,500,550	2,456,713	2,463,623
Brazil	2,145,243	2,209,242	2,255,749	2,304,186	2,338,073	2,363,053	2,415,949	2,446,363	2,457,843
United Kingdom	1,784,363	1,767,588	1,882,844	1,759,906	1,776,332	1,741,590	1,781,474	1,810,303	1,814,979
Mexico	1,524,626	1,739,074	1,824,104	1,856,361	1,890,237	1,812,105	1,826,078	1,807,838	1,823,244
India	1,269,876	1,337,209	1,507,930	1,637,925	1,728,208	1,861,799	1,924,612	2,004,420	2,064,390
Russia	1,169,139	1,274,840	1,366,634	1,417,552	1,396,767	1,433,964	1,501,914	1,519,255	1,521,543
Thailand	1,051,989	1,149,516	1,242,046	1,331,804	1,369,093	1,417,405	1,455,465	1,505,918	1,511,035
Italy	988,263	1,136,229	1,256,729	1,309,305	1,271,973	1,245,506	1,246,647	1,247,416	1,293,383
Belgium	899,465	931,387	997,032	1,003,357	972,330	1,008,955	1,021,470	1,016,588	1,019,773
Iran	811,844	1,016,311	1,126,025	1,250,214	1,270,581	1,294,235	1,269,566	1,272,753	1,295,533

Turkey	784,068	785,641	774,887	884,148	889,773	963,392	950,369	945,023	946,661
Poland	594,737	568,290	555,186	594,629	772,522	795,430	839,723	829,510	824,132
Czech Republic	588,132	737,691	743,311	771,090	942,704	976,702	1,042,527	1,054,543	1,029,025

The contents of the table contrast the strong growth in the Chinese market (and India) with the near stagnation in the markets of the developed countries. China's production is expected to outstrip that of all other countries by far, with a growth of 75% over eight years.

The new legislation in regard to import duties on CKD packs and certain configurations of subassembly imports, which will be considered to constitute the essential character of a 'complete vehicle' and will be subject to full CBU duties, is likely to further boost domestic component production as it is indeed intended to do, although the authorities are citing 'customs duties avoidance'. (See Chapter 5 under NTBs for fuller details).

According to officials: "Now that China has become a member of the WTO, China must respect the WTO principle of non-discrimination and has to abolish the localization rate requirements for automobile joint ventures in China. It is necessary, however, that we establish a new set of rules not only to ensure the government's revenue in taxation, but also, and more importantly, to help develop an independent Chinese automobile industry."

This is said to be China's latest response in trying to protect its local industry and increase the country's competitiveness in automobile manufacturing after it abolished localization requirements for automobile assembly in 2001 when it joined the WTO.

4.4 Employment

According to official automotive industry sources, 2.2 million people are employed in the Chinese auto manufacturing sector.

By comparison, the South African automotive manufacturing industry employs about 116 000 people.

4.5 Productivity

Although figures to show China's automotive productivity levels could not be found, reports indicate that productivity levels are higher than in India and rising. The presence of the major OEMs and Tier 1 component suppliers in China has helped to boost worker productivity through training in production systems and also management productivity. The massive investments by international assemblers and Tier 1 component suppliers in state of the art equipment and manufacturing systems are also boosting plant productivity.

4.6 Wages

4.6.1 Wages and Competitiveness

The following information about labour costs and an evaluation of the effect of labour cost in the automotive sector in China is based on EMF's own research in China.

Highlighting a particular annual wage level as a benchmark 'China wage' across all industries and all provinces can be problematic. It is fair then to start by saying that lower labour costs do play a role in the rise of China's auto industry, but this happens in a number of ways.

The first is that the attraction of, among other things, China as a low-cost production area has attracted massive foreign investment into the Chinese automotive industry. The second is that it contributes hugely to the lower-cost production of low-tech components that add to the competitiveness of China's component production. Thirdly, lower labour costs in all industries and sectors along the auto supply chain allow China to undercut the cost of vehicle assembly in other developing countries.

However, there are a number of key points to note why low labour costs are not as large a factor in China's competitiveness as is made out to be.

(1) *The automobile sector is not a labour intensive production industry*

A 1994 Report by Goldman Sachs points out that unit production costs for vehicles in China is actually 20% higher than the world average. This is because 'materials' is a major part of the cost of the final vehicle and most high-tech components are still imported. (Although rapid investment in the Chinese component industry would have improved this position, many high-tech components and sheet steel are still imported). Direct labour is only a minor part of the overall cost of a fully-assembled vehicle. It plays a larger part in the components production sector.

(2) *China's automobile industry is relatively automated*

China's automobile components industry is more high-tech than automotive industries of Thailand and Indonesia. Foreign investment in machinery in the final assembly in the automobile industry has been massive over the past few years. Hence, it enjoys higher labour productivity even as auto industry wages are lower. The higher quality of components needed to attract OE and export supply contracts have necessitated the need to upgrade technologies in the components sector as well. Although the wage rate of automotive workers in China is only 3% of those in Japan, better technologies in Japan mean that total direct labour cost is only a fifth of that in Japan.

(3) *Labour costs in automobile production regions are relatively high and increasing*

Guangdong is China's manufacturing base. It has a large recognised automotive industry, along with Shanghai, Shenyang and Changchun. Major Japanese brands Honda, Nissan and Mazda have set up production facilities. It is also a major producer of components used in the automotive industry in the rest of the country. While the toy and garment industries in Guangdong have been hit by labour unrest and shortages over the past two years, employee-labour relations in the province's automotive industry have been

very stable. Workers in automotive factories in Guangdong earn wages more than twice the province's manufacturing average rate.

Statistics from the Guangdong Bureau of Labour & Social Security show that in 2004, migrant worker wages (in the manufacturing sector) averaged US$1 120/year. Comparatively, monthly wages for automotive industry workers averaged US$2 376/year. Analysts expect wages to rise by up to 5% per year for unskilled migrant workers and up to 10% per year for automotive workers. The average wage of automotive workers was around US$2 600/ year in 2005.

As a result, many automotive companies have moved their labour-intensive production inland. The Chang'an/Ford JV has set up its assembly plant in inland Chongqing where an employee says wages start at US$1100/ year for unskilled workers and US$1500- US$2250/year for semi-skilled workers. They have also encouraged a number of key suppliers to open production facilities in the area, thus creating an integrated supply chain which is able to fully realise the benefits of lower labour costs.

The following figures give an indication of wage levels of hourly paid workers in South African vehicle assembly:

Table 4.2 Labour rates in the assembly of vehicles

Skills levels	Percent of workforce	Annual basic average	Annual gross average
SL 5 – 7	13.2%	R99 850	R144 750
SL 1 – 4	86.8%	R63 240	R 91 700

Skills level 5 to 7 is defined as artisans, technicians and hourly paid supervisors while skills levels 1 to 4 are defined as other workers.

Comparing the Chinese automotive assembly workers' wages with the annual basic average of South African automotive workers in skill levels 1 – 4, the Chinese workers' wages are about 25% of South African workers' wages.

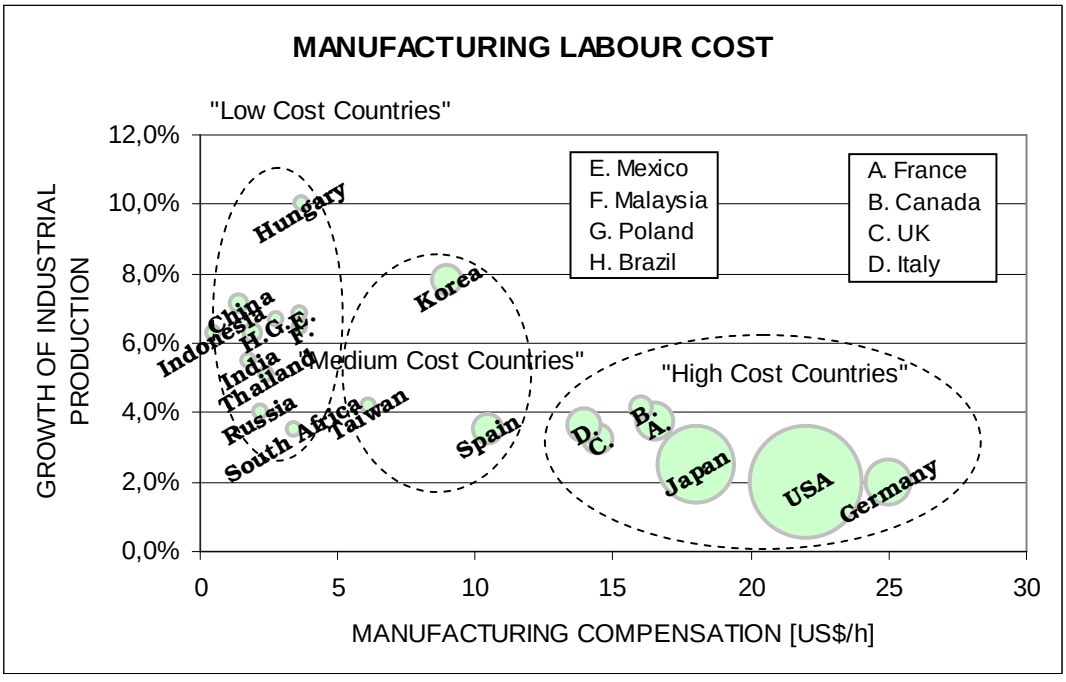
4.6.2 Trade Union

All workers in China belong to a single trade union. The "All-China Federation of Trade Unions (ACFTU) is a mass organization of the working class formed voluntarily by the Chinese workers and staff members. Founded on May 1, 1925, it now has a membership of 134 million in more than 1.713 million primary trade union organizations (www.acftu.org.cn). However, all respondents spoken to said that this trade union had no real power in wage negotiations within China's government structures. On a national level, it forms a useful part of the bureaucracy of the state through which the CCP rules. On a city-level, it organizes conferences and functions.

4.7 Cost structure

Cost effectiveness is one of the main success factors for the automotive industry. China is well positioned to exploit this advantage. The following figure shows labour cost structures in various countries.

Comparison of Labour Cost Structures in Different Countries



Source: ACMA

For parts such as hand-sewn seat covers, where labor accounts for about 45 percent of the total cost, China's advantage is likely to remain significant. The production of certain components, such as car radios, has already shifted almost entirely from North America to China, and others will probably follow over time. Moreover, China's suppliers are improving quality rapidly.

Report No. 2, “CROSS CUTTING ASPECTS CHINA”, contains the following comparison of inflation and interest rates between South Africa and China:

Table 4.3 Inflation and Interest rates: South Africa and China (2004)

	South Africa	China
Inflation (cpi) % increase	4.3	3.9
Short term interest rate	10.5	5.38
Real interest rate	6.2	1.48

Sources: South African Reserve and EIU

It is clear that enterprises in China benefit from very low real interest rates.

4.8 Presence of multi-nationals

All the top international passenger vehicle manufacturers are established in China in the form of joint-venture operations (MNC OEMs named in paragraph 3.2).

All the international groups that assemble passenger vehicles in South African have major joint-venture operations in China.

Most of the world's major Tier 1 suppliers have set up manufacturing facilities in China.

4.9 Import and export structure (product groups)

China's exported vehicles are mostly commercial vehicles that go to the Middle East, Africa and Southeast Asia. Exported parts and components are shipped to 168 countries and regions, mostly to the U.S., Japan, Korea and developed countries in Europe.

International OEMs are not too likely to start exporting vehicles on a major scale as their home markets are currently under pressure. However, a Chinese independent vehicle manufacturer such as Chery which has a domestic market share of about 6% has been planning to enter the US market. The initial target date was 2008 but it seems that the firm is reconsidering this as they have some doubts about the potential appeal of their vehicle (very closely resembling the Chevy Spark!) in the US market.
Independent domestic assemblers may however think about targeting less sophisticated markets.

Component exports largely comprise smaller parts such as brake components or rubber parts, which are made in lower volumes and where set-up times are long and production labour-intensive. By contrast, imports comprise mainly sophisticated components for car assembly. It is believed China's automotive components industry is set to have a more immediate impact on global markets than Chinese car exports.

According to reports, an estimated 80 percent of Chinese component exports are used to repair cars already on the road (aftermarket parts), meaning that only 20 percent of them go to factories that assemble new cars. The distinction is critical because replacement parts tend to require less engineering and to be lower in quality than new-car components. The numbers suggest that Chinese manufacturers are not yet fully up to speed.

With massive investments in higher technology components and subassemblies currently (for instance, 25 factories dedicated to the manufacture of engines and transmissions are currently under construction), the large-scale export of core automotive components should become reality

within a few years and will add a new set of variables and realities to the global equation.

In 2004, China exported more than 75 000 units of motor vehicles worth $780 million, according to an official. Export revenue of parts and components was $7.38 billion, up 71.1 percent. In the first eight months of 2005, parts and components export revenue was $5.66 billion. The official said that the country's export needs to ascend to a higher level: from labour-intensive to high-tech and electronic production, from trucks to cars, from targeting developing countries to developed countries and from the export of finished products to the export of technology and capital. Such a transformation requires a higher proportion of independent products and brands.

A table of China information showing the composition of dedicated Chinese automotive export products and the performance in 2005, based on exports over the first ten months of 2005, appears in ANNEX B. The table also shows exports of products to selected counties – India, Brazil, South Africa, the UK and the US.

The following is a list of items with a value of more than US$50 million (excluding motorcycles):

Item	**Value US$ million**
Tyres	327
Road tractors, buses, cars & trucks	224
Other body parts for other vehicles	209
Wheels	159
Car radios	87
Ignition wiring sets	82
Other brake parts	74
Other parts and accessories of bodies	63

Of total dedicated automotive exports, 27% went to the US.

Over the next four or five years, the capability to produce components that are currently imported will rise quickly, boosting Chinese exports.

The total value of components manufactured by the **South African component sector** during 2003 was estimated at R42.8 billion consisting of the following:

- Components supplied to domestic OEMs
    - R11.2 billion
- Components (including aftermarket parts) exported
    - R21.3 billion
- Domestic sales of aftermarket parts and accessories
    - R10.3 billion

For a majority of South African component manufacturers, aftermarket parts and accessories is a major portion of their totals turnover.

4.10 Importance to the economy

In this paragraph some indicators are reviewed to gain a sense of the socio-economic attributes and performance of the automotive sector. All monetary aggregates are in real terms at constant 2000-prices.

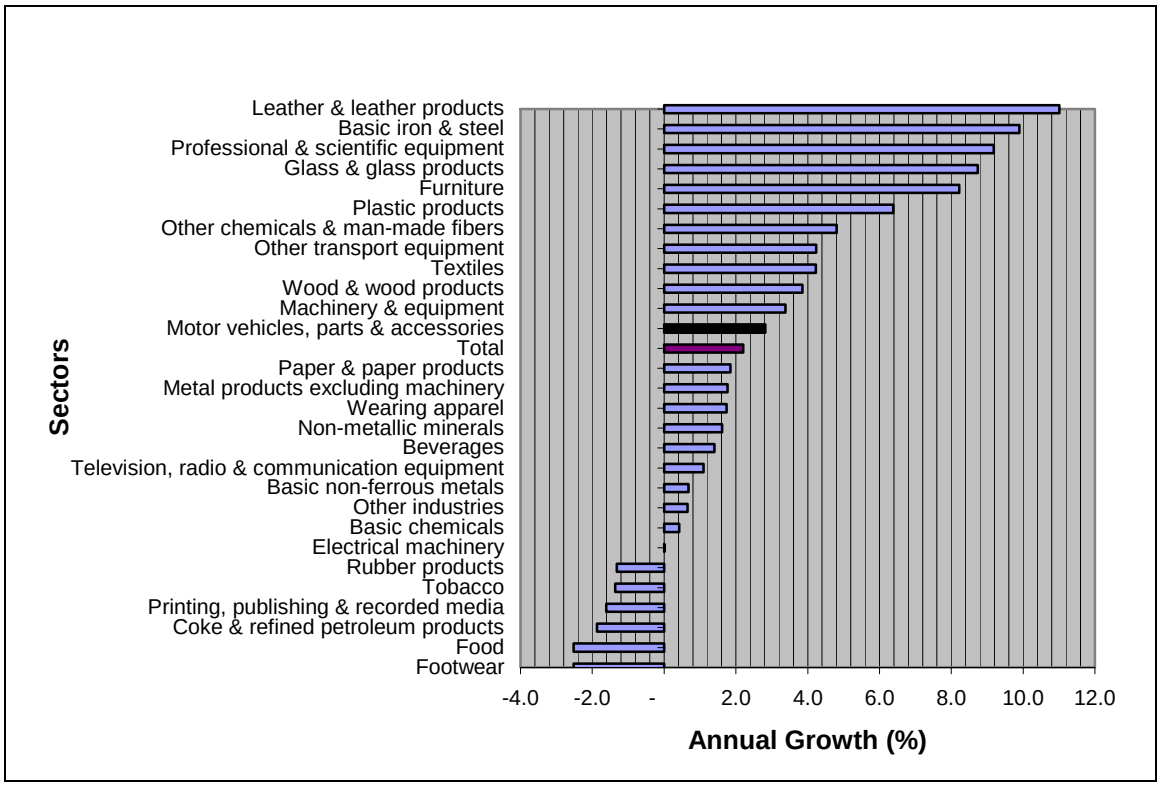
4.10.1 Value added

In 2005 the automotive sector produced 8.9% of the value added by the manufacturing sector.[1]

Growth in value added of the automotive sector was 2.8% p.a. between 2000 and 2005 slightly higher than that in GDP.

1 Manufacturing added 18.2% of the value of gdp in 2004 and the metal sector thus 1.6%.

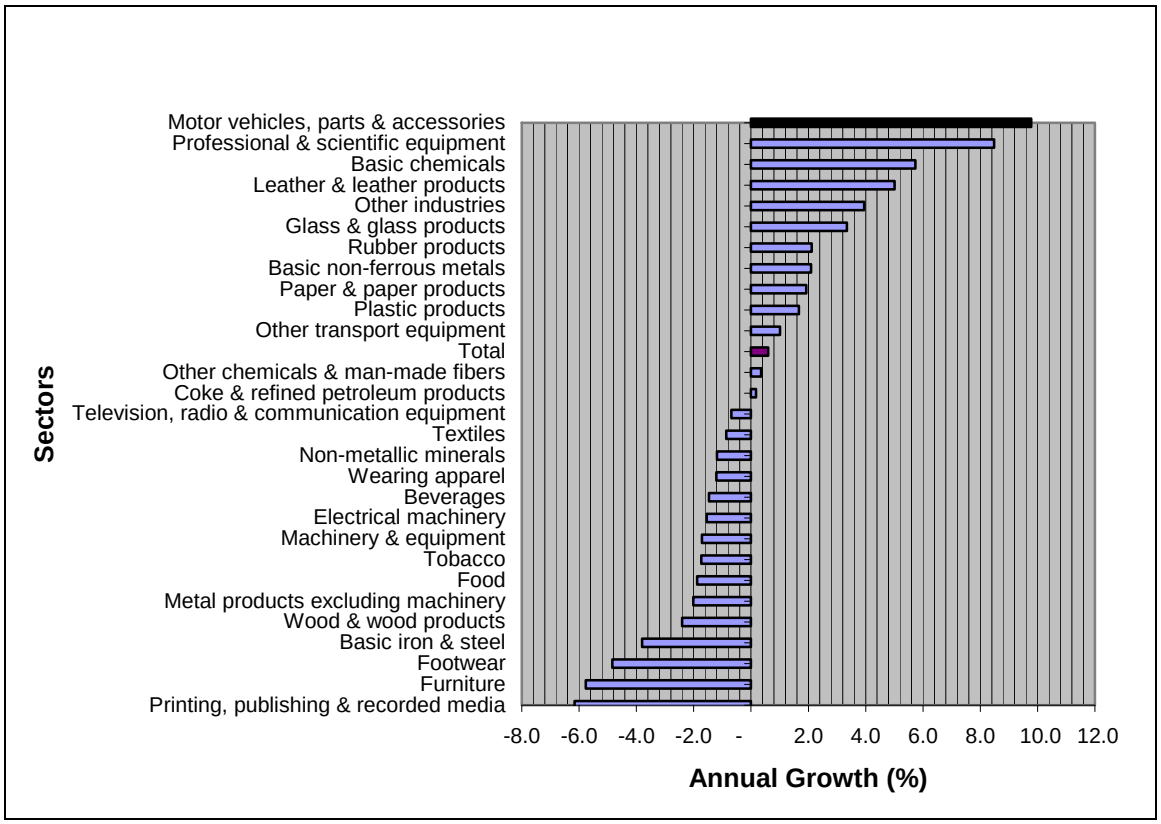
Figure 4.1 Growth in the value added by manufacturing sectors 2000 to 2005 percent p.a. constant 2000-prices



4.10.2 Capital stock

About 6.9% of the capital stock of manufacturing is found in the automotive sector. It increased by 9.8% p.a between 2000 and 2005. Expansion of the fixed capital stock of the automotive sector was the fastest of all manufacturing sectors in the period 2000 to 2005.

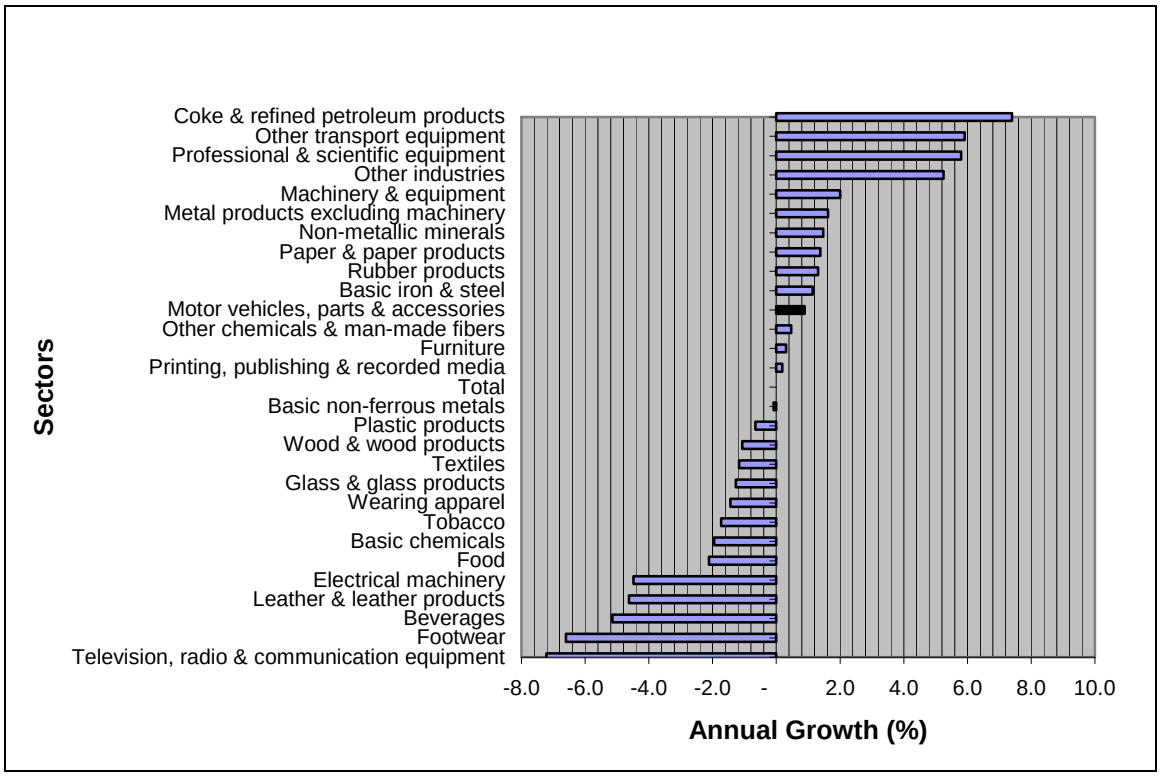
Figure 4.2 Growth in the capital stock of manufacturing sectors 2000 to 2005 percent p.a. constant 2000-prices



4.10.3 Employment

In 2005 the automotive sector employed 6.9% of manufacturing labour. The sector created jobs at a rate of 0.9% p.a. between 2000 and 2005.

