

# China's Tire Industry - Kicking Into High Gear

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*When you are so busy dealing with the day-to-day activities of business, it's easy to lose sight of the fact that we all operate in a global economy. Our principle concerns are often immediate and local, but when you read the following information about China and its Tire Industry plans, you begin to realise that we need to think globally and we need to start now...*

Earlier this year I came across a report from a company out of Europe. They offer market research and data and their stream of press releases had me sitting up and taking notes – here are some of those notes:

## --- China's Tire Industry

The remarkable progress of China's automotive industry has culminated in the development of a significant tires sub sector. Following China's accession to the WTO in late 2001, the growth rates for both sectors accelerated.

To fulfill its ambition to become the main base of operations for leading foreign auto companies, it is imperative that China develop a world-class tires industry. In doing so, the country would become more attractive to leading automakers.

Ready access to high quality tires would enable these companies to streamline their supply chains and purchasing operations while avoiding costly tires imports.

## --- US\$6 Billion in 2002

With an estimated value of nearly US\$6 billion in 2002, China's tires industry is large and poised for further high growth, bolstered by the rising fortunes of automobile manufacturers there. This industry is still largely driven by the multinational tire companies (eg. Michelin, Bridgestone, Goodyear and Yokohama) and their joint-venture partners, with Michelin alone accounting for 30% of the replacement tires market.

Domestic players are relatively less skill-intensive, use simpler production techniques and have somewhat inconsistent quality standards. These domestic tire companies are also financially weak which explains their relatively lower investment in research and development facilities.

## --- Fragmented...for now

Although a considerable segment of the tires industry is concentrated in the Jiangsu, Shandong, Shanghai and Shenyang area, the domestic tires industry is still largely scattered across the country. This has resulted in a lack of cooperative synergies.

Foreign multinationals, on the other hand, are more prone to cooperation in areas such as purchasing and research and development activities. For instance, Goodyear tires by purchasing a minor stake in Sumitomo tires, has taken steps to form a strategic alliance with its Japanese counterpart to share their marketing and purchasing operations.

The domestic companies owing to their lower investment in research and development also produced relatively obsolete products. Their production volumes also lagged that of their multinational counterparts.

## --- China's Domestic Tire Output

The average annual tire output of China's domestic players in 2003 is approximately 410,000, considerably behind the 2.70 million produced by foreign tire companies in China.

To become a leading player in the global tire industry, it is imperative that domestic tire companies rectify these weaknesses by developing more sophisticated production techniques.

China has also taken up steps to produce products that are higher up the value chain. For instance, the country is now encouraging the production of radial tires<sup>1</sup> by promising the waiver of the 10% excise tax for radial tire products.

Many domestic companies are also forming strategic alliances with multinationals to acquire greater expertise in production, distribution and marketing.

## --- Summary

As you can see, China's tire market is evolving. Maybe today the Chinese marketplace is not a threat to your business, but historically when China sets its mind to something they usually see it through to conclusion. And if their plans include the eventual manufacture and export of tires, it will ultimately change the tire industry landscape over here in the west.

Definitely something to keep an eye on – wouldn't you agree?

*Sources: Information for this article was drawn from the public Internet and news feeds.* Author: <http://www.JamesBurchill.com> - James is a freelance writer and consultant.