

# THE IMPACT OF GLOBALISATION ON THE CHINESE AUTOMOBILE INDUSTRY: POLICY ASSESSMENTS AND TYPOLOGY OF STRATEGIE

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During the 1990's foreign enterprises from Japan, the U.S. and Europe were entering the Chinese market, and in due course they began to take an interest in China's automobile industry. These foreign makers competed with each other to explore the promising auto market in China. But academic research has been mainly concerned with the quantity of the investments. An analysis of the change in the competitive infrastructure within the Chinese auto industry has seldom been undertaken.

This paper will focus on the impact which globalization has had on the Chinese auto industry. We will evaluate Chinese auto industry policy and foreign investment policy first. Then we will have a look at the change in the investment pattern of foreign makers between the 1980's and the 1990's. We will also distinguish between the competition structures in the commercial vehicles market and passenger cars market.

Finally we will classify the types of foreign enterprises that have advanced into the Chinese market. Through all the above analyses we will keep in mind the competition situation facing foreign enterprises in China. This paper is mainly based on the field research undertaken by the authors.

## **POLICY ASSESSMENTS: CHINESE AUTO INDUSTRY POLICY AND THE NINTH FIVE YEAR PLAN**

### **The purpose of the Open Door Policy and China's expectations**

It is well known that China had an open door policy from the end of the 1970's. The purpose was to secure the finance for modernization through capital liberalization. This is same, as the policy of the other developing countries, whose purpose was to supplement the shortage of domestic savings and take in technology and management know how from more advanced foreign countries. In the passenger car field, China has had taken the same policy as other developing countries which was basically an import substitution industrial policy. It first started in import substitution of finished products, then in accumulating ability in R & D, and finally in developing independently. During this process, China expected foreign enterprises to first transfer technology through semi knock down (SKD) and then through complete knock down (CKD). Then China hoped to develop a parts industry and finally cooperate in independent development through introducing technology for both production and development. This can be seen in the protection of and privileges enjoyed by the auto industry. The Chinese government and

enterprises maintained the same stance through the 1980's and the 1990's with a foreign policy that gave first priorities to the development of the industrial structure. In 1994 the central government set forth the specifications in an industry policy which made clear the purposes of the regulations.

### **Characteristics of Chinese Auto Industry Policy**

The Chinese government announced an "Automobile Industry Policy" in July 1994 for the first time. The policy had 13 chapters and 61 clauses. Policies concerning foreign funding were to be found in chapter 6.

#### *Clause No. 28*

When a Chinese automobile maker is to utilize foreign funds directly, it must choose a foreign maker which meets all the following conditions simultaneously as the partner for joint venture or cooperation. The foreign maker

- ✓ Should have its own product patent and trademark rights
- ✓ Should own product development and producing technology, and have a product technology index in accordance with current legislation in its own country
- ✓ Should own its independent international sales network
- ✓ Should possess superior financing ability

Above all the possible candidate must have R & D ability, an independent international sales network as well as sufficient ability to raise funds. This means that abilities in all fields such as product design, production, sales and fund raising are required. The approval standard for joint ventures is thus clearly regulated.

#### *Clause No. 31*

The establishment of Sino foreign joint venture and cooperative venture must meet all the following conditions:

- ✓ A technological R & D organization must be established within the company. The organization must be able to develop product model changes.
- ✓ It must be able to make products up to the international technology levels of the 1990's.

- ✓ The joint venture must be intending to export its products and achieving a foreign currency balance.
- ✓ When foreign enterprises makes the choice of parts, Chinese domestic
- ✓ ones should be considered equally.

#### *Clause No. 32*

For the Sino foreign joint ventures and cooperative ventures producing engines and finished cars or auto bicycles, the Chinese share holding should not be less than 50%.