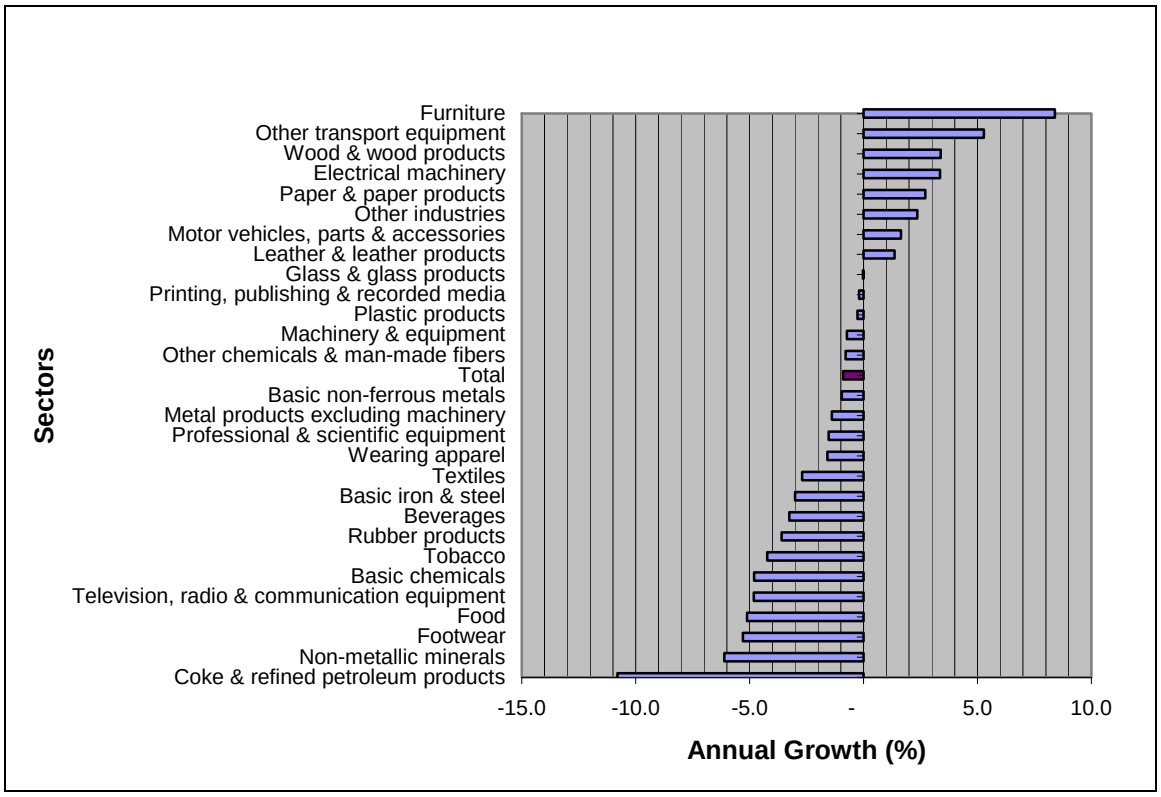
Figure 4.3 Growth in the employment of manufacturing sectors 2000 to 2005 percent p.a.



4.10.4 Labour remuneration

8.9% of total labour remuneration in manufacturing was paid to workers in the automotive sector in 2005. Labour remuneration in the sector increased by 1.6% p.a. between 2000 and 2005 as opposed to a decline of 0.9% p.a. in manufacturing.

Figure 4.4 Growth in the labour remuneration of manufacturing sectors 2000 to 2005 percent p.a.



4.10.5 Meeting Demand

The policy framework for meeting export and local demand, including imports, is set by the MIDP. The essence of the MIDP is its trade facilitating attributes. Exports plus imports is about 50% of total demand compared with the average 37% of total manufacturing in 2005. Total demand for automotive products (R159. 4 billion) in 2005 was made-up from local production 55.1%; imports 8.6%; and exports 16.2%. Although open to international trade the automotive industry is more import- than export intensive. In the last three years of relative Rand-strength, imports tended to become more prominent in meeting domestic demand (for example 34.2% in 2005 as opposed 29.7% in 2002.) Sales from local production dropped from 70.3% of local demand to 65.8% in 2005. Exports as a percentage of total demand also lost ground, from 18.1% in 2002 to 16.2% in 2005.

Table 4.4 Demand variables 2000 to 2005

Motor vehicles, parts & accessories	2000	2001	2002	2003	2004	2005
1. Sales Rbill	79.9	96.5	91.0	91.2	98.5	113.8
2. Exports Rbill	17.9	21.8	21.8	21.7	22.4	25.9
3. Imports Rbill	27.1	27.3	29.3	35.0	40.9	45.6
4. Total demand Rbill (1+3)	107.1	123.8	120.3	126.2	139.5	159.4
5. Domestic demand (4 less 2)	89.2	101.9	98.5	104.4	117.1	133.5
6. Domestic sales (1 less 2)	62.0	74.6	69.2	69.5	76.1	87.9
7. Domestic sales as % of 5	69.6	73.2	70.3	66.5	65.0	65.8
8. Imports/domestic demand%	30.4	26.8	29.7	33.5	35.0	34.2
9. Exports/ Sales%	22.4	22.6	24.0	23.8	22.8	22.7
10. Ex+Im/ total demand %	42.1	39.7	42.5	44.9	45.4	44.9
11. Exports/total demand %	16.7	17.6	18.1	17.2	16.1	16.2
Total manufacturing						
Ex+Im/total demand %	37.9	36.6	35.4	35.5	36.6	37.3

4.11 Considerations

1. Currently China has more than 5 800 automotive enterprises with total assets of over Y1 trillion. There are about 180 assembly plants. There are about 60 individual passenger vehicle assemblers. During the first ten months of 2005 they assembled about 3 152 000 passenger vehicles, which equates to about 3 782 000 vehicles for the full year. The South African production for 2004 was 455 052 vehicles and during 2005 about 530 000 vehicles.

2. All of the top international passenger vehicle manufacturers are established in China in the form of joint-venture operations. All of the international groups that assemble passenger vehicles in South Africa have major joint-venture operations in China. In 2003 these international groups had 24 foreign joint-ventures with an annual production capacity of about 2 590 000 cars. There were also 11 major independent domestic car makers with a combined production capacity of about 1 625 000 cars. About 50 Chinese firms

manufacture trucks. Their combined production in 2005 was about 1 147 000 trucks. In 2005 China produced about 170 000 buses.

3. Passenger cars are the major force behind the growth of China's automobile industry. Small-displacement and fuel-saving models became the mainstream demand in the market. A total of 35 passenger vehicle models are scheduled to be launched in 2006 in China. 40% of all new models to be launched in China are original Chinese models. The number of small car models to be launched in 2006 will increase from 9 in 2005 to 12 in 2006.

4. Design piracy has been a major feature of the development of the domestic independent Chinese manufacturers.

5. Total vehicle production reached 5.7m units in 2005, up 12.5% on a year earlier. 2.95m of these were cars, up 26.9% on a year earlier.

6. Despite the expected strength of car sales, there are growing concerns that the sector could face crippling surplus capacity. Capacity utilization among foreign-owned car manufacturers was around 65% in 2003 and among domestic car manufacturers just 40%, less than half the 85% generally accepted as the level needed for car production to be profitable. In spite of this, investments to increase capacity are continuing.

7. Most of the world's major Tier 1 suppliers have set up manufacturing facilities in China.

8. For 2006 the China Association of Automobile Manufacturers (CAAM) is forecasting sales and production to grow 12%, slightly lower than in 2005. Passenger vehicle production is projected to grow from 3.8 million in 2005 to 7.3 million in 2013, an increase of 92% over eight years.

9. China became a net vehicle exporter for the first time in 2005, according to Reuters, citing the China Association of Automobile Manufacturers. In total the country exported 172,800 cars in 2005, up 120% on a year earlier. Imports reached 161,900 units.

10. New legislation in regard to import duties on CKD packs and certain configurations of subassembly imports, which will be subject to full CBU duties, is likely to further boost domestic component production as it is indeed intended to do, although the authorities are citing ‘customs duties avoidance’.

11. According to official automotive industry sources, 2.2 million people are employed in the Chinese auto manufacturing sector. By comparison, the South African automotive manufacturing industry employs about 116 000 people in this sector.

12. Indications are that Chinese productivity levels are relatively high and rising. Chinese labour rates are probably about 25% of South African rates while the real interest rate in China is calculated at 1.48% compared to South Africa’s 6.2%.

13. China is not yet a major exporter of automotive products. Vehicle exports consist mostly of low-priced commercial vehicles to developing countries, including Africa, while component exports are mainly aftermarket parts. The main reasons for this are probably the pace of growth in domestic demand and that Chinese products are generally not yet of a quality suitable for developed countries and, in the case of components, for OE assembly. However, this is expected to change within the next few years. Production overcapacity that is developing may lead to the export of surpluses at very low prices. This will particularly affect international aftermarket parts and accessories markets and eventually OE markets.

14. South African automotive manufacturing is a growth sector amongst the manufacturing industries and the economy at large. The industry is becoming more important among manufacturing sectors in terms of fixed investment, production and exports. It is an important destination of foreign direct investment. More importantly, however, is the progressive integration of local automotive manufacturing into the global industry by international automotive manufacturers in an apparent sustainable manner.

15. The MIDP is trade facilitating and in the past number of years imports increased significantly more than the supply from local production in terms of sales into the domestic market and compared with South African exports.

16. The automotive sector is important in the socio-economic fabric of the manufacturing. It started to generate new work places in the past couple of years. While it employs 6.9% of the manufacturing labour force it pays 8.9% of labour remuneration. Growth in labour remuneration is faster than the average for manufacturing.

17. To the extent that global positioning of local automotive manufacture is still to evolve fully as the MIDP runs its course, it will be prudent for any trade agreement that may involve automotive manufacturing not to interfere with its objectives and mechanisms. Such agreements should only be contemplated in the event that they add additional value over and above the outcomes of the MIDP.

5 PROTECTION AND ASSOCIATED ASPECTS

China has come a long way in opening up its automotive sector. It aims to become a globally competitive automotive player. China has taken risks by rapidly reducing import restrictions and tariffs since 2001 for which it must be commended. This policy has been highly lucrative, with a massive amount of investment by the global final assemblers and components producers being pumped into China. However, there have been signs in the last two years that policy-makers are back-tracking on this open policy. It is said that policy-makers have been unhappy with the lack of technology transfers to Chinese producers and they are now changing track to assist 'national' brands reclaiming domestic market share from JV brands.

The *Auto Development Policy* of May 2004 was the start of this new track. It involves important areas of internal distribution policy, JV regulations and foreign investment regulations. The general aim of the policy is to control investment in the sector, promote localisation of parts and to generally promote rationalization of the sector in line with its WTO commitments.

5.1 Tariffs

In the following section the bound rates and applied (or actual) rates of South Africa and China will be analysed.

5.1.1 Bindings and bound rates

Bound rates are the maximum rates a country is allowed to apply under its WTO commitments. Countries generally increased the coverage of their tariff bindings substantially during the Uruguay Round. In the case of most developing countries, there are substantial differences between bound and applied rates. This has the implication that countries are allowed to increase current rates of duty up to the level of bound rates without transgressing their WTO commitments.

5.1.1.1 South Africa

All South African tariff lines are bound with the exception of Chapters 3 (fish), 27 (mineral oil and fuels) and 93 (arms and ammunition) and a few lines in chemicals. The binding coverage is 96.4%.

The average bound rate for industrial products is 16.6%. The highest bound rate is 30% with the exception of two product groups, namely clothing (45%) and motor vehicles (50%).

The South African tariffs on vehicles are generally bound at 50% and components at 30%.

The finalisation of the Doha Round of the WTO may require a drastic reduction to the SA bound rates for automotive products under the NAMA negotiations.

5.1.1.2 China

Under the terms of its WTO accession, China submitted a schedule of tariffs and tariff reductions, prepared in 2001, which constitutes China's binding schedule. It covers all tariff lines (100% binding coverage). The schedule shows

- The HS code
- Description
- The bound rate at accession
- The final bound rate
- Implementation (meaning the year in which the final bound rate would be implemented)
- The rates for each year in columns from 2002 to 2010

China committed to substantial annual reductions in its tariff rates, with the majority taking place within five years of China's WTO accession. The largest reductions took place in 2002, immediately after China acceded to the WTO, when the overall average tariff rate fell from over 15 percent to 12 percent.

While China's final bound tariffs on most products were implemented immediately or phased in over a short period, the bound tariffs on Chapter 87 were and are to be phased in over a much longer period. Most of the final bound rates were phased in by 2005 and January 2006, while the final bound rates for some chassis (87.06), some bodies (87.07), passenger vehicles (87.03) and some components (87.08) will only be reached by 1 July 2006.

5.1.2 Applied tariffs

5.1.2.1 South Africa

South Africa's tariffs are applied on the FOB value of imports.

The simple average tariff rate for industrial products is 11.4% according to the recent exercise of compiling the bound rates of the tariff lines as at 1 January 2005, and the applied rates, for the purpose of the Doha Round NAMA analysis.

A comparison of the South African and China's applied rates in respect of the tariff lines under the chapters covered by this study follows in paragraph 5.1.3.

5.1.2.2 China

China's customs duties are applied on a CIF basis. This means that the value for calculation of the basic duty is up to 20% higher than South Africa's FOB value basis. This has the following affect:

	Basic customs duty	Effective customs duty
South Africa	15%	15%
China	15%	18%

In addition to the basic duty, China applies import VAT of 17% on most products compared to South Africa's 14%.

5.1.3 Comparison

China's current applied rate for passenger cars is 28% which is to be reduced to 25%, the final bound rate, on 1 July 2006. The SA rate is 32% which will phase down to 25% in 2012.

For buses, China's rate is 25% while SA has rates of 32% for light buses and 20% for medium and heavy buses.

In respect of vehicles for the transport of goods, China applies rates of 25% for trucks of a GVW up to 5 tons, 20% for trucks of a GVW of 5 – 20 tons and 15% above 20 tons.

China's rates for chassis and bodies vary from 8% to 20%. All rates above 10% are to be reduced to 10% from 1 July 2006.

In respect of components of Heading 87.08, China's rates vary from 6% to 25%. The rates of 6% only apply to components for road tractors. All rates above 10% are to be reduced to 10% from July 2006, except the 25% rates that will remain at that level. This category includes car frames, parts of certain driving axles, steering boxes and other parts, excluding wheels, for buses with 30 seats or more. The SA rate for OE components is 26%, to be phased down to 20% in 2012, and for aftermarket components of Heading 87.08, it is generally 20%.

The following is a comparison of South Africa and China's applied tariff rates as at January 2006. The cases where China's rates are still to be reduced are indicated in the comparison.

Table 5.2 Comparison of China and RSA Applied Tariffs on Automotive Products as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	1. Vehicles		
8701	Tractors (excluding tractors of heading 87.09)	6 (3) 8 (5) 9 (1)	0 (3) 5 (1) 20 (1) 32 (1)
8702	Motor vehicles for the transport of ten or more persons, including the driver	4 (1) 25 (12)	20 (3) 32 (2)
8703	Motor cars and other motor vehicles principally designed for the transport of persons (excluding those of heading 87.02),including station wagons and racing cars * To be reduced to 25% on 1 July 2006	25 (1) *28(87)	0 (6) 20 (8) 32 (8)
8704	Motor vehicles for the transport of goods	6 (2) 15 (5) 20 (4) 25 (3)	0 (7) 10 (8) 20 (6) 32 (3)
	2. Components		
8706	Chassis fitted with engines, for the motor vehicles of headings 87.01 to 87.05 * To be reduced to 10% on 1 July 2006	8 (1) 10 (2) 20 (2) *15.4 (1)	20 (1) 32 (1)
8707	Bodies (including cabs), for the motor vehicles of headings 87.01 to 87.05 * To be reduced to 10% on 1 July 2006	*14.3 (2) *16.4 (1)	20 (1) 30 (1)

8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05 * To be reduced to 10% on 1 July 2006	6 (17) 10 (54) 15 (2) *14.3 (8) 25 (6)	0 (16) 5 (3) 10 (8) 20 (25) 30 (2)
9801	Original equipment components	N/A	26 (9)
	3. Components in other Chapters		
3916	Monofilament of which any cross-sectional dimension exceeds 1 mm, rods, sticks and profile shapes, whether or not surface-worked but not otherwise worked, of plastics	10 (4)	0 (5) 15 (2) 18 (1)
3923	Articles for the conveyance or packing of goods, of plastics; stoppers, lids, caps and other closures, of plastics	8.4 (1) 10 (6)	0 (3) 5 (1) 15 (9)
3926	Other articles of plastics and articles of other materials of headings 39.01 to 39.14	10 (6)	0 (12) 5 (2) 15 (1) 20 (5)
4011	New pneumatic tyres, of rubber	1 (1) 10 (6) 15 (1) 17.5 (16) 20 (1) 25 (16)	0 (9) 20 (8) 25 (3) 30 (1)
4013	Inner tubes, of rubber	3 (1) 15 (3)	0 (3)
4016	Other articles of vulcanised rubber (excluding hard rubber)	8 (3) 10 (1) 15 (2) 18 (4)	0 (13) 15 (7) 20 (3)

4204	Articles of leather or of composition leather, of a kind used in machinery or mechanical appliances or for other technical uses	8 (2)	0 (1)
4205	Other articles of leather or of composition leather	12 (4)	15 (1)
6813	Friction material and articles thereof (for example, sheets, rolls, strips, segments, discs, washers, pads), not mounted, for brakes, for clutches or the like, with a basis of asbestos, of other mineral substances or of cellulose, whether or not combined with textile or other materials	10 (1) 12 (1)	0 (2) 15 (1)
7007	Safety glass, consisting of toughened (tempered) or laminated glass	2 (3) 10 (1) 14 (3) 20 (1)	15 (4)
7009	Glass mirrors, whether or not framed, including rear-view mirrors	10 (1) 12 (1) 21 (1)	15 (3)
7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel	4 (2) 5 (1) 7 (2) 8 (1) 8.4 (4)	0 (10) 10 (20)
7318	Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel	5 (1) 8 (2) 10 (9)	0 (12) 10 (4)
7320	Springs and leaves for springs, of iron or steel	6 (3) 10 (3) 12 (1)	5 (3)

7326	Other articles of iron or steel	8 (1) 10 (1) 10.5 (3) 18 (1) 20 (1)	0 (6) 10 (1) 15 (2)
8207	Interchangeable tools for hand tools, whether or not power-operated, or for machine-tools (for example for pressing, stamping, punching, tapping, threading, drilling, boring, broaching, milling, turning or screwdriving) including dies for drawing or extruding metal, and rock drilling or earth boring tools	8 (15)	0 (9) 15 (2) 20 (5)
8301	Padlocks and locks (key, combination or electrically operated), of base metal; clasps and frames with clasps, incorporating locks, of base metal; keys for any of the foregoing articles, of base metal	10 (3) 12 (1) 14 (4)	20 (7)
8302	Base metal mountings, fittings and similar articles suitable for furniture, doors, staircases, windows, blinds, caskets or the like; base metal hat-racks, hat-pegs, brackets and similar fixtures; castors with mountings of base metal; automatic door closers of base metal	10 (2) 12 (4) 14 (2)	5 (3) 20 (8)
8407	Spark-ignition reciprocating or rotary internal combustion piston engines	2 (2) 8 (2) 10 (5) 12 (1) 17.5 (1) 18 (4)	0 (7) 15 (1)
8408	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)	5 (7) 6 (1) 8.4 (3) 9 (2)	0 (6) 15 (2)

		25 (2)	
8409	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08	2 (3) 5 (8) 6 (1) 8.4 (2)	0 (3) 10 (2) 20 (4)
8413	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators	3 (4) 5 (1) 6 (1) 8 (13) 10 (19)	0 (13)
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters	7 (8) 8 (20) 9 (2) 10 (14) 12 (2) 20 (3)	0 (8) 5 (2) 15 (1)
8415	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated	10 (4) 15 (5) 20 (3)	0 (5) 15 (2) 17 (1)
8418	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps (excluding air conditioning machines of heading 84.15)	9 (2) 9.5 (1) 10 (11) 15 (7) 23 (1) 30 (3)	0 (7) 10 (4) 20 (3) 25 (7)
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases	0 (3) 5 (11) 8 (1) 8.4 (1) 10 (8) 12 (1)	0 (13) 15 (4) 16 (1) 19 (1)

		15 (1) 17.5 (1) 25 (1)	
8425	Pulley tackle and hoists (excluding skip hoists); winches and capstans; jacks	3 (2) 5 (5) 6 (1) 10 (4)	0 (10) 10 (11)
8466	Parts and accessories suitable for use solely or principally with the machines of headings 84.56 to 84.65, including work or tool holders, self opening dieheads, dividing heads and other special attachments for machine-tools; tool holders for any type of tool for working in the hand	0 (2) 6 (4) 7 (3)	0 (7)
8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this Chapter	0 (20) 7 (4) 8 (4) 9.5 (3) 10 (3)	0 (10) 5 (1) 10 (2)
8480	Moulding boxes for metal foundry; mould bases; moulding patterns; moulds for metal (excluding ingot moulds), metal carbides, glass, mineral materials, rubber or plastics	0 (2) 5 (2) 8 (4) 8.4 (2) 10 (2)	0 (9)
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves	5 (7) 7 (6) 8 (2)	0 (6) 10 (2) 15 (17)

8483	Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)	6 (4) 8 (7)	0 (7) 20 (1)
8484	Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal; sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packings; mechanical seals	8 (6)	0 (3) 10 (2)
8501	Electric motors and generators (excluding generating sets)	5 (4) 5.8 (1) 6 (1) 9 (4) 10 (3) 12 (8) 24.5 (1)	0 (12) 5 (1) 10 (2) 20 (4)
8504	Electrical transformers, static converters (for example, rectifiers) and inductors	0 (11) 5 (6) 6 (2) 7 (1) 8 (3) 10 (12) 10.5 (1) 12.6 (1) 14 (1)	0 (1) 5 (2) 10 (8)
8507	Electric accumulators, including separators therefor, whether or not rectangular (including square)	8 (1) 10 (4) 12 (4)	0 (5) 5 (1)

8511	Electrical ignition or starting equipment of a kind used for spark-ignition or compression-ignition internal combustion engines (for example, ignition magnetos, magneto-dynamos, ignition coils, sparking plugs and glow plugs, starter motors); generators (for example, dynamos, alternators) and cut-outs of a kind used in conjunction with such engines	4.5 (1) 5 (5) 8.4 (5) 10 (2)	0 (7) 10 (1) 15 (3)
8512	Electrical lighting or signaling equipment (excluding articles of heading 85.39), windscreen wipers, defrosters and demisters, of a kind used for cycles or motor vehicles	8 (1) 10 (6) 10.5 (1)	0 (2) 15 (3)
8525	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras; still image video cameras and other video camera recorders; digital cameras	* * (6) 0 (20) 10 (2)	0 (4) 15 (1)
8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock	0 (2) 9 (1) 15 (6) 20 (1) 27 (1)	0 (6) 12.5 (3)
8531	Electric sound or visual signaling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms) (excluding those of heading 85.12 or 85.30)	0 (3) 10 (3) 15 (2)	0 (4)
8532	Electrical capacitors, fixed, variable or adjustable (pre-set)	0 (13)	0 (10) 15 (3)

8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1000 V	0 (3) 9 (2) 10 (5)	0 (7) 5 (13) 10 (14) 15 (2)
8537	Boards, panels, consoles, desks, cabinets and other bases, equipped with two or more apparatus of heading 85.35 or 85.36, for electric control or the distribution of electricity, including those incorporating instruments or apparatus of Chapter 90, and numerical control apparatus (excluding switching apparatus of heading 85.17)	5 (3) 8.4 (4)	5 (2) 15 (5)
8538	Parts suitable for use solely or principally with the apparatus of heading 85.35, 85.36 or 85.37	7 (2) 8.4 (1)	0 (2) 11 (1) 12 (1)
8539	Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps; arc-lamps	5 (3) 8 (15) 10 (2) 10.5 (3) 12 (2)	0 (7) 15 (5) 20 (13) 21 (1)
8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this Chapter	0 (17) 5 (3) 8 (1) 10 (1) 15 (1)	0 (8)

8544	Insulated (including enameled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors	0 (7) 5 (1) 6 (1) 8.4 (1) 10 (4) 12 (1) 20 (1) 21 (1)	0 (1) 5 (1) 15 (9)
9026	Instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases (for example, flow meters, level gauges, manometers, heat meters) (excluding instruments and apparatus of heading 90.14, 90.15, 90.28 or 90.32)	0 (6)	0 (4)
9029	Revolution counters, production counters, taximeters, mileometers, pedometers and the like; speed indicators and tachometers (excluding those of heading 90.14 or 90.15); stroboscopes	6 (1) 10 (2) 15 (3)	0 (3)
9032	Automatic regulating or controlling instruments and apparatus	5 (1) 7 (5)	0 (5) 10 (1)

South Africa and China's tariff structures for the relevant tariff headings are generally in the same ranges, although China does have higher tariffs in respect of some product categories while SA has a higher tariff for OE components.

