

## While China's Car Production Continues to Soar, Quality and Safety Issues Have Barred Progress in the US and Europe – for Now

### Honing Experience in Emerging Markets; Europeans Sue to Prevent Knock-Offs from Reaching Market

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Efforts by Chinese manufacturers to penetrate US and European auto markets have stalled for now – but Western manufacturers should by no means rest easy.

In 2005, Chinese automakers announced plans to sell cars into the US by 2007. While that hasn't happened yet, China continues to expand its auto industry domestically and around the globe.

China is already the world's second largest automobile manufacturer behind the US, cranking out some 8.8 million autos in 2007. That represented a 22% increase over 2006, at a time while sales of US made autos were flat. While growth is likely to be about half that this year, it is still at levels far above US, Europe and Japanese growth, which will go negative in 2008.

China's Chery brand (a knock off of "Chevy") has twice delayed its planned entry into the US market. While it says it intends to start car sales in the US in 2009 or 2010, Fortune magazine this week said that many experts believe it will take a few years longer than that. Chinese manufacturers are having similar problems in most areas of Europe.

The main hurdles: problems meeting safety and emission standards here and in Europe, and quality issues that would hobble sales in developed markets.

But that doesn't mean China's exports aren't surging elsewhere. Chinese car exports rose by 70% in the first half of 2008 to 316,000 vehicles, according to the Chinese Ministry of Commerce.

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Where are they going? Developing markets in Southeast Asia, South America, and Latin America.

China has several factors going in its favor.

First, the government is focused on making its auto industry a world leader.

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Second, Western and Japanese manufacturers are helping to move China up the learning curve, as an increasing number of components – and know-how – is being outsourced to Chinese manufacturers (see [Chinese Manufacturers Rapidly Enhance Quality and Sophistication, Encroaching even More on Western Production](#)).

Third, the strategy of honing manufacturing and distribution skills in developing markets is one that not only has China used effectively in other product categories, it is often an explicit strategy in

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Chinese manufacturers' plans for global leadership. (See [The Supply Chain and China's Dragons](#).)

### Battling the Knock-Offs

In many cases, Chinese cars have been almost direct knock-offs in terms of design of the vehicles from Western and Japanese OEMs.

European manufacturers Fiat and BMW have both recently won court orders blocking Chinese car makers from selling knock-off models.

But Chinese manufacturers aren't content with a knock-off strategy. Chery recently hired an Italian design firm, Fortune reports. China is investing heavily in hybrid and battery-powered vehicle technology.

It seems clear the Chinese autos are coming – it's simply a question of how soon.