We can deduce from the above the following points, that is, foreign capitals' minority, the duty of setting up R & D organization within the joint venture, products with the 1990's level technology, priority of domestic parts and independent ability of foreign currency balance. Among all of them, the most different point in comparison with former policies is the protection of local management priority. As a background to this is Chinese economic growth, and the potential and real development of the automobile market, and excessive production facilities in Japan, the U.S. and European markets. Being a buyer's market, China is in a strong negotiating position with the huge domestic market.

Through the above analyses we can conclude that China is pursuing a policy which is quite different from that of the other developing countries. In the 1990's, with the big change in both the domestic and international environment, the China side (government and enterprise) is maintaining its own bargaining power in foreign capital policy. China has been able to make the investing multinational counterparts from Japan, the U.S. and Europe compete with each other in providing capital and technology.

The announcement of the Automobile Industry Policy can also be regarded as the end of the "Big Three, Small Three and Mini Two" System of passenger car production. The former governor of the Industrial Machinery Ministry --supervising authority of the Chinese automobile industry, Mr. He Guangyuan explained as follows<sup>1</sup>.

"The Chinese automobile industry has already been cooperating with foreign enterprises for more than 10 years. Foreign enterprises have helped with capital, and technological transfer and thanks to

<sup>1</sup> China Machinery News, September 20, 1994.

them development has been speeded up. As to the finished car, especially the passenger car project, we have introduced foreign models, and gradually raised up the domestic parts rate through CKD.”

The above opinion can be regarded as that of the Chinese government in the 1990s concerning foreign capital introduction in the passenger car production field.

### **The Ninth Five-Year Plan**

The ninth five-year plan (1996~2000) was announced at the end of 1995, which launched in detail the policies concerning investment, domestic localization, the parts industry as well as the promotion of exports by the automobile industry. It was considered as the implementation of the automobile industry policy established in 1994. A brief view of excerpts of the 1995 automobile industry planning essentials follows.

#### *Investment Policy: Concentration Investment and Enlargement of Investment Scale*

The National Development Bank will underwrite investment for key projects in the automobile industry.

The key projects specified in the policy receive priority for the use of foreign funds. The government will establish an automobile industry trust and an investment company as well as providing funds for the development of the passenger car and parts industry. It is through these channels that capital supply, both domestic and from overseas, will be promoted. Furthermore, the government will enlarge the sphere of investment and finance of the financial company in the business group. With the above steps, the system of large-scale finance and concentrated investment will be set up.

The business groups which meet the demands of the policy can work with the local and the related central ministries as well as foreign makers who wish to invest in the Chinese auto industry. Capital provision by the foreign enterprise is the necessary bond for cooperative partners to work together in the industry.

#### *Local Content Policy*

The new passenger car project should not be inaugurated unless the unit parts (engine & transmission) as well as the relative parts are available before the start of the project. The local

content rate must be more than 40% when the finished car project starts.

#### *Auto Parts Industry Policy*

During "the Ninth Five Year Plan", investment in the parts industry should not be less than 40%. The government gives first preference to 25 kinds of key project in passenger car parts production through a low interest fund. The government reduces or exempts from investment tax and promotes introduction of foreign capital to the above parts makers. The local government, ministry and foreign makers are guided to invest in the above makers. As one necessary condition for approval of a new project for finished cars, the investment rate between the finished car and parts should be 1 to 1. As to those projects whose investment is less than 2 billion RMB yuan, the approval process should be simplified and the approval term should be shortened. The construction should be speeded up. After necessary consulting and demonstration of the project, the superintendent organization will make a preliminary inspection. Then the government will approve the proposal of the project. Feasibility study reports can be approved by the local government or related ministry.

#### *Product Export Promotion Policy*

A system for the export of automobile products must be set up. An exclusive fund for construction of export base must be raised. The National Import and Export Bank should offer export loans to large exporters of automobiles. The business achievement of the enterprises should be evaluated mainly by their ability to gain foreign currency. And when the required amount is achieved, the added-value tax paid during the domestic distribution process should be immediately refunded in the simplest way. An "International Market Exploring Fund" should be set up to support, encourage and promote the entry of Chinese automobile products into the international market.