5.2 Tariffs ex other agreements better than 5.1

None.

NON-TARIFF BARRIERS

5.3 Import quotas

Import licences and quotas for all automotive vehicles were phased out as of 1 January 2005. Before 2005, the quotas were increased by 15% annually. China eliminated import licences for engines in 2003, motorcycles, trucks and buses in 2004, and passenger vehicles in 2005. On 1 January 2005, the "Implementing Rules on Issuance and Administration of Automatic Import Licences for Automobile Products" entered into force. Under the rules, importers of motor vehicles or key spare parts must apply to MOFCOM or its designated provincial departments for an automatic import licence. The licence is used for statistical purpose; it is issued within ten working days of receipt of the application and valid for six months within a calendar year.

On January 1, 2004, China eliminated import quotas on natural rubber and vehicle tyres, in accordance with the schedule set forth in its WTO accession agreement.

At present no import quotas exist on any automotive products.

5.4 Distribution and Trading

5.4.1 The new FICE (Foreign Invested Commercial Enterprise) regulations

FIEs, WFOEs and JVs need to have a specific trading and distribution license to trade in any products in China. This covers both the handling of customs procedures and the running of a domestic product distribution network for imported goods.

11 December 2004 was intended to mark the date by which China would fully implement a system to grant trading and distribution rights to foreign investors, in accordance with its WTO accession protocol. However, it was not until mid-2005 that the PRC government fully clarified application procedures for foreign investors to obtain such rights, thereby paving the way

for an increase in the rate and number of approvals issued to foreign companies.

Before foreign companies are issued with this FIE Approval Certificate, they are not able to handle customs procedures in their own name and have been forced to work through Chinese (or Hong Kong) agents or in the 'grey areas' that have existed for some time around foreign companies operating in China.

Existing FIEs who want to expand their business scope into trading/distribution and companies new to China face similar application procedures, even though there are minor differences. Foreign companies use professional consultants for such applications.

Essentially, there is a two-tier application process both at Provincial and National level. The FIE must make the required submissions to the competent local commerce authority where the FIE is registered. This authority then makes a preliminary review of the submissions before forwarding them to the provincial commerce authority. The provincial authority will then make a decision on based on the FIE's articles of association, seeking the consent of the authority where the FIE operates (if these are in different jurisdictions). Upon an affirmative preliminary review result, the provincial authority shall forward the submissions to the National MOFCOM for a one-off approval. In the case of a Chinese distribution/trading enterprise which intends to establish a FIE or a JV with a foreign investor, the application may be made directly to national MOFCOM.

However, certain products carry additional registration requirements and trading/distribution restrictions such as auto distribution, pharmaceutical products, audiovisual products and books, newspapers or periodicals. If a Chinese company with existing trading/distribution operations intends to merge with or be acquired by a foreign investor, certain additional requirements exist.

The process should take around six months, from initial submission until the successful registration of a Foreign Invested Commercial Enterprise with full trading and distribution rights.

5.4.2 Prohibited imports for processing trade

According to the WTO Secretariat's report (released on 19 April 2006) for the Trade Policy Review of China: "While China has made several changes to its import licensing regime since its accession to the WTO, it remains intricate and opaque."

In addition to general import prohibitions, 143 HS eight-digit tariff lines (of which 86 are fully prohibited) were subject to import prohibitions only under processing trade in 2005. Processing trade refers to products that are imported for the express purpose of export after being processed in China. Imports under processing trade are held in bond and are not subject to customs duty on condition that they are processed and exported within a certain period of time, failing which they become subject to payment of import duty.

The 'processing trade' compromises 55% of China's exports. Up till now, the majority of investors in China's auto and components industries have focussed on supplying the local market. Nevertheless, with the increasing quality and competitiveness of components producers and the growing productivity of the assemblers, China is looking to become a major exporter of components and cars. Unlike exports of some polluting and high-energy metal processing industries, the Government is fully support supportive of 'processing trade' in the automotive industry industry.

An industry source confirmed that this regulation is not a problem for the automotive industry.

5.4.3 Double Use/Dual function restrictions

Trade in various metals and articles of metal are restricted due to their potential use in non-civilian as well as civilian industries. The *'Administrative Measures on Import and Export License of Substances and Technologies of Double Functions'* took effect on 1 January 2006, promulgated by Decree No.29/2005 of MOFCOM and The General Administration of Customs. Both importers and exporters should apply to MOFCOM for a special import/export permit relating to any products which fall under the relevant tariff codes. Some imports and exports for non-civilian use are prohibited; hence the trade in these products for civilian use needs specific permission from MOFCOM.

Hundreds of different products are affected by the above legislation. Due to the technical nature of the specific products, a mere listing of their HS codes would not be of use. The restricted products that could fall under the automotive sector include various plastics (HS39) and various electromechanical equipment (HS 84, 85, 90). Some of these products could be used in the auto industry but as they are also used in the following strategic/protected industries, such products would be subject to the above administrative measures:

- Nuclear reactor equipment and machinery and parts thereof;
- Film exposure equipment and machinery and parts thereof;
- Military-related equipment; and
- Electromechanical machinery related to various strategic industries.

5.5 'Domestic Content' issue

The 'Domestic Content' issue is possibly the most significant non-tariff barrier for importers of vehicle components into China.

The General Administration of Customs, the National Development and Reform Commission, the Ministry of Finance and MOFCOM jointly promulgated the *"Measures on the Import Administration of Vehicle Components that Constitute the Characteristics of a Whole Vehicle"* on 28 February 2005, which took effect on 1 April 2005. These measures govern the registration, customs clearance, verification and duties collection of the

import of vehicle components that constitute the characteristics of a whole vehicle.

Under the WTO accession agreement, China agreed to a gradual reduction in import tariffs. By July 2006 the tariff on CBU passenger vehicle and light truck imports will be 25% while the general tariff for components will be 10%. This new regulation appears to renegades on the WTO agreement by regarding certain key component imports as CBUs and therefore subject to a minimum tariff of 25% tariff instead of the component tariff of 10%.

This regulation stipulates that tariffs and import VAT will be levied at the tariff rate applicable to complete vehicles on those imported components and parts forming the ‘features’ of a complete vehicle. It also outlines China's interpretation of the ‘essential character of a Complete Vehicle’, the prescribed criteria by which imported auto component/parts are treated as a "Complete Vehicle" and the implementing procedures for applying the tariff policy.

China's definition of a "Complete Vehicle" is outlined in two essential character tests which incorporate combinations of imported assemblies and subassemblies as follows:

For Imported Components Constituting Complete Vehicle Character (article 21)

i. Importation of SKD or CKD kits for vehicle assembly
ii. Importation of Body (incl. cab) + Engine Assemblies
iii. Importation of Body (incl. cab) or Engine Assembly, and no less then 3 other Assemblies
iv. Import of no less than 5 Assemblies other than Body (incl. cab) and Engine Assembly
v. Total price of imported components > or = to 60% of value of Complete Vehicle.

For Imported Components Constituting Vehicle Assemblies (article 22)

i. Importing a whole set of CKD kits for assembly system assembling purposes
ii. Key components or sub-assembly or assembly system and the quantity of key components or sub-assemblies reaches or exceeds the prescribed quantity limit in Appendices to the Decree
iii. Total cost of the imported components reaches or exceeds 60% of the value of the vehicle.

In order to assess whether imported components fulfil the characteristics of a whole vehicle and are to be taxed as such, the above complex verification methods are called for not at the port of entry into China, but in the course of the assembly process. The compliance process is not a one-time event: any product change, no matter how minor, requires re-compliance. This will create an ongoing administrative burden for manufacturers that is high, costly, uncompetitive and unique.

The rationale behind this policy is that Chinese policy-makers were unhappy about the slow localisation of components production by the large JV assemblers and hence the slow transfer of technologies from the global players to the domestic components producers. Although most global assemblers mentioned that they were following a pro-active localisation policy in terms of suppliers of components, they also said that they were limited by quality, price and reliability issues. An industry source said that policy-makers had an unrealistic expectation of how fast final assemblers could shift suppliers from large Bosch and Delphi factories in Taiwan, Indonesia and Malaysia to Chinese producers.

This new barrier for automotive manufacturers and suppliers significantly increases costs and is an added administrative burden for automotive importers. There have also been complaints that, although the picture is now much clearer, the first few months of the implementation of the policy were marked by a general lack of transparency. The policy did not clarify which components ‘constitute the characteristics of a whole vehicle’.

The auto industry sees this regulation as ‘domestic content’ policy. This is when a policy discriminates against imports in favour of domestically produced goods for the purpose of supporting the local industry. A ‘domestic content’ policy is a violation of WTO rules on Trade related investment measures (TRIMs).

The second issue with the above policy was that it was implemented very soon after announcement of the *"Measures on the Import Administration of Vehicle Components that Constitute the Characteristics of a Whole Vehicle".* These measures were promulgated on 28 February 2005 and took effect from 1 April 2005. (The 60% rule will only be implemented from 1 July 2006.) This underestimates the long lead-times needed to make sourcing changes to existing product programs or to develop new ones.

No newly-introduced vehicle model can attain the intended level of local content at once, and niche products may never attain sales volumes in China (or indeed in any individual domestic market) that could justify investing in sufficient component localisation. These new and/or low-volume passenger and commercial vehicles tend to embody the latest technology. In the highly globalised production systems of the international automotive industry, the free flow of components between continents balances global needs and achieves economies of scale that result in viably priced products. Both components importers and final assemblers complained that this was a new, sudden threat to their business, and while they were already investing heavily in new components production capacity in China, the stipulated time frame was far too short for them to make structural shifts to their business.

A spokesperson for a major Shanghai JV said that, as their JV partner has been very involved in the auto policy-making process, his company had been aware of the new domestic content policy. He also mentioned that, as his company was part of a major JV assembler, they were given some leniency with the implementation of the ‘domestic content’ policy. Whatever he meant by this, it is clear that there is a huge problem of transparency in the policy-making process which discriminates against those foreign companies, mainly

low-volume vehicle and components producers, not on the 'inner-circle' through their JV partnerships.

Action by the US and the EU:

On 30 March 2006 both the US and the EU, separately, submitted requests for consultations with China in regard to the 'domestic content' policy. If such consultations are not successfully concluded within 60 days, this will lead to the appointment of dispute resolution panel to investigate the claims by the US and the EU. The following is an extract from the request by the US:

"My authorities have instructed me to request consultations with the Government of the People's Republic of China pursuant to Articles 1 and 4 of the *Understanding on Rules and Procedures Governing the Settlement of Disputes*, Article XXII of the *General Agreement on Tariffs and Trade 1994* (∀GATT 1994"), Article 8 of the *Agreement on Trade-Related Investment Measures* ("TRIMs Agreement") (to the extent that Article 8 incorporates Article XXII of the GATT 1994), and Articles 4 and 30 of the *Agreement on Subsidies and Countervailing Measures* ("SCM Agreement") (to the extent that Article 30 incorporates Article XXII of the GATT 1994) with respect to China' s treatment of motor vehicle parts, components, and accessories ("auto parts") imported from the United States.

China's regulations governing the importation of auto parts appear to penalize manufacturers for using imported auto parts in the manufacture of vehicles for sale in China. Although China bound its tariffs for auto parts at rates significantly lower than its tariff bindings for complete vehicles, we understand that China assesses a charge on imported auto parts equal to the tariff on complete vehicles, if the imported parts are incorporated in a vehicle that contains imported parts in excess of specified thresholds. To the extent that the charge is applied when a vehicle is manufactured within China, it would appear to constitute a tax on imported auto parts not imposed on like domestic auto parts. The tax also appears to be applied in a manner so as to afford protection to domestic products.

To the extent that the charge is imposed upon the importation of the auto parts, it appears to constitute a charge in excess of those set forth in China's Schedule of Concessions and Commitments. Further, to the extent China may be viewed as imposing a lesser tariff on imported auto parts if the final assembled vehicle contains specified amounts of local content, it would be forgoing revenue otherwise due, and China would appear to be providing a subsidy contingent upon the use of domestic rather than imported goods. A statement of available evidence with regard to the existence and nature of the subsidy is attached."

If such consultations are not successfully concluded within 60 days, this will lead to the appointment of dispute resolution panel to investigate the claims by the US and the EU.

5.6 Lack of Transparency

The criticism for a lack of transparency has come mainly from smaller foreign companies and business consultants. There have been many claims that, although China's long-promised Auto Industry Development Policy was finally released in April 2004, the document serves mainly as a set of guidelines since most of the actual implementation rules have taken longer to become established. A good example was the regulation that some components would carry the CBU 25% import tariffs, though it was not clearly stated which components these were.

However, most employees of the large, foreign JV companies did not see this as an issue a problem. Their Chinese JV partners were part of the policy-making process and hence they were fully aware of the extent of the new policy changes. A JV employee mentioned the lack of certainty facing his company had more to do with the intricacies of the relationship between the foreign assembler and the Chinese JV partner.

Nonetheless, US commentators continue to complain of a lack of transparency in the implementation of Chinese policy-makers 'guideline'

policies. Non-OE components importers were particularly unhappy with the lack of transparency in China's new auto policies.

5.7 Effective discrimination against high-performance vehicle imports

Policy-makers announced the Fuel Consumption regulation (Phase 1) on 1 July 2005. The new Chinese fuel consumption regulation sets a limit on the fuel that vehicles of different weight classes are allowed to consume. It is not clear, however, how vehicles that do not comply with these limit values will be treated. One suggestion is that they could be banned from the market. As the limit values are more stringent for high-performance and heavier cars – a segment where only imported cars are currently available – this would amount to a trade barrier for a number of foreign manufacturers.

5.8 The 3 R's burden on distributors (importers)

The Regulations on Responsibilities for Repair, Replacement and Return of Domestic Automobile Products (Draft) was released by the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) on December 30, 2004. It stipulates the scope and validity of warranty and compensation upon return of automobiles. These regulations place a higher burden on producers and importers of vehicles than is the case in Europe and the US. Importers and producers are still waiting for the final 3 R's document to be released and hope it will follow international practise and limit the burden on distributors if certain pre-sale quality levels are met.

Although this is not a direct barrier to trade, the uncertainty around what the burden on the producer in the as yet unreleased final policy will be, and the apparent lack of consultation with foreign producers and importers has meant that some companies may reconsider before importing fully assembled vehicles into China.

5.9 Subsidies and industrial policy

In November 2005, The Jilin Province People's Government handed over a formal opinion paper to the NDRC on the province's 'automobile and the spare part export initiative'.

(Changchun, capital of Jilin Province, is already the largest auto components production base in China. There were over 330 auto parts enterprises in Changchun at the end of 2004, about one-fifth of which were joint ventures. The FAW Group is based in Changchun. It has a substantial JV with Volkswagen in Changchun.)

The province calls on the national government to immediately support Jilin's proposals for establishing the Changchun municipality as an automotive export industrial zone. As part of Beijing's NE Rustbelt re-development policy, Changchun aims for a rapid increase in production of vehicles and components for export. It aims to export 50,000 vehicles and US$600 million in components by 2010.

As part of the proposal, the federal government should allow the development of several special industrial development zones specifically for the automotive sector. The province will develop a fully-integrated supply chain and support system, including customs, logistics and shipping assistance. The province will establish a high-tech park and an R+D centre to ensure that vehicle exports will rapidly meet international certification standards. While this strategy will require foreign investment, it is hoped that federal support will allow for the focus on the export of national brands. This is in line with Beijing's strategy to promote the export of a number of national car brands.

With the existing JVs in other parts of China more than meeting domestic demand, this production base will be highly export-orientated. Initially, the key markets for fully assembled vehicles will be developing countries, especially Africa, the Middle East, Central Asia, and Russia while components and spare parts exports will be to the EU and US.

Jilin province calls on the government to assist in a number of areas. The government should step in the form of reform of SOEs, re-financing of SOEs, infrastructure development for the industrial development zone, reduced interest funding for technology development, export credit guarantees, a 'market development subsidy fund' for upgrading existing machinery and capacity, as well as full support on tax, customs and foreign exchange issues. The province aims to use privately owned SMEs as the key to the components exports and sales to the SOE final-assemblers. It calls on the government to assist SMEs in a wide range of areas including loans, subsidized transportation and shipping fees.

The province also calls on Beijing to establish a Chinese national 'international marketing and brand management' body for the promotion of China's 'national brand' vehicle exports.

It remains to be seen whether the above strategy will be implemented in full. An employee of a large global car company with a JV in Shanghai believes that this type of subsidy is already a major element in the growing competitiveness of China's auto sector.

5.10 Support for Automotive Sector

It is stated by sources in the automotive industry that Government support could be found in the following areas:

5.10.1 Support for foreign invested JVs

This includes a reduced 15% corporate income tax. (Which will be phased out over the next few years), tax exemptions for 2years and reduced for 3 years there-after in many IDZs; various fixed investment and re-investment of profits tax incentives and reduced municipal rates. However, as the JVs have not been driving China's export production, this would not be classified a serious export subsidy in the automotive sector. Although global players would be interested in becoming significant exporters, there are many factors which are actually making them worried about China's growing export trend. One, the global players will be competing with the growing strength of China's

national brands on the international stage, they are worried that they will start losing government support as Chinese producers become the new focus, they all already have large and sensitive production bases with similar overcapacity problems in other parts of the globe.

5.10.2 Industrial policy indirect subsidies

The reform and re-industrialization of the North East Rustbelt remains a key feature of the NDRC's 11th Five Year plan. Under the 10th Five Year Plan, the State-owned Assets Supervision & Administration Commission (SASAC) issued the *"Circular on Accelerating the Adjustment of the Central Enterprises in Northeast China"*, which spelled out a framework and concrete measures to reform major state-owned enterprises in Northeast China. The industry source believes the debt write-offs and infrastructure funding from Beijing will trickle down into 'hidden' subsidies for the North east automotive industry. He says this is particularly evident in state-supported institutes taking over the R+D side of the automotive sector development and thus assisting the final assemblers on the bottom line.

5.10.3 Non-sustainable business model of producers

The industry source also pointed out what his company referred to as the 'non-sustainable business model' used by many Chinese components producers. He said his company had been very surprised by an internal survey done to set a 'benchmark price' for its entire cost-structure. They found that there were quality components available on the Chinese market for significantly less than his company's benchmark price. Taking into consideration the market costs of imported metals, machinery, labour and capital, components were available in the market for as much as 15% less than their benchmark price. He said that Chinese businesses were not being run in a sustainable manner. Their ownership structures were not clear and this allowed management to exploit assets that did not belong to them, for short-term gain. He dismissed the myth that this was only an SOE problem. Private money and 'private businessman' are now able to use connections to run companies with special support from politicians. He thought that the issue lay at the provincial and municipal levels, where a lack of control allowed

local politicians to heavily 'subsidize' private companies through cheap use of national assets, wavering of environmental standards and associated costs, allowing employers to exploit labour, arranging favourable finance through other 'private' funding institutions, waving various local taxes and assisting to reduce national taxes.

He said that this 'non-sustainable business model' allowed an irrational pricing model, which was only sustainable due to the continued support by local governments for private investment in their regions. An employee for another final assembler re-iterated this irrationality in pricing in the auto components market. He added that his company feared that the 'national brand' final assemblers were also following an irrational pricing model. He alleged that at the moment, the brand power of the global brands was still high enough to prevent a major loss of domestic market share. However, he thought that the 'national brands' were receiving significant financial support and/or long-term guarantees to maintain an unsustainably low-price business model to aggressively gain market share in the domestic market.

5.11 Automotive brand distribution and Auto-financing reforms

Although not an NTB, this restriction previously limited the distribution of vehicles and components inside China and was a major block to opening up the industry. For example, General Motors and Bosch suppliers could not sell through their own, branded outlets in China, and had to work through Chinese agents. This still constituted a significant constraint on the whole package of allowing imported vehicles and components to compete.

China agreed to open up this market in the May 2005 *Auto Development Policy*. On 25 February 2005, MOFCOM, the National Development and Reform Commission (NDRC) and State Administration for Industry and Commerce (SAIC) released '*The Final Implementation Measures on Branded Distribution of Automobiles'*. These Implementing Measures now

unequivocally grant the right to distribute and retail locally-made and imported vehicles of the same brand through the same authorized sales network.

While these measures are widely applauded by the global auto industry, they do contain some restrictions on foreign enterprises that are not being applied to domestic enterprises. Again, the lack of clarity and communication of how the policies will be implemented will make all the difference as to whether this is a significant opening of the domestic sector, or whether it still contains considerable administrative barriers to foreign distributors and importers.

An element of this auto distribution reform is that importers require a special amendment to their FICE import license if their business license includes the import of automobiles and parts.

Again, not a direct NTB, but China has also pushed through reforms to allow global vehicle brands to establish auto-financing entities in China. *The Administrative Rules on Auto Financing* took effect on October 9, 2004. Such auto financing will provide numerous benefits, as more consumers will be able to afford vehicles. This was previously a discriminatory policy against global players and a potential threat to their ability to retain market share beside domestic brands which have long been allowed to offer auto-financing services.

The above two regulatory reforms are very important to ensure that global automotive players will remain interested in the domestic Chinese market. Increasing competition and price wars have put downward pressure on profit margins in the production stage. Distribution and auto-financing reforms will allow the cross-subsidy of vehicle production and allow China to continue growing its domestic automotive sector.

5.12 Additional taxes discriminatory to imports

Imported products are subject to import VAT at 17% or 13%. However the same rate is applicable to domestic production.

Pneumatic tyres are subject to a consumption tax of 10% but this applies to both imported and domestically manufactured tyres.

5.13 Customs procedures

5.13.1 Distribution and Trading

Corporations need a specific trading and distribution license to trade in any products in China. However, FICE applicants should be aware that they are required to satisfy additional criteria if their business license includes the import and distribution of automobiles and components.

5.13.2 Product-specific Import license

Apart from the mandatory licenses issued as part of the above restrictions/regulations, product-specific licenses are necessary for each shipment of goods to pass through Customs. The Ministry of Commerce (MOC) and the General Administration of Customs jointly promulgated the *"Catalogue of Commodities Subject to Import Licensing Administration in 2006"* on 27 December 2005, which came into force on 1 January 2006.

No products in the automotive sector appear in the above Catalogue.

5.13.2.1 Automatic Import License (AIL):

The import of many products require an AIL. After the elimination import quotas at the end of 2004, importers of vehicle and components products still need to apply for an AIL. All industry players spoken to, say that this requirement has not served as a barrier to trade in any way.

Applications for AILs may be submitted on line or in writing. Licenses should generally be issued within 10 days of the receipt of complete applications. An AIL is valid for 6 months within a calendar year. Although MOFCOM generally requires a single import license for each shipment, for certain products, MOFCOM will permit entry of up to 6 shipments based on a single AIL.

The Detailed Rules for the Administration of Issuance of Automatic Import Licenses for Automobile Products (MOFCOM Announcement 92/2004) was promulgated by MOFCOM on 17 December 2004. This regulates the replacement of auto import quotas with AIL requirements.

Specific Automotive components requiring an AIL:
- Vehicle tyres of rubber
(4011, 4012, 4013)

The *'Catalogue of Electromechanical Products subject to Automatic Import Licensing in 2006'*, regulates this policy for 2006 which took effect on 1 January 2006. Products relevant to the automotive sector include:

Various Electro-mechanical machinery

(8407330000, 8407341000, 8407342010, 8407342090, 8408201090, 8408209020, 8408209090, 8409999910, 8443591220, 8445203100, 8445204100, 8456100010, 8456100090, 8456301010, 8456301090, 8457101000, 8457102000, 8457103000, 8457109000, 8458110000, 8458910000, 8459210000, 8459310000, 8459611000, 8459619000, 8460211000, 8460219000, 8461401000, 8462101000, 8462219000, 8462411900, 8477101010, 8478100000, 8478900000, 8479899010, 8479899020, 8479899030, 8479899040, 8480710010)

Various Electrical machinery

(8517301300, 8521909010, 8525101000, 8525201100, 8525202211, 8525202219, 8525202221, 8525202229, 8525202290, 8525202900, 8525209210, 8525209220, 8525209290, 8525209300, 8528121000, 8529109021, 8529109029, 8529901011, 8529901012, 8529901013, 8529901014, 8529909011, 8543892010, 8543899020)

Various Vehicles and Components of vehicles

(8701200000, 8702102000, 8702109100, 8702109219, 8702109290, 8702109310, 8702109390, 8702901000, 8702902019, 8702902090, 8702903010, 8702903090, 8703213011, 8703213090, 8703219011,

8703219090, 8703223010, 8703223090, 8703224010, 8703224090, 8703225010, 8703225090, 8703229090, 8703231411, 8703231419, 8703231490, 8703231511, 8703231519, 8703231590, 8703231611, 8703231619, 8703231690, 8703231911, 8703231912, 8703231919, 8703231990, 8703233410, 8703233490, 8703233510, 8703233590, 8703233610, 8703233690, 8703233919, 8703233990, 8703243010, 8703243090, 8703244010, 8703245010, 8703245090, 8703249011, 8703249019, 8703249090, 8703313019, 8703313090, 8703314090, 8703315090, 8703319090, 8703323011, 8703323019, 8703323090, 8703324011, 8703324019, 8703324090, 8703325011, 8703325019, 8703325090, 8703329011, 8703329012, 8703329019, 8703329090, 8703333010, 8703333090, 8703334010, 8703334090, 8703335010, 8703335090, 8703339011, 8703339019, 8703339090, 8703900011, 8703900012, 8703900013, 8703900015, 8703900016, 8703900017, 8703900019, 8703900090, 8704210000, 8704223000, 8704224000, 8704230020, 8704230030, 8704230040, 8704230090, 8704310000, 8704323000, 8704324000, 8704900000, 8706002100, 8706002200, 8706003000, 8706009000, 8707100000, 8707901000, 8707909000, 8708409100, 8708409900, 8708501000, 8708502010, 8708502090, 8708504000, 8708505010, 8708505090, 8708506000, 8708509000, 8708609010, 8708999100, 8708399910)

5.14 Prohibition on imports of used vehicles and right-hand drive vehicles

According to article 37 of the *Automobile Trade Policy*, released by MOFCOM on 10 August 2005, “The state prohibits any import of old automobiles, their assembly, fittings and the automobiles with right steering wheel in any ways (except for the model automobile with right steering wheel used in export processing trade).”

5.15 Standards

5.15.1 Certification of Vehicles and Components

China is a signatory to the *Agreement Concerning the Establishing of Global Technical Regulations for Wheeled Vehicles, Equipment and Parts Which Can Be Fitted and/or Be Used on Wheeled Vehicles (1998)* under the auspices of the United Nations Economic Commission for Europe (UN/ ECE) - Working Party 29 (WP 29).

The purpose of the UN/ECE Agreement is to form an alliance of countries and regions to develop globally harmonized vehicle safety, emission, anti-theft and fuel economy regulations that provide high levels of protection. While WP 29 gains momentum, there is a concern that China is increasing its number of unique standards, which may have the effect of a non-tariff trade barrier to the opening up of its auto sector.

5.15.1.1 The CCC system

China's "China Compulsory Certification" (CCC) mark system took full effect on August 1, 2003, following a transition period that lasted for fifteen months. The new CCC mark replaces the old "Great Wall" and "CCIB" marks and is now required for more than 130 product categories, including most vehicles and automotive components. There have been some complaints in the automotive sector that certification remains a difficult, time-consuming and costly process. The process involves on-site inspection of manufacturing facilities outside of China by Chinese experts, the cost of which is borne by producers.

The 2002 CCC regulations require imported vehicles to pass renewed homologation tests in China conducted exclusively in Chinese laboratories designated by the government. A series of test specimens have to be provided: these include a complete vehicle, a body in white, sets of glassing,

safety belt and tyres, as well as other components. Only by complying with the complex CCC regulations can the requisite Chinese type approval of the vehicle in question be obtained.

CCC regulations make it necessary to both repeat a number of tests and to provide test vehicles and components even when the stringent requirements of UN/ECE (international standards) are fulfilled. The procedure, as well as China's national requirements, is not in line with international standards, leading to delays and additional costs for importers.

CCC Application Process

The application process for the CCC mark:

1. Can take sixty to ninety days or longer;
2. Requires testing at accredited laboratories in China;
3. Generally does not permit self certification or third-party testing results;
4. Requires submission of numerous technical documents;
5. Requires submission of a product sample to a Chinese testing laboratory;
6. Requires a factory inspection by Chinese officials at the applicant's expense;
7. Requires follow-up inspections every twelve to eighteen months; and
8. Can cost several thousand dollars.

The CCC Mark is administered by the CNCA. The China Quality Certification Center (CQC) is designated by CNCA to process CCC mark applications.

According to South African tyre manufacturers:

“The CCC standards against which the Chinese test the imported tyres are not the same as the ECE standards. It is extremely difficult to obtain CCC approval as the tyres are **physically** tested against unique Chinese standards – unlike RSA where anything can get through our so-called homologation procedure with a little bit of paperwork.

The Chinese CCC certification of approval is a valid NTB due to the absolute difficulty in obtaining it and the time delays the testing results in.

The CCC test standard is outdated and test conditions are old when compared to ECE. For example they cannot test V-rated tyres
Only China and Brazil have **additional specific requirements** on top of ECE when compared to the rest of world:

a. Both countries require additional sidewall markings, Brazil = INMETRO and China = CCC. This creates additional costs
b. Further additional costs are incurred through registration and follow up audits

The physical testing of imported tyres in China is done by selecting sizes from a pre-defined group."

5.15.1.2 Unfair discrimination

These complex homologation regulations directly affect sales of certain low volume auto imports, as the fixed costs associated with the import of these vehicles exorbitantly raises their price in China's market. In addition, these unique standards, which are not internationally recognized, restrict the export marketing potential of vehicles manufactured in China.

Some companies continue to claim that Chinese customs officials occasionally block shipments of products that should not require a CCC mark. There is a general lack of transparency, and at times a lack of capacity on the side of AQSIQ officials.

There are many cases in which companies have successfully been given CCC exemptions. A few large auto companies have been given exemptions on certain component products. However, it appears these exemptions have been given after intensive lobbying and *'guanxi'*, not along transparent policy lines. Small and medium sized companies have also complained that this discretion discriminates against them. China requires the exemption applications to be done in person in the Beijing offices of CNCA, adding an

unnecessary burden to smaller companies who do not have Chinese representatives.

In the automotive sector, various testing bodies have been granted certification authority by CNCA. Despite China's WTO commitment that qualified foreign-owned conformity assessment bodies would be eligible for accreditation, China has yet to grant accreditation to any foreign-invested enterprises.

5.15.2 Certification and Inspection of Used Electro-mechanical Products

The State General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) promulgated the *"Procedures on the Inspection and Supervision of Used Mechanical and Electrical Product Import"* on 18 August 2003, which took effect from 1 October 2003. The Procedures set out the administration of inspection and supervision of used mechanical and electrical product imports, which includes the filing of a record before the arrival of the products, pre-shipment inspection before packing, post-shipment inspection and supervisory control.

According to the *Administrative Rules on the Inspection and Supervision of Used Mechanical and Electrical Product Import* of 2003, 'consignees or agents who import used mechanical and electrical products should report to the AQSIQ or its regional authorities after the contracts or agreements have been effected, but no later than 90 days before the arrival of the import. The Notice also sets out the conditions under which pre-shipment inspection should be applied.'

5.15.3 Automobile Scrapping rules

China's automobile scrapping rules limit the lifespan of any vehicle to 15 years. The aim of this rule is to get unsafe and environmentally harmful vehicles off the road. However, importers of vehicles have complained that firstly, this rule discriminates against well-made vehicles which could last up to 30 years (most imports fall in this category), and secondly, the rules are

not complemented by effective annual safety inspections. Many importers have complained that these rules discriminate against importers of high quality vehicles as it reduces their re-sale value and hence negatively affects initial demand.

5.16 Trade remedies

According to Article 39 of the Automobile Trade Policy released by MOFCOM on 10 August 2005,

> "Unfair trade acts in the import of automobiles and related products will be prohibited, and the commerce authority under the State Council should be responsible for taking antidumping, countervailing and safeguard measures over the automobile industry according to laws, organizing related industrial associations to set up and improve pre warning system of damage to the country's automobile industry, and conducting of research into the competitiveness of the automobile industry. Automobile suppliers and distributors have the responsibility of providing related information to the relevant authorities under the State Council in a timely and accurate manner."

There have been no significant trade actions against Chinese vehicle or components exports. However, the Indian Automotive Component Manufacturers' Association announced in January 2006 that the government has agreed to institute a study to examine whether Chinese companies were dumping automotive components into India.

The main issue facing China's vehicle exports is that they will not pass quality and standards testing. Even so, China is only at the start of its auto exports trend. There is a widespread fear in global markets that, should they meet the certification standards, Chinese cars will start to flood the global market. Most of China's exports are currently intended for emerging markets that do not have their own auto industries. It is yet to be seen whether there will be strong protectionist measures from developed country markets when China does start to export to these countries. Chery, a rapidly expanding small car assembler is set to start exporting to the US in 2007.

In the past, China used very high tariffs to protect itself against automotive imports. Under the WTO agreement, it rapidly brought down these tariff barriers. This has created huge opportunities for component imports into China. While China rapidly expands its own auto sector, it has chosen to use strict investment rules, internal distribution restrictions and NTBs to protect the domestic industry, instead of trade actions. This is largely due to the global nature of the auto industry supply chains.

5.17 Intellectual Property Rights (IPR)

China has spent much time and energy on the reform of its IPR laws and regulations. However, the infringement on trademark, patent and outlook design remains serious and the quantity of counterfeit products have not decreased, but have actually risen dramatically in the past few years.

The infringement of IPR has been especially evident in the Auto Components sector. The US, EU and Australian authorities have all specifically pointed out that the export of counterweight goods is a major issue which authorities are not taking seriously enough.

Counterfeit auto parts, design patent infringements and other trademark violations are common. Major manufacturers have had to devote more resources to this problem, as exemplified by the nearly doubling of IPR-related raids conducted in 2004 as compared to 2003.

5.18 Pricing regime

There are nearly 130 producers of vehicles in China, with the top 5 companies generating 60% of all production. There is no official pricing regime for the automotive industry. Although the government is promoting consolidation in the industry, there is currently a massive price war in passenger vehicles, and profit margins have been dropping rapidly.

The automotive components sector is characterized by a large number of firms, each with little pricing power.

5.19 Labels

Labelling requirements are maintained under the Standardization Law, the Food Hygiene Law adopted on 30 October 1995, and the Law on Product Quality, adopted on 22 February 1993 and amended on 8 July 2000. Under these laws, all products sold in China must have Chinese language labels. The label should state, inter alia, name and trade mark of the product, type of food, the manufacturer's name and address, country of origin, ingredients in descending order by weight or volume, net weight and solid content, date of manufacture, best before or expiry date, usage instructions, batch number, and the relevant standard code. Information may also be provided in a foreign language, although the details must correspond to the information provided in Chinese.

According to information obtained from an EU sponsored study, labelling is not a major problem.

5.20 Environmental regulations and imports

5.20.1 Automobile Fuel Emissions Policy

The NDRC recently passed fuel standard regulations. All engines will have to meet Euro II standards. From 1 January 2005, all vehicles in Beijing will have to meet Euro III standards and by 1 July 2006, all vehicles in Beijing and Shanghai will have co meet Euro IV. By 2008, Euro IV will be imposed country-wide.

Importers of vehicles and engines have a number of issues with the above emissions standards. The most important are discrimination against importers and poor fuel quality.

i. Discrimination against importers:

It appears that there is little implementation of these regulations at the factory gate. There is little effective obligatory testing of each engine, thus it is believed that the standards of many engines produced in China will not meet the fuel emission regulations. Imported engines and vehicles have to face stringent standards inspections. This amounts to an effective discrimination against imports.

ii. Poor fuel quality:

Fuel quality is the biggest barrier to technological advances in reducing emissions in China. There is a widespread shortage of fuel of a high enough quality to meet the required emission standards. As a result, there is little incentive for domestic producers to make the necessary technological improvements to ensure that their products meet the standards. Again, as imports are forced to comply fully with emissions standards, domestic producers are in reality let off the hook.

5.21 Government procurement

According to Article 9 of the Law on Government Procurement, procurement in China is to be conducted in such a manner as to facilitate the achievement of State goals for economic and social development. Furthermore, Article 10 provides that the government shall procure domestic goods, construction, and services. Goods may be purchased from foreign suppliers under exceptional circumstances, namely: when the goods, works and services required are unavailable, or unavailable on reasonable commercial terms, in China; the goods, works and services are procured for use outside China; and where other laws and administrative regulations stipulate otherwise.

In effect, government procurement in China is therefore generally not open to foreign firms.

However, in practice, officials believe that procurement from foreign suppliers occurs routinely for products such as cars, copying machines, and computers (successful foreign suppliers are typically represented by Chinese agents).

However, systematic data on procurement from foreign suppliers are unavailable.

5.22 Important Government Departments, and Industry Bodies

1. Ministry of Commerce (MOFCOM)
   Address: No.2 Dong Chang'an Avenue, Beijing, 100731
   Post Code: 100731
   Tel: +86 10 67184455
   Fax: +86 10 67081513
   Website: www.mofcom.gov.cn
   - Bureau of Fair Trade for Imports and Exports
   Tel: +86 10 65198924
   Fax: +86 10 65198915
   - Bureau of Industry Injury Investigation
   (Both involved in Trade Actions)

2. General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ)
   - Responsible for port cargo inspection and special scrap metal import licenses
   Address: No. 6 Madian Road, Haidian District, Beijing, 100088
   Email: webmaster@aqsiq.gov.cn
   Website: http://www.aqsiq.gov.cn (Chinese only)

3. State Environmental Protection Agency (SEPA)
   Address: No.115 Xizhimennei Nanxiaojie, Beijing (100035)
   Tel: +86 10 66556006
   Fax: +86 10 66556010
   Website: http://www.zhb.gov.cn (English and Chinese)

4. General Administration of Customs

- Foreign Affairs Division
No. 6 Jianguomenwai DaJie, Beijing
Tel: +86-10-6519-5263 or 6519-5246
Fax: +86-10-6519-5394
Website: http: // www.customs.gov.cn (currently under construction)

5. Certification and Accreditation Administration of PR.China (CNCA)
- is responsible for accrediting certification agencies to carry out testing
- CNCA website provides a full description of steps necessary for certification for each product group, including vehicles and components.
Address: 9A Madian Street, Haidian district, Beijing 100088
Website: http://www.cnca.gov.cn

6. China Quality Certification Center (CQC)
Address: □□□□□□□□□□□□10□□□□□
□□□□□100020
Tel: +86 10 85622233
Fax: + 86 10 65994298
Website: www.cqc.com.cn/

7. China Council for the Promotion of International Trade,
- Sub Council of Automotive Industry –
Address: 46 Sanlihe Road, Beijing 100823
Tel: +86-10-68594756 68594731
Fax: +86-10-68595076
Website: www.auto-ccpit.org/

8. China association of automobile manufacturers (CAAM)
- Occasionally referred to as “China automobile industry association"
-spokesperson for the industry
46, Fucheng Road, Haidian

Beijing 100036
Tel: +86 10 68123210
Fax: +86 10 68127562
E-mail: caa@public.fhnet.cm.net

As with most industries in China, there are a large number of ‘Associations’. These are really Chambers of Commerce or representative offshoots of local industry departments. Most provinces have their own ‘Automotive Association’. (E.g. Shanghai Automotive Association, Zhejiang Association of Automobile) Also, in Shanghai alone, there are 14 automotive industry-related associations Manufacturers (ZAAM). All industry sources spoken to mentioned that these smaller ‘Associations’ displayed little activism, had little policy-making power though they were often a significant member of the administrative ‘red tape’ in applying for licenses at the local level.

5.23 Provinces and trade discrimination

There are no inter-provincial barriers to trade that relate to import of automotive components and vehicles.

5.24 Any other trade discrimination

5.24.1 Export Rebates

Since 1985, China has had in place a tax rebate system designed to support the export trade in key industries.

After a product is exported, a producer may apply to the State Administration of Taxation for a rebate on taxes previously paid on the production of the exported product. Such taxes should be incurred during the processes of domestic production and circulation.

Generally speaking, the rebate is on VAT (on imported or domestically consumed goods and services), business tax and special consumption taxes. However, for foreign invested enterprises export tax, such rebate only refers

to VAT rebates due to the Chinese government current stipulation of 0% rate of consumption tax for these enterprises.

The standard VAT in China is 17 %, though many special/staple products enjoy 13% VAT (policy set by The State Council).

Rubber tyres, leather products, articles of metal, and articles of glass are subject to a 13% rebate. Machinery (HS 84) and electro-mechanical products (HS 85) are subject to a 13% or 17% export rebate. Vehicles and key automotive components (8701-8708) enjoy a 17% export rebate.

5.25 Considerations

1. The South African tariffs on vehicles are generally bound at 50% and on components at 30%. The finalisation of the Doha Round of the WTO may require a drastic reduction to the SA bound rates for automotive products.

2. While China's final bound tariffs on most products were implemented immediately or phased in over a short period, the bound tariffs on Chapter 87 were and are to be phased in over a much longer period. Most of the final bound rates were phased in by January 2005 while the final bound rates for some chassis and bodies (85.06; 87.07), passenger vehicles (87.03) and some components (87.08) will only be reached by 1 July 2006.

3. China's current applied rate for passenger cars is 28% which is to be reduced to 25%, the final bound rate, on 1 July 2006. The SA rate is 32% which will phase down to 25% in 2012. In respect of vehicles for the transport of goods, China applies rates of 25% for trucks of a GVW up to 5 tons, 20% for trucks of a GVW of 5 – 20 tons and 15% above 20 tons.

4. In respect of components of Heading 87.08, all China's applied rates will be 10% from July 2006, except for some 25% rates that

will remain at that level. The SA rates for OE components are 26%, to be phased down to 20% in 2012.

5. Generally the South African and Chinese tariff structures for the other tariff headings covered in this report are generally in the same ranges, although China does have higher tariffs in respect of some product categories.

6. Although China's rates in respect of components are to be reduced to 10%, new regulations appear to renegade on China's WTO accession agreement by regarding certain key component and subassembly imports as whole vehicles and therefore subject to a rate of 28% tariff (for cars and light trucks; 25% from 1 July) instead of 10%. Also, as from 1 July, if the value of imported components is 60% or more of the value of the vehicle, the CBU duty will apply to the imported components. The auto industry sees this regulation as 'domestic content' policy. This is when a policy discriminates against imports in favour of domestically produced goods for the purpose of supporting the local industry. A 'domestic content' policy is a violation of WTO rules on Trade Related Investment Measures (TRIMs).

7. The rationale behind this policy is that Chinese policy-makers were unhappy about the slow localisation of components production by the large JV assemblers, and hence the slow transfer of technologies from the global players to the domestic components producers. Global assemblers mentioned that they were following a pro-active localisation policy but were limited by quality, price and reliability issues.

8. New fuel consumption regulations of 1 July 2005 set a limit on the fuel that vehicles of different weight classes are allowed to consume. As the limit values are more stringent for high-performance and heavier cars – a segment where only imported

cars are currently offered - this would amount to a trade barrier for a number of foreign manufacturers.

9. Support for the Chinese automotive sector can be found in the following areas:

- Support for foreign invested JVs:

This includes a reduced 15% corporate income tax. (Which will be phased out over the next few years), tax exemptions for two years and reduced for 3 years thereafter in many IDZ, various fixed investment and profits re-investment tax incentives and reduced municipal rates.

- Industrial policy indirect subsidies:

Debt write-offs and infrastructure funding from Beijing could trickle down into 'hidden' subsidies for the North east automotive industry. State-supported institutes are also taking over the R&D side of the automotive sector development and thus assisting the final assemblers on the bottom line.

- Non-sustainable business model of producers:

According to sources in the auto industry, Chinese businesses are not being run on a sustainable basis. Apparently this is not only an SOE problem. Ownership structures are not clear and this allows management to use political connections to run companies with special support from politicians at the provincial and municipal levels where a lack of control allows them to heavily 'subsidize' private companies through cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through other 'private' funding institutions; waiving various local taxes; and assisting to reduce national taxes.