We might easily draw the conclusion through study of the above policies that the central government has strengthened its guidance of the automobile industry. This trend is counter to the deregulation of market economy and enterprises in the Chinese economy as a whole. The background for this central power policy is that the Chinese

government is trying to achieve sustainable development for the whole Chinese economy. As the symbol of durable consumer goods, deregulation and financial support towards automobile production are available through a series of policies. The new initiative is first the commercialization of the housing market, and then comes the development of the automobile industry<sup>2</sup>. In fact the Zhu Rongji government, which come into office in March 1998, has devoted itself to promoting commercial housing policy to stimulate domestic consumption, instead of expanding the production capacity of the car industry.

### Summary

The Chinese government is striving to foster its own automotive industry and is not interested in turning China into an expansion base for European, American and Japanese auto industries. This intention of the Chinese government is made clear by the fact that foreign companies are not allowed to have majority (over 50 percent) share holdings in joint venture projects for the production of finished vehicles. In other words, business in China for foreign auto manufacturers means they will never have more than the role of assistance provider and are strictly limited to helping the Chinese auto industry to develop independently.

By fostering and developing the market of passenger-car market for family use (called "family-car" in China) from the perspective of marketing as well as production, China planned in the mid-1990s to expand unit production capacity to 3 million per year by the year 2000. But actually the production volume in 2000 was only 2.1 million units, almost two third of the original plan. Rapid growth in the Chinese automobile market can be expected in the coming decade due to China's joining the WTO.

### The Changing Competition Structure of Japanese, American and European Companies in the Chinese Commercial Vehicle and Passenger Car Markets in the 1980s and 1990s

In the existing studies of foreign makers entering the Chinese market, there is little distinction between the commercial and the

passenger car field. But actually the development patterns and related promotion policies are quite different in these two fields. And also there are significant differences in the investment strategies of foreign enterprises in the 1980s and 1990s.

### Commercial Vehicle Production: Japan's Priority

After the 1980s, commercial vehicle production was characterized by local dispersion and intense competition among medium and small sized makers through foreign capital introduction (see table 1). The total number of auto makers in the 1990s is more than double what it was in 1980s. Among them, major makers such as First Automotive Works and Dongfeng Motor Corporation persist in own-brand production while introducing foreign technology selectively. Other main makers as well as small sized local makers are inclined to license production of foreign makers' brands (see table 2). The difference is due to the gap in R & D capability between big and medium or small sized makers.

We will take as an example one of the important indexes to show R & D ability, the number of personnel for employed. In 1993, First Auto Works Changchun Automobile Research Laboratory had 2,078 people and Dongfeng Automobile Engineering Institute had 1,672 people. In contrast Nanjing Auto (Nanjing Automobile Institute), as a representative main maker, had only 375, Beijing Auto (Beijing Automobile Institute) 214 and Tianjin 313<sup>3 4</sup>.

In the Chinese commercial vehicle field, Japanese companies have a strong position and were not, as generally described late in entering. For example, Isuzu either has joint venture agreements or licensed production agreements with Chinese companies in Chongqing, Nanchang, Beijing and Southwest and produces ELF in 6 places altogether. Suzuki has 6 footholds to produce Carry and Alto light vehicles through joint ventures or licensed production agreements with Chinese companies in Chongqing, Jilin, Harbin, Jingdezhen and Xi'an.

<sup>3</sup>Chinese Automobile Industry Yearbook 1994, pp.200-201.

<sup>4</sup>Chunli Lee & Fujimoto Takahiro, "A Study on Product Development System in Chinese State-owned Enterprises", in Japanese, forthcoming.

<sup>2</sup>Chunli Lee, interview with Chinese Planning Committee, December 24, 1996.