It is feared that the ‘national brand’ final assemblers are following an irrational pricing model. At the moment the brand power of the global brands is still high enough to prevent a major loss of domestic market share. It is suspected that the ‘national brands’ were receiving significant financial support and/or long-term guarantees to maintain an unsustainably low-price business model to aggressively gain market share in the domestic and eventually international market.

10. It is compulsory to have a specific trading and distribution license to trade in any products in China. If the business license includes the import and distribution of automobiles and components, additional criteria have to be met.

11. China’s “China Compulsory Certification” (CCC) mark system is a difficult, time-consuming and costly process. CCC regulations make it necessary to both repeat a number of tests, and to provide test vehicles and components even when the stringent requirements of UN/ECE (international standards) are fulfilled. This procedure, as well as China's national requirements, is not in line with international standards, leading to delays and additional costs for importers. This is confirmed by South African tyre manufacturers.

12. Some companies claim that Chinese customs officials occasionally block shipments of products that should not require a CCC mark. There is a general lack of transparency, and at times a lack of capacity on the side of officials.

13. In the automotive sector, various testing bodies have been granted certification authority. Despite China’s WTO commitment that qualifying foreign-owned conformity assessment bodies would be eligible for accreditation, China has yet to grant accreditation to any foreign-invested enterprises.

14. While China rapidly expands its own auto sector, it has chosen to use strict investment rules, internal distribution restrictions and NTBs to protect the domestic industry instead of trade actions.

15. The infringement on trademark, patent and outlook design remains serious and the quantity of counterfeit products have not decreased, but actually risen in the past few years. The infringement of IPR has been especially evident in the Auto Components sector.

16. China's fuel standard regulations discriminate against importers. It appears that there is little implementation of these regulations at the factory gate while imported engines and vehicles have to face stringent standards inspections.

6 TRADE FLOW ANALYSIS OF THE DEFENSIVE POSITION OF CHINA

6.1 Introduction

The defensive position as determined by trade flows is analysed by the following approach:

- An analysis of automotive exports by China to the world.
- An analysis of export growth of automotive products by China to the world.
- The revealed comparative advantages of China.
- Exports of automotive products by China to South Africa.
- Export penetration of China into RSA.
- Revealed comparative disadvantages of RSA against China.

A synthesis of the contents of this chapter and the previous ones appears in Chapter 8. In Chapter 8 the defensive position of South African automotive products is formulated for the China -negotiations.

6.2 Comparative size

Table 6.1 Exports and imports of automotive products of China and South Africa 2000 and 2004 US$ million

	Exports		Imports	
Year	China	SA	China	SA
2000	15563	3185	16773	5052
2004	39516	6660	52867	10284
Increase	153.9%	109.1%	215.2%	103.4%.

The international trade in automotive products of China is about 5-6 times the size of South Africa's. Imports by China increased faster than exports between 2000 and 2004. Both countries have substantial balance of trade deficits in automotive products.

6.3 Export to the world

6.3.1 Data

The analysis of the export and imports: of China and South Africa is undertaken at the 4-digit-level of the Harmonised System. Data is available for the period 2000 to 2004. Trade data was procured via Quantec from UN Commodity Trade Statistics Database (UN Comtrade). The data is in US$.

The tariff headings comprising the trade in automotive products are defined in terms of South Africa's Motor Industry Development Program.

The size of the database renders it impracticable to provide it on hard copy. More detailed information than that appearing in this is available electronically on request.

6.3.2 Analysis

6.3.2.1 Product categories

Exports of automotive products by China are concentrated in components for 98.6% of the total. In 2003 and 2004 the export of vehicles for the transport of goods and passenger vehicles exceeded US$ 100 million for the first time. However, both are still less than 1% of total exports of automotive products.

Table 6.2 China: Exports of automotive products 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Road tractors	2	1	2	7	20
Buses	36	54	48	43	81
Passenger vehicles	31	33	34	61	174
Vehicles for the transport of goods	58	55	72	137	251
Chassis fitted with	6	9	17	22	21

Sub-group	2000	2001	2002	2003	2004
engines					
Bodies for vehicles	2	2	2	3	6
Components	15427	16616	20602	26881	38964
TOTAL	**15563**	**16770**	**20777**	**27153**	**39516**

6.3.2.2 Components at the 4HS level

The export under HS 8708 i.e. parts for automotive vehicles, were almost 4 times higher at US$ 4.4 billion in 2004 than in 2000. Apart from that the headings with an electrical content are prominent among exports. In this regard 35% of exports were generated by HS 8501; 8504; 8507; 8536; 8543 and 8544.

Table 6.3 China: Exports for 4 digit headings of automotive components

HS4	Description	2000		2004	
		USD m	%	USD m	%
8708	Parts and accessories of the motor vehicles of headings nos.87.01 to 87.05.	1,120.9	7	4,403.2	11
8504	Electrical transformers, static converters (for example, rectifiers) and inductors.	1,529.3	10	4,164.0	11
8507	Electric accumulators, including separators therefor, whether or not rectangular (including square).	981.3	6	3,227.1	8
8536	Electrical apparatus for switching or protecting electrical circuits or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lampholders, junction boxes),for a voltage not exc. 1000 v	1,269.7	8	2,605.9	7
3926	Other articles of plastics and articles of other materials of headings nos. 39.01 to 39.14.	1,631.9	11	2,438.1	6
4011	New pneumatic tyres, of rubber.	737.1	5	2,124.0	5
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.	472.1	3	1,758.4	5

HS4	Description	2000		2004	
		USD m	%	USD m	%
7326	Other articles of iron or steel	704.1	5	1,723.1	4
8501	Electric motors and generators (excluding generating sets).	1,499.1	10	1,546.1	4
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors	396.0	3	1,169.6	3
8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this chapter.	380.5	2	1,072.8	3
7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.	338.7	2	903.1	2
8415	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated.	320.3	2	869.5	2
8483	Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)	362.6	2	844.6	2
8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock.	441.3	3	838.4	2
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters.	164.4	1	757.5	2

HS4	Description	2000		2004	
		USD m	%	USD m	%
7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel.	314.6	2	749.9	2
	Other	2,899.0	19	8320.5	21.4
	TOTAL	15,427.4	100	38,963.8	100

6.3.2.3 Destination

China's exports of automotive products to the USA; Hong Kong and Japan represent 54% of the total. They are followed by Korea and Germany that import 4% each of China's export of automotive products.

Table 6.4 Destination of exports of automotive products by **China 2000 to 2004 ($million and percentage share)**

Partner	2000		2004	
	USD m	%	USD m	%
USA	3767	24	9881	25
China, Hong Kong SAR	2781	18	6223	16
Japan	2415	16	5174	13
Rep. of Korea	502	3	1639	4
Germany	653	4	1452	4
Other Asia, nes	504	3	1232	3
United Kingdom	515	3	1017	3
Canada	184	1	933	2
Italy	340	2	690	2
Netherlands	321	2	656	2
Singapore	388	2	651	2
France	260	2	594	2
United Arab Emirates	166	1	560	1
Malaysia	155	1	547	1
Australia	194	1	538	1

Partner	2000		2004	
	USD m	%	USD m	%
Other	2416	16	7728	20
TOTAL	**15563**	**100**	**39516**[2]	**100**

6.3.3 Revealed comparative advantages

China has an extensive list of revealed comparative advantages in the trade in automotive products. The contents of the list constitute products that may pose a threat and should be taken as the first list of defensive products.

Table 6.5 The revealed comparative advantages of automotive products exported by China to the world.

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
4013	Inner tubes, of rubber.	8.5	12.1	19.7
4205	Other articles of leather or of composition leather.	7	9	46.1
8425	Pulley tackle and hoists (excluding skip hoists); winches and capstans; jacks	11.5	8.6	17
8507	Electric accumulators, including separators therefor, whether or not rectangular (including square).	5.1	7	36.6
8501	Electric motors and generators (excluding generating sets).	12.3	6.1	1.7
8504	Electrical transformers, static converters (for example, rectifiers) and inductors.	5.3	4.3	28.5
8531	Electric sound or visual signalling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms) (excluding those of heading no.85.12 or 85.30)	4.2	4.3	29.3
8539	Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps;	5.3	3.8	15.1

[2] Totals differ somewhat with that of other tables due to reporting peculiarities.

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
	arc-lamps			
7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel	4.2	3.7	21.7
8532	Electrical capacitors, fixed, variable or adjustable (pre-set)	4.5	3.7	11.1
7326	Other articles of iron or steel	3.1	3.1	25.6
3926	Other articles of plastics and articles of other materials of headings nos. 39.01 to 39.14.	5	3.1	10.8
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves	2	2.8	39.3
8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock	2.8	2.8	19.4
8415	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated	2.5	2.8	26.7
8418	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps (excluding air conditioning machines of heading no.84.15).	1.4	2.5	45.9
7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel	2.4	2.5	27.7
4011	New pneumatic tyres, of rubber	2.3	2.5	30.6
8302	Base metal mountings, fittings and similar articles suitable for furniture, doors, staircases, windows, blinds, caskets or the like	1.5	2.2	35.6
8543	Electrical machines and apparatus, having individual	2	2.2	29.3

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
	functions, not specified or included elsewhere in this chapter			
3923	Articles for the conveyance or packing of goods, of plastics; stoppers, lids, caps and other closures, of plastics	2.2	2	27.7
8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1000 V	2.1	1.9	20.7
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres	1.4	1.7	31.7
8301	Padlocks and locks (key, combination or electrically operated), of base metal; clasps and frames with clasps, incorporating locks, of base metal; keys for any of the foregoing articles, of base metal	0.6	1.7	70.7
8480	Moulding boxes for metal foundry; mould bases; moulding patterns; moulds for metal (excluding ingot moulds) metal carbides, glass, mineral materials, rubber or plastics	1.2	1.5	30.7
7007	Safety glass, consisting of toughened (tempered) or laminated glass	1.8	1.4	15.5
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters	0.8	1.2	47

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
8483	Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)	1.4	1.2	24.7
8484	Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal; sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packing	1.6	1.2	17
8538	Parts suitable for use solely or principally with the apparatus of heading no. 85.35, 85.36 or 85.37	0.6	1.1	47.3

6.4 Imports of Automotive by South Africa

6.4.1 Data

Customs data from the South African Revenue Services is used. The analysis is for the period 2000 to 2004. Data is analysed on the 4-digit-level of the HS. Exports are measured in US$. The Rand per $ conversion rates are as follows

2000	6.9353
2001	8.6031
2002	10.5165
2003	7.5647
2004	6.449

6.4.2 Analysis

6.4.2.1 Product groups

South African imports of automotive products doubled between 2000 and 2004. In 2004 imports of components were 72.2% of imports of automotive products. The increase was 82% on the imports of 2000. The import of passenger vehicles in 2004 was 3 times that of 2000. It came to 24.8% of the import of automotive products in 2004 compared to 16.5% in 2000.

Table 6.6 South African imports of automotive products from the world 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Road tractors	48	61	37	74	47
Buses	8	14	25	30	38
Passenger vehicles	831	903	957	1441	2550
Vehicles for the transport of goods	85	92	82	108	196
Chassis fitted with engines	3	2	4	9	18
Bodies for vehicles	3	3	4	3	10
Components	4074	4057	4487	5988	7426
TOTAL	5052	5132	5596	7653	10284

Source: SARS

6.4.2.2 South African imports of automotive components from the world

Imported automotive components were 82% higher in 2004 than in 2000. Imported original equipment components were 87% higher and equal to 54.5% of component imports in 2004.Imports of automotive components are concentrated for 77% in nine 4HS tariff headings that are shown in Table 6.7.

Table 6.7 Imports of automotive components from the world of major 4 HS headings US$ million

HS	DESCRIPTION	2000	2004
9801	Original Equipment	2164	4048
8708	Parts and accessories for vehicles	314	608
8483	Transmission shafts	125	202
8536	Electrical switchgear	119	177
8409	Parts for engines	93	154
8421	Centrifuges etcetera	75	153
4011	Pneumatic Tyres	74	149
8479	Machines and supplies	67	133
8414	Air vacuum pumps	74	124
	Others	969	1798
	Total	**4074**	**7426**

6.4.2.3 Origin of South African imports of automotive products

Table 6.8 Origin of imports of automotive products by South Africa 2000 and 2004 (R million)

Partner	2000		2004	
	USD m	%	USD m	%
Germany	1579	31	3530	34
Japan	1326	26	2006	20
United States	395	8	666	6
United Kingdom	288	6	465	5
France	169	3	439	4
Spain	97	2	350	3
Brazil	88	2	346	3

Partner	2000		2004	
	USD m	%	USD m	%
Republic of Korea	112	2	283	3
Italy	175	3	272	3
Other	821	16	1927	19
TOTAL	**5052**	**100**	**10284**	**100**

Source: SARS

Germany and Japan are the dominant suppliers due to the impact of the MIDP on imports of OE components.

6.4.2.4 Imports from China

South African imports of automotive products from China are limited to components. Imports of components from China were almost 4 times that of 2000 in 2004. They came to 3.1% of South African component imports in 2004 compared to 1.5% in 2000. This is a rapid increase from a small base that may continue to expand.

Table 6.9 Imports of automotive products by South Africa from China: 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Road tractors	0	0	0	0	0
Buses	0.2	0	0	0	0
Passenger vehicles	0.1	0.1	0.2	0.6	5.2
Vehicles for the transport of goods	0.1	0.1	0	0.1	0.4
Bodies for vehicles	0	0	0	0	0
Components	60.2	71.8	83	131.8	231.7
TOTAL	**60.6**	**72**	**83.3**	**132.4**	**237.3**

Source: SARS

6.4.2.5 Trade Balance

China export more automotive components to South Africa than the latter export to China with a consequent positive balance for China amounting to US$ 177.8 million in 2004.

Table 6.10 South African imports of automotive products from and exports to China 2000 and 2004 (USD million)

Sub-group	2000			2004		
	Import	Export	Balance	Import	Export	Balance
Road tractors	0	0	0	0	0	0
Buses	0.2	0	-0.2	0	0	0
Passenger vehicles	0.1	0	-0.1	5.2	0	-5.2
Vehicles for the transport of goods	0.1	0	-0.1	0.4	0	-0.4
Chassis fitted with engines	0	0	0	0	0	0
Bodies for vehicles	0	0	0	0	0	0
Components	60.2	22.9	-37.3	231.7	59.6	-172.2
TOTAL	**60.6**	**22.9**	**-37.7**	**237.3**	**59.6**	**-177.8**

Source: SARS.

6.4.2.6 Revealed comparative advantages

China's revealed comparative advantages in the trade in automotive components are extensive. The contents of Table 6.1 may be considered to pose a threat to the local industry and trade concessions to China are to be avoided.

Table 6.11 Revealed comparative advantages of China against South Africa at 4HS level

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
8425	Pulley tackle and hoists (excluding skip hoists); winches and capstans; jacks.	16.2	10.4	5.9	12.1	12.1
8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock.	10.3	13.5	8	5.4	7.4
7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel.	6.8	5.9	5	6.7	6.4
3923	Articles for the conveyance or packing of goods, of plastics; stoppers, lids, caps and other closures, of plastics.	2.4	1.6	3	2.6	6.2
8539	Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps; arc-lamps.	6.7	6	9.4	8.1	5.4
8302	Base metal mountings, fittings and similar articles suitable for furniture, doors, staircases, windows, blinds, caskets or the like.	3.2	3.2	4.1	4.6	5.2
8504	Electrical transformers, static converters (for example, rectifiers) and inductors.	5.7	5.1	6	5.1	4.8
8507	Electric accumulators, including separators therefor, whether or not rectangular (including square).	3	3.8	4.2	1.6	4.8
7007	Safety glass, consisting of toughened (tempered) or laminated glass.	3.6	3.2	1.8	4.3	4.2
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.	3.3	2.8	3.4	3.3	4.1
3926	Other articles of plastics and articles of other materials of headings nos. 39.01 to 39.14.	3.5	3.8	3.5	3.5	3.5
6813	Friction material and articles thereof (for example, sheets, rolls, strips, segments, discs, washers, pads), not mounted, for brakes, for clutches or the like	3.2	5	5.4	5.1	3.3
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres	2.3	2.4	3	3.7	3.3
8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this chapter.	1.2	1.8	2.4	2.2	3.1
8407	Spark-ignition reciprocating or rotary internal combustion piston engines.	0.2	0.4	0	1.4	3
8301	Padlocks and locks (key, combination or electrically operated), of base metal; clasps and frames with clasps, incorporating locks, of base metal; keys for any of the foregoing articles, of base metal.	1.6	1.1	2.7	2.4	2.6
7326	Other articles of iron or steel.	3.6	3.3	2.7	2.8	2.5
4205	Other articles of leather or of composition leather.	2.5	1.6	2	1.8	2.4

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.	2.2	2.3	2	2.5	2.2
8413	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators.	0.3	0.7	1.1	2	2.1
4011	New pneumatic tyres, of rubber.	0.9	0.4	0.5	1.2	2
8415	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated.	1.5	2.2	3	1.7	2
4013	Inner tubes, of rubber.	2.7	4.6	2.1	2.8	1.9
8531	Electric sound or visual signalling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms) (excluding those of heading no.85.12 or 85.30)	1.9	2	1.8	2.9	1.9
8501	Electric motors and generators (excluding generating sets).	0.4	0.4	2.1	1.8	1.8
8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1 000 V	1.8	1.9	1.9	1.7	1.8
8512	Electrical lighting or signalling equipment (excluding articles of heading no.85.39), windscreen wipers, defrosters and demisters, of a kind used for cycles or motor vehicles.	1.1	1	0.8	0.8	1.6
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters.	0.6	0.9	1.2	1.2	1.5
8409	Parts suitable for use solely or principally with the engines of heading no. 84.07 or 84.08.	0.3	0.2	0.9	1.2	1.5
8466	Parts and accessories suitable for use solely or principally with the machines of headings nos.84.56 to 84.65, including work or tool holders, self opening dieheads, dividing heads and other special attachments for machine- tools...	1.5	1	0.8	2.7	1.3
8708	Parts and accessories of the motor vehicles of headings nos.87.01 to 87.05.	0.5	0.5	0.7	0.9	1.1
8483	Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)	1.5	1.6	1.3	1.3	1.1
9026	Instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases (for example, flow meters, level gauges, manometers, heat meters)	0.2	0.4	0.3	1	1

6.5 Considerations

1. The international trade in automotive products of China is about 5-6 times the size of South Africa's. Imports by China increased faster than exports between 2000 and 2004. Both countries have substantial balance of trade deficits in the exchange of automotive products.

2. Exports of automotive products by China are concentrated in components for 98.6% of the total. In 2003 and 2004 the export of vehicles for the transport of goods and passenger vehicles for the first time exceeded US$ 100 million each. However, both are still less than 1% of total exports of automotive products.

3. The export by China of components under HS 8708 i.e. parts for automotive vehicles, were almost 4 times higher at US$ 4.4 billion in 2004 than in 2000. Apart from that the headings with an electrical content are prominent among exports. In this regard 35% of exports were generated by HS 8501; 8504; 8507; 8536; 8543 and 8544. China's exports of automotive products to the USA; Hong Kong and Japan represent 54% of the total. They are followed by Korea and Germany that import 4% each of China's export of automotive products.

4 China has an extensive list of revealed comparative advantages in the trade in automotive products. The contents of the list constitute products that may pose a threat and should be taken as the first list of defensive products.

5. South African imports of automotive products doubled between 2000 and 2004. In 2004 imports of components were 72.2% of imports of automotive products. The increase was 82% on the imports of 2000. The import of passenger vehicles in 2004 was 3 times that of 2000. It came to 24.8% of the import of automotive products in 2004 compared to 16.5% in 2000. The MIDP, therefore,

can be regarded as trade facilitating in terms of the import of build-up vehicles.

6. While imported automotive components were 82% higher in 2004 than in 2000 that of imported original equipment components were 87% higher and equal to 54.5% of component imports in 2004. Germany and Japan are the dominant suppliers due to the impact of the MIDP on imports of OE components followed by the smaller European and Asian OEM's.

7. South African imports of automotive products from China are limited to components. Imports of components from China were almost 4 times that of 2000 in 2004 and equalled 3.1% of South African imports compared to 1.5% in 2000. This is a rapid increase from a small base that may continue to expand. (By excluding imports of original equipment components, imports from China can come to almost 7% of the remainder of South African component imports.)

8. China export more automotive components to South Africa than the latter export to China with a consequent positive balance for China amounting to US$ 177.8 million in 2004. Again, the South African import regime for automotive components seems not to deter newcomers to the market.

9. China's revealed comparative advantages in the trade in automotive components are extensive. The contents of Table 6.11 may be considered to pose a threat to the local industry and trade concessions to China are to be avoided.

7 TRADE FLOW ANALYSIS OF THE OFFENSIVE POSITION OF CHINA

7.1 Introduction

The offensive position as determined by trade flows is analysed by the following approach:

- An analysis of imports of automotive products by China from the world.
- An analysis of import growth of automotive products by China from the world.
- The revealed comparative disadvantages of China in automotive products.
- Exports of automotive products by South Africa to China.
- Revealed comparative advantages of RSA against China in automotive products.

A synthesis of the contents of this chapter and the previous ones appears in Chapter 8. In Chapter 8 the offensive position of South Africa in automotive products is formulated for the China -negotiations.

7.2 Data

The analysis of the exports of Automotive by China is undertaken at the 4-digit-level of the Harmonised System. Data is available for the period 2000 to 2004. Trade data was procured via Quantec from UN Commodity Trade Statistics Database (UN Comtrade). The data is in US$.

The size of the database renders it impracticable to provide it on hard copy. More detailed information than that appearing in this is available electronically on request.

7.3 Analysis

7.3.1 Product categories

Rapid advances in imported automotive products by China were recorded between 2000 and 2004. Overall imports as well as that of components increased 3 times on the 2000 level while that of passenger vehicles multiplied six times. The imports of passenger vehicles reached US$ 4.6 billion in 2004 equal to 8.7% of imported automotive products, up from 4.5% in 2004. The import of automotive components remained at more than 90% of imported automotive products.

Table 7.1 Imports of automotive products by China from the World 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Road tractors	21	23	55	73	90
Buses	98	93	86	75	57
Passenger vehicles	760	1261	2606	4438	4595
Vehicles for the transport of goods	97	120	260	417	393
Chassis fitted with engines	15	22	9	31	16
Bodies for vehicles	9	13	19	107	20
Components	15773	18664	23383	34654	47696
TOTAL	**16773**	**20196**	**26419**	**39794**	**52867**

7.3.2 Imported components according to 4HS Codes

A tendency towards concentration appears in the first three headings i.e. parts and accessories for motor vehicles; electric transformers, converters etc.; and electric accumulators whose combined share in imports increased from 23% in 2000 to 30% in 2004. At the other end of the scale the share of HS 3926 plastic products and 8501 electric motors and generators diminished.

Table 7.2 Chinese imports of automotive components.

HS4	Description	2000		2004	
		USD m	%	USD m	%
8708	Parts and accessories of the motor vehicles of headings nos.87.01 to 87.05.	1,120.9	7	4,403.2	11
8504	Electrical transformers, static converters (for example, rectifiers) and inductors.	1,529.3	10	4,164.0	11
8507	Electric accumulators, including separators therefor, whether or not rectangular (including square).	981.3	6	3,227.1	8
8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1 000 V	1,269.7	8	2,605.9	7
3926	Other articles of plastics and articles of other materials of headings nos. 39.01 to 39.14.	1,631.9	11	2,438.1	6
4011	New pneumatic tyres, of rubber.	737.1	5	2,124.0	5
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.	472.1	3	1,758.4	5
7326	Other articles of iron or steel.	704.1	5	1,723.1	4
8501	Electric motors and generators (excluding generating sets).	1,499.1	10	1,546.1	4
8544	Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors	396.0	3	1,169.6	3
8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this chapter.	380.5	2	1,072.8	3
7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.	338.7	2	903.1	2

HS4	Description	2000		2004	
		USD m	%	USD m	%
8415	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated.	320.3	2	869.5	2
8483	Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)	362.6	2	844.6	2
8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock.	441.3	3	838.4	2
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters.	164.4	1	757.5	2
7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel.	314.6	2	749.9	2
	Other	2,763.7	18	7,768.5	20
	TOTAL	15,427.4	100	38,963.8	100

7.3.3 Origin of imports

Sixty percent of Chinese automotive products are imported from Japan, Germany and Korea. Imports from the USA, Free zones and Other Asia account for another 23%

Table 7.3 Origin of imports of automotive products by China 2000 to 2004 ($million and percentage share)

Partner	2000		2004	
	USD m	%	USD m	%

Partner	2000		2004	
	USD m	%	USD m	%
Japan	5672	34	17284	33
Germany	2144	13	9184	17
Rep. of Korea	913	5	5039	10
USA	1604	10	4214	8
Free Zones	732	4	4069	8
Other Asia, nes	1636	10	3504	7
Other	4072	24	9574	18
TOTAL	**16773**	**100**	**52867**	**100**

7.3.4 Revealed comparative advantages

With China being a net importer of automotive products the list at which it is at a competitive disadvantage is extensive. Opportunities in the Chinese market may be found among the list of products in Table 7.4.

Table 7.4 The revealed comparative disadvantages of China in trade in automotive products

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this chapter.	6.7	6.6	28.3
8532	Electrical capacitors, fixed, variable or adjustable (pre-set).	5.1	5.4	27.8
8507	Electric accumulators, including separators therefor, whether or not rectangular (including square).	3.7	5	44.2
8501	Electric motors and generators (excluding generating sets).	5.6	3.4	12.5
8207	Interchangeable tools for hand tools whether or not power-operated or for machine-tools (for example for pressing, stamping, punching, tapping, threading, drilling, boring,	0.9	3.4	96.6

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
	broaching, milling, turning or screw driving)			
8466	Parts and accessories suitable for use solely or principally with the machines of headings nos.84.56 to 84.65, including work or tool holders, self opening dieheads, dividing heads and other special attachments for machine- tools...	5.4	3.3	16
8480	Moulding boxes for metal foundry; mould bases; moulding patterns; moulds for metal (excluding ingot moulds) metal carbides, glass, mineral materials, rubber or plastics.	6.3	3.1	6.1
8484	Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal; sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packing	3.1	2.4	22.5
8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1 000 V	2.3	2.4	30.1
8537	Boards, panels (incl. numerical control panels), consoles, desks, cabinets & other bases, equipped with two or more apparatus of heading no. 85.35 or 85.36, for electric control or the distribution of electricity	2.5	2.1	30
8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters.	2	2	35.6
9026	Instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases (for example, flow meters, level gauges, manometers, heat meters)	1.7	1.8	38.5
8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this chapter.	1.3	1.8	42.5

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
9032	Automatic regulating or controlling instruments and apparatus.	1.4	1.8	44.5
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.	1.4	1.7	41.7
8425	Pulley tackle and hoists (excluding skip hoists); winches and capstans; jacks.	1.7	1.6	31.8
7320	Springs and leaves for springs, of iron or steel.	1.7	1.6	35.2
8483	Transmission shafts (including cam shafts and crank shafts) and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)	1.4	1.5	40.9
8504	Electrical transformers, static converters (for example, rectifiers) and inductors.	1.5	1.5	41.5
7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.	1.6	1.5	33.4
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.	1.3	1.4	35.6
8538	Parts suitable for use solely or principally with the apparatus of heading no. 85.35, 85.36 or 85.37.	1.1	1.3	37.2
3926	Other articles of plastics and articles of other materials of headings nos. 39.01 to 39.14.	2	1.3	19.9
4016	Other articles of vulcanised rubber (excluding hard rubber).	1.3	1.2	32.8
4204	Articles of leather or of composition leather, of a kind used in machinery or mechanical appliances or for other technical uses.	3.4	1.1	-1.9
8409	Parts suitable for use solely or principally with the engines of heading no. 84.07 or 84.08.	1.3	1.1	34.8
8539	Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps; arc-lamps.	1.3	1	25.4

7.4 Exports of Automotive products by South Africa

7.4.1 Data

Customs data from the South African Revenue Services is used. The analysis is for the period 2000 to 2004. Data is analysed on the 4-digit-level of the HS. Exports are measured in US$. The Rand per $ conversion rates are as follows

6.9353

8.6031

10.5165

7.5647

6.449

7.4.2 Analysis

7.4.2.1 South African exports of automotive products to the world

Table 7.5 South African exports of Automotive to the world 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Road tractors	3	3	4	7	8
Buses	6	5	14	21	22
Passenger vehicles	1097	1390	1448	2158	2682
Vehicles for the transport of goods	145	151	184	205	163
Chassis fitted with engines	0	3	1	0	1
Bodies for vehicles	2	3	2	2	8
Components	1931	2281	2344	3055	3777
TOTAL	**3185**	**3836**	**3998**	**5447**	**6660**

Source: South African Customs and Excise

Exports of South African automotive products more than doubled between 2000 and 2004 to reach US$ 6.7 billion in 2004. The South African MIDP-

driven exports of automotive products are in passenger vehicles and components. The export share of passenger vehicles rose to 40.3% in 2004 compared with 34.4% in 2000 while that of components declined to 56.7% from 60.6% in 2000.

7.4.2.2 Component exports

The increase in the export of components was 96%. Rapid export growth was recorded in the trade in spark ignition engines and in parts thereof. 76% of South Africa's export of components is found in six 4HS headings with the export of catalytic converters 36% of the total

Table 7.6 Major South African automotive component exports 4HS headings US$ million

HS	DESCRIPTION	2000	2004
8421	Centrifuges etcetera (Catalytic converters.)	707.5	1342.5
8708	Parts and accessories for vehicles	340.9	598.2
9401	Seats	291.3	491.8
4011	Pneumatic Tyres	72.6	194.4
8409	Parts for 8407	52.3	134.2
8407	Spark ignition engines	7.8	105.3
	Others	458.6	910.6
	Total	**1931**	**3777**

7.4.2.3 Destination of South African automotive exports

The MIDP has a decisive impact on the destination of most of South Africa's automotive exports. Germany remains first in the destination stakes but its share dropped from 38% in 2000 to 21% in 2004. That of the UK increased from 10% in 2000 to 15% in 2004; Japan from 5% to 14%; the US from 9 to 10 %; and Australia from 5% to 10%. Although South Africa's destinations remain rather concentrated in that 60% of exports have only 10 different destinations a better balance came about among the 10.

Table 7.6 Destination of exports of automotive product by South Africa 2000 and 2004 (R million)

Partner	2000		2004	
	USD m	%	USD m	%
Germany	1220	38	1368	21
United Kingdom	303	10	999	15
Japan	160	5	962	14
United States	282	9	679	10
Australia	165	5	641	10
Spain	57	2	280	4
France	83	3	273	4
Belgium	116	4	113	2
Netherlands	28	1	96	1
Other	772	24	1249	19
TOTAL	**3185**	**100**	**6660**	**100**

Source: SARS

7.4.3 South African exports to China

7.4.3.1 Product Groups

Table 7.7 Exports of automotive products by South Africa to China: 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Vehicles for the transport of goods	0	0	0	0.66	0
Components	22.9	51.72	9.87	60.85	59.56
TOTAL	22.9	51.72	9.87	61.51	59.56

Source: SARS

Between 2000 and 2004 exports of components to China increased by 160%. The export of HS 8708 (parts and accessories) and 8421 (centrifuges etc/ catalytic converters) were responsible for 70% of component exports in 2004.

Table 7.8 Export of components by South Africa to China – 2004

Sub-group	HS4	Description	R'm	%
Components	3926	Other articles of plastics and articles of other materials of headings nos. 39.01 to 39.14.	0.04	0.1
Components	4011	New pneumatic tyres, of rubber.	0.11	0.2
Components	4016	Other articles of vulcanised rubber (excluding hard rubber).	0.11	0.2
Components	4205	Other articles of leather or of composition leather.	0.01	0
Components	7007	Safety glass, consisting of toughened (tempered) or laminated glass.	0.01	0
Components	7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel.	0.01	0
Components	7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.	0.92	1.5
Components	7326	Other articles of iron or steel.	0.34	0.6
Components	8409	Parts suitable for use solely or principally with the engines of heading no. 84.07 or 84.08.	2.56	4.3
Components	8413	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators.	0	0
Components	8414	Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters.	0.09	0.2
Components	8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.	15	25.2
Components	8466	Parts and accessories suitable for use solely or principally with the machines of headings nos.84.56 to 84.65, including work or tool holders, self opening dieheads, dividing heads and other special attachments for machine-tools...	1.95	3.3

Sub-group	HS4	Description	R'm	%
Components	8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this chapter.	9.11	15.3
Components	8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, including pressure-reducing valves and thermostatically controlled valves.	0.03	0
Components	8484	Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal; sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packing	0.09	0.2
Components	8511	Electrical ignition or starting equipment of a kind used for spark-ignition or compression-ignition internal combustion engines (for example, ignition magnetos, magneto-dynamos, ignition coils, sparking plugs and glow plugs, starter motors); generators (for example, dynamos, alternators) and cut-outs of a kind used in conjunction with such engines	0.13	0.2
Components	8525	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras	0.27	0.4
Components	8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock.	0.15	0.2
Components	8531	Electric sound or visual signalling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms) (excluding those of heading no.85.12 or 85.30)	0.04	0.1

Sub-group	HS4	Description	R'm	%
Components	8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1 000 V	0.05	0.1
Components	8537	Boards, panels, consoles, desks, cabinets and other bases, equipped with two or more apparatus of heading 85.35 or 85.36, for electric control or the distribution of electricity, including those incorporating instruments or apparatus of Chapter 90, and numerical control apparatus (excluding switching apparatus of heading 85.17)	0.11	0.2
Components	8543	Electrical machines and apparatus, having individual functions, not specified or included elsewhere in this chapter.	0.05	0.1
Components	8708	Parts and accessories of the motor vehicles of headings nos.87.01 to 87.05.	27.13	45.6
Components	9026	Instruments and apparatus for measuring or checking the flow, level, pressure or other variables of liquids or gases (for example, flow meters, level gauges, manometers, heat meters) (excluding instruments and apparatus of heading no. 90.14, 90.15, 9 0.28 or 90.32)	0.03	0
Components	9032	Automatic regulating or controlling instruments and apparatus.	0.61	1
Components	9401	Seats (excluding those of heading no.94.02), whether or not convertible into beds, and parts thereof.	0.59	1
TOTAL			59.55	100

7.4.3.2 Revealed comparative advantages

South Africa has a comparative advantage in a number of automotive products. They can be considered as candidates for an offensive list with regard to China.

Table 7.9 The revealed comparative advantages of South Africa in its trade in automotive products with China

HS4	Description	RCA SA export to China				
		2000	2001	2002	2003	2004
8466	Parts and accessories suitable for use solely or principally with the machines of headings nos.84.56 to 84.65, including work or tool holders, self opening dieheads, dividing heads and other special attachments for machine- tools...	0	0	0	0.02	14.75
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.	45.49	28.38	20.71	15.79	11.94
8708	Parts and accessories of the motor vehicles of headings nos.87.01 to 87.05.	0.05	0	0.56	2.68	3.3
8527	Reception apparatus for radio-telephony, radio-telegraphy or radio broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock.	0	0	0	0	2.07
8525	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras	0	15.63	146.26	3.25	1.41
8409	Parts suitable for use solely or principally with the engines of heading no. 84.07 or 84.08.	4.92	1.94	3.1	2.15	1.36
7318	Screws, bolts, nuts, coach-screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.	0	0	0.12	0.3	1.17
8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this chapter.	0	0.97	0.04	1.1	1.08
9401	Seats (excluding those of heading no.94.02), whether or not convertible into beds, and parts thereof.	0	0.88	0	0.22	1.04

7.5 Considerations

1. Rapid advances in the import of automotive products by China were recorded between 2000 and 2004. Overall imports as well as that of components increased 3 times on the 2000 level while that of

passenger vehicles multiplied six times. The imports of passenger vehicles reached US$ 4.6 billion in 2004 that brought the import of passenger vehicles to 8.7% of imported automotive products compared to 4.5% in 2004. The import of automotive components remained at more than 90% of imported automotive products.

2. A tendency towards concentration among component imports appears in the first three headings i.e. parts and accessories for motor vehicles; electric transformers, converters etc.; and electric accumulators whose combined share in imports increased from 23% in 2000 to 30% in 2004. At the other end of the scale the shares of HS 3926 plastic products and 8501 electric motors and generators diminished.

3. Sixty percent of Chinese automotive products are imported from Japan, Germany and Korea. Imports from the USA, Free zones and Other Asia account for another 23%

4. With China being a net importer of automotive products the list at which it is at a competitive disadvantage is extensive. Opportunities in the Chinese market may be found among the list of products in Table 7.4.

5. Exports of South African automotive products more than doubled between 2000 and 2004 to reach US$ 6.7 billion in 2004. The South African MIDP-driven exports of automotive products are in passenger vehicles and components. The export share of passenger vehicles rose to 40.3% in 2004 compared with 34.4% in 2000 while that of components declined to 56.7% from 60.6% in 2000.

6. The increase in the export of components was 96%. Rapid export growth was recorded in the trade in spark ignition engines and in parts thereof. 76% of South Africa's export of components is found

in six 4HS headings with the export of catalytic converters 36% of all component exports.

7. The MIDP has a decisive impact on the destination of most of South Africa's automotive exports. Germany remains first in the destination stakes but its share dropped from 38% in 2000 to 21% in 2004. That of the UK increased from 10% in 2000 to 15% in 2004; Japan from 5% to 14%; the US from 9 to 10 %; and Australia from 5% to 10%. Although South Africa's destinations remain rather concentrated in that 60% of exports have only 10 different destinations a better balance came about among the 10.

8. Between 2000 and 2004 exports of components to China increased by 160%. The export of HS 8708 (parts and accessories) and 8421 (centrifuges etc. catalytic converters) were responsible for 70% of component exports in 2004.

9. South Africa has a comparative advantage in a number of automotive products that appear in Table 7.9. They can be considered as candidates for an offensive list with regard to China.

8 SYNTHESIS AND RECOMMEDATIONS

8.1 General

CROSS CUTTING THREATS AND OPPORTUNITIES

The cross cutting threats and opportunities as they also apply to the automotive sector are:

THREATS

1. The Chinese economic system in transition from a communist to a socialist market economy. Pockets of the economy are “marketised” but a mixture of market conditions and state intervention apply in many others. The automotive industries are generally described as marketised, but SOEs still play a major role in this sector. WTO membership imposes requirements for China to become fully market orientated.

2. There is intensive involvement by the state (central, provincial and local) in capital formation. Industries are empowered with direct financing, preferential interest and tax rates and favourable financing of target industries, of which the automotive industry is one.

3. Banks are state controlled and they are bailed out when bad debts become a burden.

4. Chinese government officials intervene in the economy in a way inconsistent with market principles. Subsidies are non-transparent. Irrational investment practices lead to the creation of unsustainable excess capacity while pricing becomes non-transparent and divorced from market discipline because of interventions and support. Although China is obliged to do away with trade related investment measures, progress seems to be slow.

5. The undervalued Chinese currency contributes considerably to competitiveness in international markets.

6. Non tariff barriers and bureaucracy prevail that discourages trade.

7. The Chinese authorities are inclined towards the application of WTO trade remedies.

8. Despite a willingness to comply with WTO requirements, contravention of intellectual property rights remains a huge problem.

9. Penetration of Chinese exports into the South African market is rapid. This questions the need for preferences as implied by a bilateral trade agreement.

10. The Chinese economy is 9 times South Africa's and its population 28 times. The difference in capacity to trade is to China's advantage.

11. The applied tariff rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. NAMA introduces a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature.

12. The cross cutting threats should make South Africa extremely careful in the negotiation of a trade agreement with China at least until such time as it fully complies with WTO obligations and the exchange rate has become market related.

OPPORTUNITIES

13. Sustained high growth in economy makes China a prominent modern day wealth creator. China will soon advance from the 7th to the fourth 4th largest market in the world.

14. South Africa is to share in the prosperity that generated by the Chinese economy.

15. Rapid growth gives rise to supply shortages that can be taken advantage of by South African exporters.

SECTOR SPECIFIC ISSUES

16. The Chinese Government sees a domestically-owned automotive industry as a key-stone of its economic development plans. It sees the automotive sector as a politically and economically strategic industry. For more than a decade, the Chinese Government has made it clear that it wants to develop an independent automotive industry capable of developing its own technology and Chinese owned companies able to compete globally with the major international players.

17. The 11th Five-Year Plan map out the following blueprint for development by 2010:

- The auto industry will contribute more than five percent to China's GDP;
- China will become the world's third largest automobile manufacturing country after the U.S. and Japan;
- Total export value of automotive products will exceed $50 billion;
- Several large automobile groups in China will become Fortune 500 companies and compete internationally.

18. China's proven recipe for empowering key industries relies on six industrial policy tools and incentives comprising the following package: central government financing and planning; direct

government financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means.

19. Stakeholders in the South African automotive industry strive to establish a viable, competitive industry locally and internationally, capable of achieving both continuous growth and sustainable job creation. The instrument for achieving this vision is the MIDP which is aimed to develop an internationally competitive and growing automotive industry that would be able to achieve its objectives by the following:

- encouraging a phased integration into the global automotive industry;
- increasing the volume and scale of production by the expansion of exports and gradual rationalisation of models produced domestically; and
- encouraging the modernisation and upgrading of the automotive industry in order to promote higher productivity and facilitate the global integration process.

20. The major policy instruments to achieve these objectives have been:

- a gradual and continuous reduction in tariff protection so as to expose the industry to greater international competition;
- the encouragement of higher volumes and a greater degree of specialisation by allowing exporting firms to earn rebates of automotive import duties; and
- the introduction of incentives designed to upgrade the capacity of the industry in all spheres.

21. The MIDP has proved to be successful in achieving its aims over the past decade and is to remain in force to 2012. Trade agreements with other countries should not be allowed to jeopardise the MIDP. The South African automotive industry is still evolving

and restructuring. New variables should not be brought into the equation.

22. The MIDP is trade facilitating and in the past number of years imports increased significantly more than the supply from local production in terms of sales into the domestic market and compared with South African exports. The existing protective regime of the South African automotive industry leaves ample scope for newcomers to penetrate the local market.

23. All the top MNC international vehicle assemblers (OEMs) are established in China in the form of joint-ventures. The OEMs in South Africa are also established in China. In South Africa the OEMs are the drivers of the MIDP while in China their actions are influenced by their JV partners. In some cases the Chinese interest in the JVs are SOEs.

24. Although the assembly sector is still dominated by foreign-Chinese JVs, a large number of domestic Chinese companies have also established assembly operations. It is expected that at least some of the new, home-grown Chinese carmakers will make substantial inroads into the Chinese market and eventually world markets.

25. Most of the world's major Tier 1 suppliers have set up facilities in China. While assemblers are limited to 50% foreign ownership of plants designed to serve the domestic market, there are no restrictions on foreign investment for component manufacturing. This is an obvious sign that the Chinese Government’s current focus is to stimulate investment in component manufacture.

8.2 Defensive position

26. The China Automotive Industry Development Policy covers a wide range of aspects and interventions. Of particular importance are policy objectives which clearly shows the Chinese government’s

ambitions for the industry to become a major international player; investment management applied to new projects (including the minimum of 50% local interest in assembly); and import management which includes a new measure to promote domestic component production and the designation of only four ports for the importation of new vehicles.

27. China applies various tax and import concessions that benefit the automotive sector. The undervaluation of the currency is a huge subsidy to industry. Independent R&D and product development in the automobile sector and independently owned brands and vehicle models are important objectives.

28. The massive investments in the industry by international and domestic Chinese automotive assemblers are based on the huge market which is growing at a fast pace in line with China's economic growth and on investors seeing China as a low cost production base. The huge Chinese domestic market means that Chinese companies will be able to leverage large economies of scale, enabling them to produce at very low cost.

29. Although the focus of attention in regard to the automotive industry in China is on vehicle assembly, component production is growing rapidly and is due to be further stimulated by recent changes in the Governments automotive policy. The new legislation in regard to import duties on certain configurations of component imports, which will be subject to full CBU duties, is likely to further boost domestic component production as it is indeed intended to do, although the authorities are citing 'customs duties avoidance'.

30. Although Chinese companies will need access to foreign technology and managerial expertise for sometime to come, they are moving quickly to develop an indigenous capability. Trademark infringements by independent domestic producers seem to be a

frequent occurrence. Design piracy has been a major feature of the development of the domestic independent Chinese manufacturers.

31. Currently China has more than 5 800 automotive enterprises with total assets of over Y1 trillion. There are about 180 assembly plants. There are about 60 individual passenger vehicle assemblers. Total vehicle production reached 5.7 million units in 2005, up 12.5% on a year earlier. 3.8m of these were passenger vehicles, up 26.9% on a year earlier. The South African production for 2004 was 455 702 vehicles and during 2005, 525 271 vehicles. The South African passenger vehicle production in 2005 reached 324 875 units.

32. In 2003 international groups had 24 foreign joint-ventures with an annual production capacity of about 2 590 000 cars. There were also 11 major independent domestic car makers with a combined production capacity of about 1 625 000 cars. About 50 Chinese firms manufacture trucks. Their combined production in 2005 was about 1 147 000 trucks. In 2005 China produced about 170 000 buses.

33. Passenger cars are the major force behind the growth of China's automobile industry. Small-displacement and fuel-saving models became the mainstream demand in the market. A total of 35 passenger vehicle models are scheduled to be launched in 2006 in China of which 40% will be original Chinese models. The number of small car models to be launched in 2006 will increase from 9 in 2005 to 12 in 2006.

34. Despite the expected strength of car sales, there are growing concerns that the sector could face a crippling surplus capacity. Capacity utilization among foreign-owned car manufacturers was around 65% in 2003 and among domestic car manufacturers just 40%, less than half the 85% generally accepted as the level needed

for car production to be profitable. In spite of this, investments to increase capacity are continuing.

35. The China Association of Automobile Manufacturers (CAAM) is forecasting sales and production to grow 12% in 2006, slightly lower than in 2005. Passenger vehicle production is projected to grow from 3.8 million in 2005 to 7.3 million in 2013, an increase of 92% over eight years.

36. Both assembly and component manufacturing are currently mainly focused on the domestic market, in view of the size and pace of increase in the market. Exports of vehicles are low and exports of components are mainly aftermarket parts. This may change within the next few years as a result of overcapacity being created, the cost advantages of the Chinese industry, improvements in quality, the supportive policies of the State and the roll out of the Automotive Development Plan.