The entry of Japanese makers into the Chinese market is the result of Chinese government policy in the mid 1980's which was a combination of technology providing agreements and trade. That is, instead of large scale import of foreign finished cars, technology was introduced through the supply of products and production technology. Though this policy was carried out for only a couple of years, its achievements can be seen in the following data. In 1983, the export units of finished cars to China through the combination of technology providing agreements and trade were only 11,000 units. But in 1984, it was 85,000 units and in 1985 250,000 units<sup>5</sup>. The majority of the Japanese makers entered China by this route.

### **Passenger Car Production: From Attracting to Choosing Foreign Companies**

With the Open Door Policy, capital circulation freedom was permitted and investment by Japanese, the U.S. and European companies in the Chinese market became animated. Local production with foreign capital and technology started in earnest. In the passenger car field, the biggest difference in foreign capital policy between the 1980s and the 1990s was the change from attracting foreign companies to choosing them.

#### *1980s: "Big Three, Small Three & Mini Two" System and Typology of Strategies*

In the 1980s "Big Three, Small Three & Mini Two" System was a well-known feature of the Chinese passenger car production. Due to the complexities of passenger car technology and the low proficiency of Chinese makers, the above system aimed to master technology both in product design and production through joining the international network of multinational enterprises. The system of "Big Three, Small Three & Mini Two" reflects the policy of the Chinese government, which restricted entries into the passenger car market and allocated car production to eight manufacturers.

This policy aimed to substitute for foreign cars by protecting domestic car makers--a measure taken by the government after reflecting upon the dispersed organization of commercial vehicle production due to too many entries. Among the car

makers, First Automotive Works (FAW)-VW and Dongfeng-Citroen Motor Company are directly under the auspices of the central government. Shanghai-VW and the Small Three--Beijing Jeep (with Chrysler), Tianjin Daihatsu and Guangzhou Peugeot are controlled by the local governments. And the Mini Two--Chang'an Suzuki and Guizhou Aviation Industry (with Fuji Heavy Industries) are under the administration of the former Ministry of Aviation and Space flight. In terms of the time of entry, the two big makers under the central government and the Mini Two were late in entering the passenger car market (in the 1990s) if compared to the four makers under local government control (in the mid 1980s). This is very important if we wish to understand the structure of the passenger car market in China.

The entry patterns of foreign enterprises into China were quite different in the 1980s and the 1990s. In the 1980s, leadership lay with the foreign enterprises which were always emphasizing the risks of operating in China. We can divide the entry strategy into 3 patterns, as strategic entry, crack aiming entry and entry per local request.

#### *Strategic Entry: VW*

Volkswagen began negotiation with Shanghai in 1978, when China announced its reforms and the open door policy. In 1984, Shanghai-VW was set up and started local production of the Santana the next year. In 1988 FAW started licensed production of Audi and FAW-VW was set up and started production of Jetta in 1990.

#### *Crack Aiming Entry: AMC*

The representative example is the former No. 4 auto maker in the U.S., American Motors Company. It started negotiation with Beijing in 1979, and in 1984 Beijing Jeep Co. (BJC) was set up. But due to poor management, both AMC and Beijing Jeep Co. were taken over by Chrysler in 1987.

#### *Entry Per Local Request: Daihatsu*

A typical example here is Daihatsu. It started a license contract with Tianjin Auto in the mid 1980s to produce Hijet and Charade. But due to fund limitations, a joint venture was not set up.

As we can see from the above, the entry patterns of Japanese, American and European enterprises into the Chinese market in the 1980s,

<sup>5</sup> Iwahara taku, An Introduction to Chinese Automobile Industry, Toyo Keizai Shinpou Press, in Japanese, 1995, pp. 53-54.

except VW, are mainly characterized by relatively low ranking entry.