37. According to official automotive industry sources, 2.2 million people are employed in the Chinese auto manufacturing sector. By comparison, the South African automotive manufacturing industry employs about 116 000 people. Indications are that Chinese productivity levels are relatively high and rising. Chinese labour rates are probably about 25% of South African rates while the real interest rate in China is calculated at 1.48% compared to South Africa's 6.2%.

38. China is not yet a major exporter of automotive products. China became a net vehicle exporter for the first time in 2005. In total the country exported 172,800 cars in 2005, up 120% on a year earlier. Imports reached 161,900 units. Vehicle exports consist mostly of low-priced commercial vehicles to developing countries, including Africa, while component exports are mainly aftermarket parts. The main reasons for this are probably the pace of growth in domestic

demand and that Chinese products are generally not yet of a quality suitable for developed countries and, in the case of components, for OE assembly. However, this is expected to change within the next few years. Production overcapacity that is developing may lead to the export of surpluses at very low prices. This will particularly affect international aftermarket parts and accessories markets and eventually OE markets.

39. Analysts refer to ‘irrational investment’ by Chinese enterprises. This apparently has been a common occurrence in many sectors where investments are made without any regard to normal business investment principles. This is also referred to by an official as ‘blind’ investment. This practice leads to overproduction that is accompanied by price cuts and could lead to the distortion of international markets.

40. According to sources in the Chinese automotive industry, firms are following a ‘non-sustainable business model’ based on an irrational pricing model that is only sustained due to the continued support by local governments for private investment in their regions. It is feared that the ‘national brand’ final assemblers are also following an irrational pricing model. At the moment the brand power of the global brands is still high enough to prevent a major loss of domestic market share. It is suspected that the ‘national brands’ are receiving significant financial support and/or long-term guarantees to maintain an unsustainably low-price business model to aggressively gain market share in the domestic market and eventually international markets.

41. Some of the Chinese independent passenger vehicle producers such as Chery and Geely are already planning to enter export markets such as the US market on a large scale with their low priced small vehicles.

42. The international trade in automotive products of China is about 5-6 times the size of South Africa's. Imports by China increased faster than exports between 2000 and 2004. Based on the analysis of trade in the 4-digit tariff headings included in this study, both countries had substantial balance of trade deficits in automotive products in 2004. South African imports from China under these headings increased by almost 300% over the four years, with a consequent positive balance for China amounting to US$ 177.8 million in 2004. According to official sources, China became a net exporter of dedicated automotive products in 2005.

43. Exports of automotive products by China are concentrated in components. Exports of components under HS 8708 i.e. parts for automotive vehicles, were almost 4 times higher at US$ 4.4 billion in 2004 than in 2000. The headings with an electrical content are prominent among exports. China's exports of automotive products to the USA, Hong Kong and Japan represent 54% of the total. They are followed by Korea and Germany that import 4% each of China's export of automotive products.

44. South African imports of automotive products from China are limited to components. Imports of components from China were almost 4 times that of 2000 in 2004 and equalled 3.1% of South African imports compared to 1.5% in 2000. This is a rapid increase from a small base that may continue to expand.

45. According to the South African industry, imports of certain aftermarket parts from China are already having an impact on the domestic market and industry. According to recent press reports, a major domestic vehicle distributor is to start importing low priced small vehicles from China during 2007.

46. China's revealed comparative advantages in the trade in automotive components are important. The contents of Table 6.11 may be

considered to pose a threat to the local industry and trade concessions to China are to be avoided.

47. The South African automotive manufacturing is a growth sector amongst the manufacturing industries and the economy at large. The industry is becoming more important among manufacturing sectors in terms of fixed investment, production and exports. It is an important destination of foreign direct investment. More importantly, however, is the progressive integration of local automotive manufacturing into the global industry.

48. The automotive sector is important in the socio-economic fabric of the manufacturing. It started to generate new work places in the past couple of years. While it employs 6.9% of the manufacturing labour force it pays 8.9% of labour remuneration. Growth in labour remuneration is faster than the average for manufacturing.

49. To the extent that global positioning of local automotive manufacture is still to evolve fully as the MIDP runs its course, it will be prudent for any trade agreement that may involve automotive manufacturing not to interfere with its objectives and mechanisms. Such agreements should only be contemplated in the event that they add additional value over and above the outcomes of the MIDP. This is even more important in the case of China whose automotive industry benefits from massive state support, an undervalued currency and irrational pricing models of its national brands subsidised by state governments.

50. In view of

- The very high growth rate and the competitiveness of the Chinese automotive industry as well as its sheer size, compared to the South African industry, and its economies of scale
- The undervaluation of the Chinese currency

- Extensive incentives and other support measures to the Chinese industry by the central and provincial governments
- Chinese policy measures aimed at the development of the industry to a major international player, including the development of domestic technology and independent brands, and the 'local content' measure that will provide huge encouragement for further growth in component production
- The apparent irrational investment and non-sustainable business models of Chinese automotive firms
- The surplus capacity that has been created and is bound to increase which will lead to a fast increase in exports at prices that no other country would be able to match
- The importance of the automotive sector to South Africa and the need not to jeopardise the development of the industry and the integrity of the MIDP
- The possibility of very substantial reductions in MFN automotive tariffs by South Africa under NAMA if the Doha Round is successfully concluded,

the conclusion is that South Africa should not agree to tariff preferences to China in respect of automotive products under the proposed trade agreement between SACU and China.

8.3 Offensive position

51. China is now the third largest vehicle market in the world, with total sales of 5.92m vehicles in 2005, up 15% on 2004. It is predicted that China's market demand in 2010 will reach 10 million units and that number will double by 2020. China's automobile parc will hit 50 million units by 2010 and 140 million by 2020. It is envisage that domestic independent development will be the cornerstone of future growth.

52. The international trade in automotive products of China is about 5-6 times the size of South Africa's. Imports by China increased faster

than exports between 2000 and 2004. Both countries had substantial balance of trade deficits in automotive products in 2004

53. Rapid advances in the import of automotive products by China were recorded between 2000 and 2004. Overall imports as well as that of components increased 3 times on the 2000 level while that of passenger vehicles multiplied six times. The imports of passenger vehicles reached US$ 4.6 billion in 2004 that brought the import of passenger vehicles to 8.7% of imported automotive products compared to 4.5% in 2004. The import of automotive components remained at more than 90% of imported automotive products.

54. A tendency towards concentration among component imports appears in three headings i.e. parts and accessories for motor vehicles; electric transformers, converters etc.; and electric accumulators whose combined share in imports increased from 23% in 2000 to 30% in 2004.

55. Sixty percent of Chinese automotive products are imported from Japan, Germany and Korea. Imports from the USA, Free zones and Other Asia account for another 23%

56. Exports of South African automotive products more than doubled between 2000 and 2004 to reach US$ 6.7 billion in 2004. The South African MIDP-driven exports of automotive products are in passenger vehicles and components. The export share of passenger vehicles rose to 40.3% in 2004 compared with 34.4% in 2000 while that of components declined to 56.7% from 60.6% in 2000.

57. The increase in the export of components was 96% between 2000 and 2004. Rapid export growth was recorded in the trade in spark ignition engines and in parts thereof. 76% of South Africa's export

of components is found in six 4HS headings with the export of catalytic converters 36% of all component exports.

58. In terms of an offensive position the trade facilitating attributes of the MIDP are found in the export of components by the OEM's to foreign destinations in their strategies to best benefit from the prescriptions of the MIDP. The MIDP has a decisive impact on the destination of most of South Africa's automotive exports. South Africa's export destinations remain rather concentrated in that 60% of exports have only 10 different destinations.

59. South Africa has a revealed comparative advantage in a number of automotive products that appear in Table 7.9. They can be considered as candidates for an offensive list with regard to China.

60. However, entry into the Chinese market will prove very difficult. Some of the tariffs are still high while a range of NTBs are effective deterrents to imports. Many of them are embedded in the Chinese Automotive Development Plan:

i. Although China's rates in respect of components are to be reduced to 10%, in terms of new regulations certain configurations of component and subassembly imports are regarded as whole vehicles and therefore subject to a minimum 28% tariff (25% from July 2006) instead of 10%. The auto industry sees this regulation as 'domestic content' policy. This is when a policy discriminates against imports in favour of domestically produced goods for the purpose of supporting the local industry. A 'domestic content' policy is a violation of WTO rules on Trade Related Investment Measures (TRIMs).

ii. New fuel consumption regulations of 1 July 2005 set a limit on the fuel that vehicles of different weight classes are allowed to consume. As the limit values are more stringent for high-performance and heavier cars – a segment where only imported

cars are currently offered - this would amount to a trade barrier for a number of foreign manufacturers.

iii. Support for the Chinese automotive sector in the following areas:

- Support for foreign invested JVs:

This includes that reduced 15% corporate income tax. (Which will be phased out over the next few years), tax exemptions for 2 yrs and reduced for 3 years thereafter in many IDZs; various fixed investment and re-investment of profits tax incentives and reduced municipal rates.

- Industrial policy indirect subsidies:

Debt write-offs and infrastructure funding from Beijing could filter into 'hidden' subsidies for the North east automotive industry. State-supported institutes is also taking over the R&D side of the automotive sector development and thus assisting the final assemblers on the bottom line.

- Non-sustainable business model of producers:

According to sources in the auto industry, Chinese businesses are not being run on a sustainable basis. Apparently this is not only an SOE problem. Ownership structures are not clear and this allows management to use political connections to run companies with special support from politicians at the provincial and municipal levels where a lack of control allows them to heavily 'subsidize' private companies through cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through other 'private' funding institutions; waiving various local taxes and assisting to reduce national taxes.

61. Irrational or ‘blind’ investment by Chinese enterprises, where investments are made without any regard to normal business principles, has been a common occurrence. This practice leads to overproduction that is accompanied by price cuts and is likely to lead to distortions in international markets.

62. China’s “China Compulsory Certification” (CCC) mark system is a difficult, time-consuming and costly process. CCC regulations make it necessary to both repeat a number of tests and to provide test vehicles and components even when the stringent requirements of UN/ECE (international standards) are fulfilled. The procedure, as well as China's national requirements, is not in line with international standards, leading to delays and additional costs for importers. This has been confirmed by South African tyre manufactures.

63. In the automotive sector, various testing bodies have been granted certification authority. Despite China’s WTO commitment that qualifying foreign-owned conformity assessment bodies would be eligible for accreditation, China has yet to grant accreditation to any foreign-invested enterprises.

64. Tariff concessions may not be of much help in exporting automotive components to China. The complicated sets of the regulations, incentives and disincentives that constitute the Chinese import policy for automotive products are the real hurdles to overcome.

65. There is general acknowledgement and growing concerns that the Chinese automotive sector is facing a crippling surplus capacity problem in respect of vehicles. Capacity utilization among foreign-owned car manufacturers was around 65% in 2003 and among domestic car manufacturers just 40%, less than half the 85% generally accepted as the level needed for car production to be profitable. In spite of this, investments to increase capacity are continuing.

66. Therefore, although the Chinese automotive product market is growing at a rapid rate, the current oversupply of vehicles and low capacity utilization is a major deterrent for exporting vehicles to China. This has led to extreme competition and substantial price reductions. The sharp expansion in China's component production including continued investment by MNC Tier 1 suppliers and the 'local content' policy that supports localization of component production will limit sustainable export growth of components to China.

67. According to NAAMSA, South Africa exported about 1 900 large/luxury vehicles to China during 2005. This is the area where an export opportunity currently exists as Chinese car production is concentrated in the small and medium vehicle categories. However, this opportunity is not expected to last as Chinese assemblers are to move into this segment.

68. It can be expected that the MNC OEMs in South Africa would be the drivers for South African automotive exports to China. A list of concessions to be requested from China should be compiled in close co-operation with the OEMs and component manufacturers based on the lists of products that appear in Tables 7.9 (revealed comparative advantages of South Africa relative to China in automotive trade), 7.4 (revealed comparative disadvantages of China) and 7.6 (South Africa's major automotive export products). Since these lists are only indicative it would not be appropriate for consultants to try to prepare such a list on their own. Large cars can also be considered.

69. However, it is not expected that a substantial and sustainable growth in automotive products to China will be achieved through tariff preferences under a trade agreement.

8.4 Overall conclusions and recommendations

General

70. The most prominent conclusions and impressions from this study are:

- The importance attached to the automotive industry by the Chinese government; support for the industry and in particular independent domestic investors; and extensive government intervention.
- The size and massive growth in the market and the industry. However, the vehicle market is oversupplied which has lead to substantial price reductions.
- Government support for the localisation of component sourcing.
- Non-sustainable business models in the automotive industry and irrational investment.
- The existence of substantial NTBs.

Defensive:

71. In view of

- The very high growth rate and the competitiveness of the Chinese automotive industry as well as its sheer size, compared to the South African industry, and its economies of scale
- The undervaluation of the Chinese currency
- Extensive incentives and other support measures to the Chinese industry by the central and provincial governments
- Chinese policy measures aimed at the development of the industry to a major international player, including the development of domestic technology and independent brands, and the 'local content' measure that will provide huge encouragement for further growth in component production
- The apparent irrational investment and non-sustainable business models of Chinese automotive firms

- The surplus capacity that has been created and is bound to increase which will lead to a fast increase in exports at prices that no other country would be able to match
- The importance of the automotive sector to South Africa and the need not to jeopardise the development of the industry and the integrity of the MIDP
- The possibility of very substantial reductions in MFN automotive tariffs by South Africa under NAMA if the Doha Round is successfully concluded,

the conclusion is that South Africa should not agree to tariff preferences to China in respect of automotive products under the proposed trade agreement between SACU and China.

Offensive:

72. Although the Chinese automotive product market is huge and is growing at a rapid rate, the current oversupply of vehicles and low capacity utilization is a major deterrent for exporting vehicles to China. The sharp expansion in China's component production and the 'local content' policy that supports localization of component production will limit sustainable export growth of components to China.

73. It can be expected that the MNC OEMs in South Africa would be the drivers for South African automotive exports to China. A list of concessions to be requested from China should be compiled in close co-operation with the OEMs and component manufacturers.

74. It is not expected that a substantial and sustainable growth in automotive products to China will be achieved through tariff preferences under a trade agreement.

The negotiations:

75. In view of China's targets for the development of its automotive sector with export growth as a major element, it could be expected the China will request tariff preferences on both vehicles and components/parts in trade negotiations. The creation of export opportunities for automotive products is obviously also be an objective for South Africa.

76. The first prize for South Africa would be to obtain tariff preferences for automotive exports to China without having to grant preferences in respect of imports from China.

77. If this is not acceptable to China, the fall-back position should be to exclude automotive products from the agreement.

ANNEX A

China's Passenger Car Production by Manufacturer

	Jan - Oct 2005
SAIC-GM-Wuling Automobile Co., Ltd.	233,648
Shanghai Volkswagen Automotive Co., Ltd.	201,666
FAW-Volkswagen Automotive Co Ltd.	197,895
Guangzhou Honda Automobile Co., Ltd.	192,277
Changan Automobile(Group) Liability Co., Ltd.	190,628
Beijing Hyundai Motor Co.	187,876
Shanghai General Motors Co., Ltd.	179,456
Tianjin FAW Xiali Automobile Co.,Ltd.	161,913
Hafei Motor Co., Ltd.	156,202
Chery Automobile Co., Ltd.	146,687
Dongfeng Nissan Motor Co., Ltd.	128,725
Dongfeng Peugeot Citroën Automobile Co., Ltd.	114,040
FAW Toyota Motor Sales Co., Ltd.	101,702
Geely Zhejinag Haoqing Auto Company Limited	91,791
Dongfeng Yueda KIA Motors Co., Ltd.	87,281
Chongqing Chang'an-Suzuki Automobile Co., Ltd.	74,711
Jiangxi Changhe Automobile CO.,LTD	73,231
Shanghai GM Dongyue Motors Co. / Shanghai GM Dongyue Automobile Co., Ltd.	68,437
FAW-Hainan Automobile Co., Ltd.	60,333
Nanjing Changan Automobile Co.,Ltd	52,651
FAW Car Co., Ltd.	45,283
Changan Ford Automobile Co. Ltd	41,917
China FAW Group Corporation	39,329
Soueast Fujian Motor Corp	36,120
Yuejin Motor (Group) Corporation	31,324
Anhui Jianghuai Automobile Co., Ltd.	26,404
Great Wall Automobile Holding Co.,Ltd.	23,250
Dongfeng Honda Automobile (Wuhan) Co., Ltd.	20,062
Hunan Changfeng Motor Co.,Ltd.	19,816
Dongfeng Motor Corporation	19,765

Beijing Benz-DaimlerChrysler Automotive Co., Ltd.	19,570
Shanghai GM (Shenyang) Norsom Motors Co., Ltd.	18,890
Shanghai Maple Guorun Automobile Co. Ltd.	18,709
Shengyang Brilliance Automotive Co., Ltd.	17,203
Jiangling Motors Holding Co.,Ltd.	14,174
Beijing Automobile Manufacturing Factory Co.,Ltd.	10,538
Binzhou Gonow Qiche Co., Ltd.	9,488
BYD Auto Co., Ltd.	8,345
Zhengzhou Nissan Automobile Co., Ltd.	7,384
Hebei Zhongxing Automobile Co., Ltd.	6,550
Rongcheng Huatai Automobile Co., Ltd.	3,804
Hunan Jiangnan Automobile Manufacturing Co., Ltd.	2,900
Tianjin Tianqi Group Meiya Automobile Manufacturing Co., Ltd.	1,587
Beiqi Foton Motor Co., Ltd.	1,239
Yizheng factory, Shanghai Automotive Co.Ltd.	1,129
Chengdu XinDaDi Automobile Co.,Ltd	1,106
FAW-Hongta Yunnan Automobile Co., Ltd.	1,095
Qingling Moters (Group) Co.,Ltd	677
Shaanxi Aircraft Industry Group Company Ltd.	659
Jilin Tongtian Automobile Co.,Ltd.	530
Shenyang Fusang Heibao Automobile Co.,Ltd	490
Jiangxi Hua Xiang Fuqi	337
Sichuan Automobile Industry Group Co., Ltd.	302
FAW Huali (Tianjin) Motor Co.,Ltd.	300
Zhongyu Automobile Co., Ltd	215
Zhejiang Feidie Bus Manufacturing Co., Ltd	131
Jiangxi Fire Truck Manufactory	36
TOTAL	3,151,808

Source: FOURIN China Auto weekly. (FOURIN is the authorized publisher of China Association of Automobile Manufacturers (CAAM) data).

China's Truck Production by Class and Manufacturer

	Jan.-Oct. 2005
TOTAL NUMBER OF TRUCKS	956,261
(1)Heavy Trucks	54283
Dongfeng Motor Corporation	15204

Beiqi Foton Motor Co., Ltd.	9572
China FAW Group Corporation	8254
China National Heavy-Duty Truck Group Co. Ltd.	6043
Shaanxi Automobile Group Co.,Ltd	4357
Baotou North-Benz Heavy-duty Truck Co., Ltd.	3918
Hubei Sanhuan(Group) Shitong SpecialVechicle Company	2893
Anhui Jianghuai Automobile Co., Ltd.	721
Chengdu Wangpai Motor Co., Ltd.	561
Chongqing Tiema Industry Co.,	523
Changzheng Automobile Manufacturing Factory	472
Zhengjiang Automobile Manufacturing Co., Ltd.	441
Chongqing Hongyan Motor(Group) Co.Ltd	403
Chunlan Auto Manufacturing Co., Ltd	229
Shanghai Huizhong Automotive Co. Ltd.	186
Yuejin Motor (Group) Corporation	153
Hanyang Special Auto Works	150
Sichuan Yinhe Automobile (Group) Co., Ltd.	99
Chengdu XinDaDi Automobile Co.,Ltd	54
Qingling Moters (Group) Co.,Ltd	41
China Yituo Group Corporation Limited	5
Shanxi Auto Industry, Group Co Ltd	4
Hunan Xingma Automobile Co.	0

(2)Medium Trucks	104629
Dongfeng Motor Corporation	24290
China FAW Group Corporation	23345
Anhui Jianghuai Automobile Co., Ltd.	11543
Sichuan Yinhe Automobile (Group) Co., Ltd.	10176
Chengdu Wangpai Motor Co., Ltd.	9741
Shaanxi Automobile Group Co.,Ltd	5917
Hebei Changan Bus Company Ltd.	4993
Beiqi Foton Motor Co., Ltd.	4966
Hubei Sanhuan(Group) Shitong SpecialVechicle Company	4324
Huayuan Kaima Vehicle Co.,Ltd	2261
Yuejin Motor (Group) Corporation	1534
Qingling Moters (Group) Co.,Ltd	673

Hanyang Special Auto Works	266
Zhengjiang Automobile Manufacturing Co., Ltd.	170
Chengdu XinDaDi Automobile Co.,Ltd	159
Chunlan Auto Manufacturing Co., Ltd	111
FAW-Hongta Yunnan Automobile Co., Ltd.	105
Shanxi Auto Industry, Group Co Ltd	48
China National Heavy-Duty Truck Group Co. Ltd.	7

(3)Light Trucks	614189
Beiqi Foton Motor Co., Ltd.	220660
Anhui Jianghuai Automobile Co., Ltd.	60861
Jiangling Motors Holding Co.,Ltd.	39716
Yuejin Motor (Group) Corporation	38307
Dongfeng Motor Corporation	34195
Huayuan Kaima Vehicle Co.,Ltd	33621
Great Wall Automobile Holding Co.,Ltd.	31444
FAW-Hongta Yunnan Automobile Co., Ltd.	25489
Zibo Auto Factory	18811
Qingling Moters (Group) Co.,Ltd	17710
Shengyang Brilliance Automotive Co., Ltd.	16914
China FAW Group Corporation	15417
Beijing Automobile Manufacturing Factory Co.,Ltd.	12920
Zhengzhou Nissan Automobile Co., Ltd.	10984
Shenyang Fusang Heibao Automobile Co.,Ltd	10331
Changan Automobile(Group) Liability Co., Ltd.	8543
Sichuan Yinhe Automobile (Group) Co., Ltd.	4456
Guangzhou Yangchen Automobile Co.	4334
Chengdu Wangpai Motor Co., Ltd.	3833
Fuzhou New Forta Auto Industry Co., Ltd.	1374
Yantai Automobile Factory	1051
Chongqing Jialing Special Equipment Co., Ltd.	920
Jiangxi Hua Xiang Fuqi	767
Hubei Sanhuan(Group) Shitong SpecialVechicle Company	531
Hebei Changan Bus Company Ltd.	480
Hunan Automobile Manufacturing Co., Ltd.	229
Zhengjiang Automobile Manufacturing Co., Ltd.	159

Tianjin Tianqi Group Meiya Automobile Manufacturing Co., Ltd.	89
Yunnan Jinma Agricultural Vehicle Manufacturing Factory	41
Hanyang Special Auto Works	2

(4)Mini Trucks	183160
Changan Automobile(Group) Liability Co., Ltd.	60266
SAIC-GM-Wuling Automobile Co., Ltd.	29603
Hafei Motor Co., Ltd.	24167
Jiangxi Changhe Automobile CO.,LTD	16593
Hebei Zhongxing Automobile Co., Ltd.	13900
China FAW Group Corporation	13302
Shenyang Fusang Heibao Automobile Co.,Ltd	9574
Fujian New Longma Automotive Co., Ltd.	6764
Shengyang Brilliance Automotive Co., Ltd.	4424
Binzhou Gonow Qiche Co., Ltd.	2061
Geely Zhejinag Haoqing Auto Company Limited	1209
Nanjing Changan Automobile Co.,Ltd	724
Jiangxi Fire Truck Manufactory	241
Yuejin Motor (Group) Corporation	237
Dongfeng Motor Corporation	65
Hebei Changan Bus Company Ltd.	30

Source: FOURIN China Auto weekly. (FOURIN is the authorized publisher of China Association of Automobile Manufacturers (CAAM) data).

ANNEX B

Dedicated Auto Products Export Value for 2005 according to China official sources (based on exports January to October 2005) US$

Item	Total: 12 months	India: 12 months	SA: 12 months	UK: 12 months	Brazil: 12 months	USA: 12 months
New pneumatic tyres for motor cars	97,314,428	462,911	1,139,784	6,687,569	1,037,003	46,134,275
New pneumatic tyres for buses or lorries	175,124,736	6,062,971	1,740,720	2,936,600	2,551,276	77,907,127
New pneumatic tyres for motorcycles	2,865,032	1,316	4,384	12,308	0	400,614
Retreaded or used pneumatic tyres for motor cars	110,290	0	0	0	0	0
Retreaded or used pneumatic tyres for buses or lorries	315,449	0	0	0	80,496	0
Retreaded or used pneumatic tyres for motor vehicles	2,118	0	0	0	0	0
Retreaded or used pneumatic and solid tyres for motor vehicles	1,123,136	46,584	5,512	0	770	323,414
Inner tubes for motor vehicles	7,472,507	195,583	85,736	4,399	319,693	844,896
Tempered safety glass for vehicles, aircraft, spacecraft or vessels	5,709,452	1,986	47,729	107,822	24,418	576,953
Laminated safety glass for vehicles, aircraft, spacecraft or vessels	22,224,928	167,177	748,526	703,432	54,938	7,590,136
Rear-view mirrors for vehicles	3,001,885	62,677	4,302	25,176	41,086	692,484
Roller chains for motorcycles	3,724,373	250,404	10	20,638	698,604	1,819
Leaf-springs for vehicles	822,427	0	32,275	0	0	83,064
Central controlled door locks	2,532,149	1,920	9,384	3,000	118,111	23,800
Other locks	8,093,809	49,633	197,074	43,237	393,661	715,439
Other mountings, fittings and similar articles suitable for motor vehicles	1,420,976	0	1,586	26,603	0	452,567
Gasoline engines for vehicles: cylinder capacity ? 50cc	1,041,730	0	0	0	0	353
Gasoline engines for vehicles: 50cc < cylinder capacity ? 250cc	15,826,618	173,903	2,723	8,340	1,156,750	277,471
Gasoline engines for vehicles: 250cc < cylinder capacity ? 1,000cc	5,299	0	0	0	0	0
Gasoline engines for vehicles: 1,000cc < cylinder capacity ? 3,000 cc	652,438	0	550,632	1,446	0	0
Gasoline engines for vehicles: 3,000cc < cylinder capacity	49,003,760	0	0	0	0	0
Methane gas engines	0	0	0	0	0	0

Other gasoline engines	15,667,860	0	56,405	25,284	88,592	4,716,592
Diesel engines for vehicles: 132.39kW(180H.P.) < output	163,891	0	0	0	0	0
Other diesel engines for vehicles	450,943	0	40,122	0	0	0
Diesel engines for vehicles: output ? 14kW	10,646,893	1,750,026	47,474	3,676	117,041	10,830
Diesel engines for vehicles: 14kW < output ? 132.39kW (180H.P.)	5,945,269	48,508	33,396	0	0	4,248
Diesel engines for vehicles: 132.39kW (180H.P.) < output	4,298,994	42,523	0	0	0	0
Fuel injection systems	3,908,868	5,471	54,271	5,642	91,850	1,308,584
Other parts for gasoline engines	29,140,226	343,706	697,350	425,015	426,874	4,622,815
Parts for diesel engines: 132.39kW (180H.P.) ? output	25,569,722	1,024,542	358,052	819,240	503,892	7,676,947
Parts for other diesel engines	9,447,787	39,619	116,225	14,400	12,524	843,834
Air compressors for truck brakes	310,052	2,160	20,160	33,581	0	0
Air conditioning systems for vehicles	887,681	1,136	0	0	0	0
Other hydraulic jacks	5,902,637	5,160	132,718	103,723	23,922	3,099,005
Lighting equipment for motor vehicles	11,925,270	129,947	241,933	71,380	11,622	4,328,219
Other lighting or visual signalling equipment for motor vehicles	5,265,161	8,092	84,943	356,370	16,313	788,296
Horns, buzzers for motor vehicles	3,369,697	14,831	74,060	65,274	230,843	168,114
Other sound signalling equipment for motor vehicles	845,348	59,280	7,235	35,927	52,499	114,313
Windscreen wipers, defrosters and demisters	4,364,107	13,213	52,208	48,263	147,605	1,329,426
Other electrical equipment for cycles or motor vehicles	7,546,981	26,486	27,485	90,156	57,727	2,703,580
Radio navigational aid apparatus for motor vehicles	46,378,212	4,320	0	17,352	0	2,714,808
Radio receivers with need of external power for motor vehicles	86,879,676	22,517	373,672	1,441,333	161,226	29,886,085
Other radio receivers with need of external power for motor vehicles	15,534,811	0	0	0	0	11,868,571
Anti-theft alarms for motor vehicles	11,234,479	6,150	0	119,261	0	3,062,824
Tungsten halogen lamps for motor vehicles	8,469,240	358,586	50,434	154,162	393,911	1,038,308
Other lamps for motor vehicles	2,301,510	203,018	1,195	31,246	75,061	169,560
Ignition wiring sets and other wiring sets for motor vehicles	82,941,866	0	0	45,154	0	10,378,313
Road tractors for semi-trailers	40,029,665	0	0	0	0	0
Track driven tractors	186,637	0	0	0	0	0
Wheeled tractors	11,554,082	217,627	273,530	172,615	56,352	2,312,675
Other tractors	62,592	0	0	0	0	5,772
Other tractors	13,800	0	13,800	0	0	0
Airport buses (DE)	0	0	0	0	0	0

Buses: 30 ?seating capacity (DE)	17,779,576	0	0	0	0	0
Buses: 20 ?seating capacity ? 29 (DE)	1,705,943	0	0	0	0	0
Buses: 10 ?seating capacity ? 19 (DE)	1,156,208	0	0	0	0	0
Other buses: 30 ?seating capacity (DE)	0	0	0	0	0	0
Other buses: 20 ?seating capacity ? 29 (DE)	12,000	0	0	0	0	0
Other buses: 10 ?seating capacity ? 19 (DE)	276,054	0	0	0	0	0
Passenger cars: cylinder capacity ? 1000 cc (GE)	1,084,871	0	0	0	0	20,052
Other passenger cars: cylinder capacity ? 1000 cc (GE)	47,706,156	1,440	3,428,653	2,832,811	31,685	21,343,264
Passenger cars: 1,000 cc < cylinder capacity ? 1,500 cc (GE)	24,990,548	0	0	0	0	0
Off-road vehicles (4WD): 1,000 cc < cylinder capacity ? 1,500 cc (GE)	36,370	0	0	0	0	0
Station wagons (with 9 seats or less): 1,000 cc < cylinder capacity ? 1,500 cc (GE)	728,274	0	0	0	0	63,900
Other passenger cars: 1,000 cc < cylinder capacity ? 1,500 cc (GE)	1,380,514	0	0	0	0	0
Passenger cars: 1,500 cc < cylinder capacity ? 2,500 cc (GE)	3,730,388	0	0	0	0	0
Off-road vehicles (4WD): 1,500 cc < cylinder capacity ? 2,500 cc (GE)	1,152,978	0	0	0	0	0
Station wagons (with 9 seats or less): 1,500 cc < cylinder capacity ? 2,500 cc (GE)	657,128	0	0	0	0	0
Other passenger cars: 1,500 cc < cylinder capacity ? 2,500 cc (GE)	7,691,688	0	261,757	0	0	0
Passenger cars: 2,500 cc < cylinder capacity ? 3,000 cc (GE)	1,685,862	0	0	0	0	73,982
Off-road vehicles (4WD): 2,500 cc < cylinder capacity ? 3,000 cc (GE)	19,320	0	0	0	0	0
Station wagons (with 9 seats or less): 2,500 cc < cylinder capacity ? 3,000 cc (GE)	0	0	0	0	0	0
Other passenger cars: 2,500 cc < cylinder capacity ? 3,000 cc (GE)	166,417	0	0	0	0	0
Passenger cars: 3,000 cc < cylinder capacity (GE)	586,973	0	0	0	0	147,965
Off-road vehicles (4WD): 3,000 cc < cylinder capacity (GE)	248,971	0	0	0	0	0
Station wagons (with 9 seats or less): 3,000 cc < cylinder capacity (GE)	0	0	0	0	0	0
Other passenger cars: 3,000 cc < cylinder capacity (GE)	0	0	0	0	0	0
Passenger cars: cylinder capacity ?1,500cc (DE)	0	0	0	0	0	0

Off-road vehicles (4WD): cylinder capacity ?1,500cc (DE)	0	0	0	0	0	0
Station wagons (with 9 seats or less): cylinder capacity ?1,500cc (DE)	41,230	0	0	0	0	0
Other passenger cars: cylinder capacity ?1,500cc (DE)	0	0	0	0	0	0
Passenger cars: 1,500 cc < cylinder capacity ?2,500cc (DE)	0	0	0	0	0	0
Off-road vehicles (4WD): 1,500 cc < cylinder capacity ?2,500cc (DE)	0	0	0	0	0	0
Station wagons (with 9 seats or less): 1,500 cc < cylinder capacity ?2,500cc (DE)	102,924	0	0	0	0	0
Other passenger cars: 1,500 cc < cylinder capacity ?2,500cc (DE)	0	0	0	0	0	0
Passenger cars: 2,500 cc < cylinder capacity (DE)	0	0	0	0	0	0
Off-road vehicles (4WD): 2,500 cc < cylinder capacity (DE)	1,026,241	0	0	0	0	0
Station wagons (with 9 seats or less): 2,500 cc < cylinder capacity (DE)	66,350	0	0	0	0	0
Other passenger cars: 2,500 cc < cylinder capacity (DE)	0	0	0	0	0	0
Other passenger vehicles	4,087,661	0	0	0	0	0
Mine trucks (Electromobile)	0	0	0	0	0	0
Other dump trucks for off-highway use	10,056,696	0	576,000	0	0	0
Trucks: GVW ? 5t (DE)	17,862,028	0	210,564	0	0	22,440
Trucks: 5t < GVW ? 14t (DE)	3,467,935	0	319,200	0	0	0
Trucks: 14t < GVW ? 20t (DE)	2,379,151	0	0	0	0	0
Trucks: 20t < GVW (DE)	6,724,084	0	1,500,240	0	0	0
Trucks: GVW ? 5t (GE)	15,458,227	0	0	0	0	360,068
Trucks: 5t < GVW ? 8t (GE)	88,080	0	0	0	0	0
Trucks: 8t < GVW (GE)	121,998	0	0	0	0	0
Other trucks	42,593	0	0	0	0	0
All-road crane lorries: maximum lifting capacity ? 50t	642,510	0	0	0	0	0
All-road crane lorries: 50t < maximum lifting capacity ? 100t	0	0	0	0	0	0
All-road crane lorries: 100t < maximum lifting capacity	0	0	0	0	0	0
Other crane lorries: maximum lifting capacity ? 50t	1,276,988	0	0	0	0	0
Other crane lorries: 50t < maximum lifting capacity ? 100t	2,090,881	0	0	0	0	0
Other crane lorries: 100t < maximum lifting capacity	0	0	0	0	0	0
Mobile drilling derricks	42,181	0	0	0	0	0
Fire trucks with scaling ladders	0	0	0	0	0	0

Other fire trucks	0	0	0	0	0	0
Concrete-mixer trucks	558,665	0	0	0	0	0
Broadcast vehicles	0	0	0	0	0	0
Mobile radiological units	0	0	0	0	0	0
Mobile environmental monitoring units	0	0	0	0	0	0
Mobile clinics	61,445	0	0	0	0	0
Mobile electric generators for airplane charging (frequency 400Hz)	38,190	0	0	0	0	0
Other mobile electric generators	0	0	0	0	0	0
Mobile vehicles for aircraft refuelling, air-conditioning or de-icing	0	0	0	0	0	0
Snowplows for streets or airfield runways	0	0	0	0	0	0
Petroleum well logging, fracturing units and mixing sand trucks	0	0	0	0	0	0
Other special purpose vehicles	10,217,308	0	0	0	0	0
Chassis for mine trucks	0	0	0	0	0	0
Chassis for trucks: 14t ? GVW	0	0	0	0	0	0
Chassis for trucks: GVW < 14t	2,785,166	0	0	0	0	0
Chassis for buses: 30 < Seating capacity	875,870	0	0	0	0	0
Chassis for cranes	0	0	0	0	0	0
Chassis for other trucks	2,378,396	0	3,516	0	0	1,568,045
Bodies for light passenger vehicles (include small bus: Seating Capacity ? 10)	181,085	0	156	0	0	2,400
Bodies for buses: 10 < Seating Capacity ? 29	193,440	0	0	0	0	0
Bodies for other vehicles	539,179	120,550	0	0	0	0
Bumpers and related parts	4,615,276	1,866	34,231	113,069	0	1,772,575
Safety seat belts	4,733,318	1,186	6,614	24,649	0	1,847,670
Air-bag equipment	5,631,550	0	0	94,199	0	844,436
Window regulators	5,376,404	0	13,663	5,548	0	1,640,755
Other parts and accessories of bodies (including cabs)	63,328,902	48,694	566,614	1,892,971	101,107	24,523,218
Brake linings	19,388,518	100,051	93,708	323,754	108,389	7,874,258
Brakes, servo-brakes and related parts for tractor trucks	5,660,171	39,052	74,216	107,173	0	1,268,755
Brakes, servo-brakes and related parts for buses: 30 ? seating capacity	506,075	0	93,107	39,624	0	44,167
Brakes, servo-brakes and related parts for mine trucks	218,954	0	0	0	0	109,963
Brakes, servo-brakes and related parts for small trucks	4,072,800	0	87,180	20,158	1,025	1,784,729
Brakes, servo-brakes and related parts for heavy trucks	3,513,109	0	34,758	86,756	0	1,716,288
Brakes, servo-brakes and related parts for SPVs	758,416	0	0	0	0	88,579
Anti-lock brake systems	502,998	0	0	349	19,812	24,958

Other brake parts	74,466,110	31,561	1,006,684	4,012,903	70,081	32,256,888
Gear boxes for tractor trucks	1,597,441	0	76,217	0	42,821	548,471
Gear boxes for buses: 30 ? seating capacity	237,264	0	0	0	0	0
Gear boxes for mine trucks	289	0	0	0	0	0
Gear boxes for small trucks	879,269	0	56,538	0	508,032	2,948
Gear boxes for heavy trucks	1,500,067	0	0	0	3,298	499,939
Gear boxes for special purpose vehicles	331,430	0	0	0	0	0
Automatic transmissions for passenger vehicles	60,158	0	0	0	0	3,168
Gear boxes for other vehicles	257,198	0	58,320	0	0	44,988
Drive-axles with differential for trailer trucks	34,062	7,416	0	0	0	26,646
Drive-axles with differential for buses: 30 ? seating capacity	602,278	0	0	0	0	0
Drive-axles with differential for mine trucks	0	0	0	0	0	0
Drive-axles with differential for small trucks	269,220	0	0	0	0	17,400
Drive-axles with differential for heavy trucks	259,808	0	0	0	70,776	31,622
Drive-axles with differential for special purpose vehicles	588,442	0	0	0	0	141,926
Drive-axles with differential for other vehicles	753,109	0	0	0	0	706,232
Non-drive-axles and related parts for trailer trucks	4,884,916	0	54,750	30,043	158,072	962,321
Non-drive-axles and related parts for buses: 30 ? seating capacity	96,258	0	0	0	0	0
Non-drive-axles and related parts fro mine trucks	230,548	0	0	0	0	210,398
Non-drive-axles and related parts for small trucks	513,427	0	1,952	0	0	239,102
Non-drive-axles and related parts for heavy trucks	484,079	0	0	0	0	83,292
Non-drive-axles and related parts for special purpose vehicles	504,491	0	0	0	0	13,432
Non-drive-axles and related parts for other vehicles	9,859,291	3,456	101,929	223,697	33,739	3,686,354
Wheels and related parts and accessories for trailer trucks	3,458,686	0	0	3,408	0	2,340,096
Wheels and related parts and accessories for buses: 30 ? seating capacity	250,590	0	0	0	7,350	134,352
Wheels and related parts and accessories for mine trucks	1,446,278	0	0	0	0	135,956
Wheels and related parts and accessories for small trucks	3,388,816	0	7,372	6,982	0	2,178,677
Wheels and related parts and accessories for heavy trucks	951,527	0	0	624	0	447,223
Wheels and related parts and accessories for special purpose vehicles	1,627,068	0	0	41,922	0	670,873
Wheels and related parts and accessories for other vehicles		2,264,317	1,764,374	1,901,678	190,598	67,743,672

Suspension shock-absorbers for passenger vehicles	6,184,879	499,776	87,528	0	0	736,255
Suspension shock-absorbers for other vehicles	8,346,546	0	35,599	154,126	434,826	957,366
Radiators	16,245,296	125,406	234,049	690,194	225,282	7,236,757
Silencers and exhaust pipes	10,895,994	11,958	21,839	1,888,511	20,561	4,517,378
Clutches and related parts	1,111,115	6,084	0	47,108	0	116,706
Clutches and related parts for buses: 30 ? seating capacity	237,785	0	0	0	0	18,169
Clutches and related parts for mine trucks	145,656	432	0	0	0	0
Clutches and related parts for small trucks	1,790,857	246,818	41,873	34,793	0	283,811
Clutches and related parts for heavy trucks	672,530	0	0	0	0	484,883
Clutches and related parts for special purpose vehicles	24,612	0	0	0	0	0
Clutches and related parts for other vehicles	22,298,761	117,440	538,211	446,629	23,892	3,972,235
Steering wheels, steering columns and steering boxes for trailer trucks	236,732	0	0	0	0	81,440
Steering wheels, steering columns and steering boxes for buses: 30 ? seating capacity	210,980	0	4,454	0	0	70,218
Steering wheels, steering columns and steering boxes for mine trucks	47,837	0	18,082	0	0	0
Steering wheels, steering columns and steering boxes for small trucks	745,391	20,160	0	0	0	11,218
Steering wheels, steering columns and steering boxes for heavy trucks	65,278	0	0	0	5,724	0
Steering wheels, steering columns and steering boxes for special purpose vehicles	190,465	0	0	0	0	20,698
Steering wheels, steering columns and steering boxes for other vehicles	9,738,955	609,073	240,023	113,600	44,778	808,836
Other body parts and accessories for trailer trucks	11,387,521	73,465	774	312,074	0	3,719,370
Body frames for buses: 30 ? seating capacity	0	0	0	0	0	0
Other body parts for buses: 30 ? seating capacity	1,947,706	2,383	0	12,505	0	804,906
Body frames and accessories for mine trucks	85,291	0	0	0	0	0
Other body parts and accessories for mine trucks	1,034,915	0	0	431,016	0	110,650
Body frames for small trucks: 8t > GVW	17,814	0	0	0	0	0
Other body parts for small trucks: 8t > GVW	3,699,187	0	45,049	196,979	0	898,366
Body frames for medium & heavy trucks: 8t ?GVW	185,782	0	0	0	0	149,987
Other body frames for medium & heavy trucks: 8t ?GVW	5,628,028	10,136	0	0	972,629	3,504,038
Other body parts and accessories for special purpose vehicles	3,994,514	0	389	187,381	54,660	1,652,164
Body frames for other vehicles	909,493	0	0	24,044	0	8,382
Other body parts for other vehicles		511,463	1,513,691	3,508,238	1,676,453	71,565,420

Electric powered small utility transporters	0	0	0	0	0	0
Other electric powered small utility transporters	256,010	0	0	124,304	0	0
Non-electric powered small utility transporters	1,389,388	0	0	0	0	0
Other non-electric powered small utility transporters	103,939	0	0	0	0	95,414
Parts for small utility transporters	272,111	0	0	2,700	0	83,406
Motorcycles: cylinder capacity ? 50cc	57,355,697	912	97,710	3,647,195	221,618	5,876,377
Motorcycles: 50cc < cylinder capacity ? 100cc	49,867,300	0	75,605	127,892	569,748	1,810,265
Motorcycles: 100cc < cylinder capacity ? 125cc		0	1,172,170	2,952,386	6,137,706	7,338,305
Motorcycles: 125cc < cylinder capacity ? 150cc	29,158,642	0	121,314	124,519	89,604	10,145,238
Motorcycles: 150cc < cylinder capacity ? 200cc	8,794,628	0	257,731	59,410	0	3,948,713
Motorcycles: 200cc < cylinder capacity ? 250cc	3,197,885	0	206,278	16,878	0	356,988
Motorcycles: 250cc < cylinder capacity ? 400cc	110,368	0	0	0	0	100,080
Motorcycles: 400cc < cylinder capacity ? 500cc	0	0	0	0	0	0
Motorcycles: 500cc < cylinder capacity ? 800cc	21,241	0	0	2,095	0	60
Motorcycles: 800cc < cylinder capacity	0	0	0	0	0	0
Other motorcycles	17,452,772	241,128	168,271	1,070,219	4,128	7,103,671
Saddles for motorcycles	140,309	0	0	0	0	144
Other parts for motorcycles	59,772,418	3,384,708	49,824	509,011	4,028,236	1,871,084
Parts of carriages for disabled persons	5,257,667	25,975	43,360	206,761	857	2,550,230
Camping trailers without any motor	1,035,606	0	0	0	0	0
Trailers for agricultural purposes without any motor	214,568	0	0	0	0	0
Oil tanker trailers and semi-trailers without any motor	2,413,456	0	0	0	0	0
Other tanker trailers and semi-trailers without any motor	447,538	0	0	0	0	0
Van trailers and semi-trailers without any motor	36,142,902	0	0	0	0	31,340,526
Other van trailers and semi-trailers without any motor	4,298,389	0	10,500	27,600	0	0
Other trailers and semi-trailers without any motor	2,647,374	0	0	0	0	784,165
Other vehicles without any motor	43,348,265	9,430	462,355	2,648,707	4,692	14,027,776
Parts for trailers and semi-trailers without any motor	54,226,937	0	381,636	1,782,607	16,232	24,858,437
Speed indicators for motor vehicles	3,866,812	0	30,362	6,833	9,973	292,442
Other dial indicators for motor vehicles	2,482,687	13,744	0	105,822	0	1,229,284
Instrument panel clocks for vehicles, aircraft, spacecraft or vessels	905,982	0	0	20,958	0	217,060
Seat for motor vehicles with outer surface of leather or composition leather	250,894	978	199	0	0	200,503
Other seat for motor vehicles	4,805,105	253	93,354	230,702	0	798,780
Parts of adjusting devices for seats	960,731	246,005	0	0	0	24
Other seat parts for motor vehicles	21,931,062	262,880	360	622,270	15,052	4,976,476
TOTAL		20,844,181	23,711,948	48,758,011	24,848,095	631,179,277