### *1990s: Top Players' Full Scale Entry*

During the 1990s leadership shifted to the Chinese side. This was due to the growth of the Chinese auto market as well as to production overcapacity in developed countries. Japanese, American and European auto makers were looking for a new market in Asia. The Southeast Asian market was dominated by Japanese enterprises. American and European auto makers thus focused on as China, India and Vietnam. As a result, there was a rush into China from abroad. Under these domestic and overseas circumstances, the "Big Three, Small Three & Mini Two" System soon collapsed. In contrast to that of the 1980s, foreign makers' entry into China in the 1990s was led by the main auto makers which were top players in the world. The new investors are GM (Shanghai), Honda (Guangdong), Benz (Hainan), Toyota (Tianjin), Ford (Jiangxi) and BMW, etc.. These top makers are competing fiercely for a share in the Chinese auto market and are afraid that they might miss the bus. Inevitably China is in a strong position as a result of this competition and in the buyer's market has more bargaining power.

In 1997, the Chinese government lifted the ban on new passenger car entry projects which was specified in the "Automobile Industry Policy". Japanese, American and European enterprises quickly tried to enter the Chinese market. GM, Honda and Toyota, as late comers, succeeded in new entry. On the other hand, Peugeot, which was an early entrant, withdrew. Thus there was a new map of makers in Chinese passenger car production. We will find the following points for this latest development in the Chinese auto industry structure.

### **The Principal Changes of Industrial Organization**

Shanghai-Volkswagen (Shanghai-VW) became the top auto manufacturer in 1997 for the first time. Thus ended the domination of the in Chinese automobile industry by the stated-owned enterprises (First Automotive Works and Dongfeng Motor Co.) which had lasted for more than 40 years. After this First Automotive Works (FAW) and Dongfeng Motor Co. (DFM) ranked second and fourth.

The Japanese light vehicle manufacturers have been maintaining high performance in China. Tianjin Automotive Industry Co. (TAIC) which has been producing Charade and Hijet (with licensed production from Daihatsu) held the third position in 1997. Liuzhou Light Vehicle Co., a light truck maker which has tied up technically with Daihatsu has risen to the fifth place. Sixth comes Chang'an Suzuki Automotive Co. Ltd. (model: Alto), a joint venture with Suzuki, Japan.

The big late comers have also begun production. Shanghai General Motors Automotive Co. Ltd. (Shanghai-GM) started to produce 'Buick' from the end of 1998, owning 50,000 units production capacity. Guangzhou Honda Automotive Co. Ltd. (Guangzhou Honda) began to produce 'Accord' (specification of U.S. model) from March 1999 and owned 50,000 units production capacity. Toyota also succeeded to enter China in May 2000, and established a joint venture with TAIC. Tianjin Toyota Motor Company (TTMC) began to produce 'Yaris' from the end of 2000. Toyota Group affiliated companies had established 15 joint ventures and had transferred auto parts production base to Tianjin area.

Dongfeng Citroen Motor Co. (model: Citroen ZX) has rapidly raised its local content rate to 85 percent in 1998. It took advantage of the existing supplier networks which have experience in supplying parts and components to the European car models in China both in Hubei Province and in the Shanghai area.

### **Types of Strategic Entry by Japanese, American and European-Enterprises**

We find different approaches in the way Japanese, American and European enterprises entered the Chinese automobile market. We try to classify these in the following way.

#### **"Pioneer Status" Oriented: VW**

The accomplishments of Shanghai-VW have been achieved with the support of the Chinese central government, which determined the company's "pioneer status" in the automobile industry<sup>6</sup>. The government not only offered

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<sup>6</sup> Pioneer status--the government provides preferential tax treatments and other protections for the companies those certain requirements for a certain period of time.

Shanghai-VW preferential advantage in taxes, but also provided convenience in foreign currency and material supply in the early period. In the meantime, the Shanghai Municipal Government has ranked the automotive industry as "the first important industry", and supported Shanghai-VW. The cooperation between central and local governments and the maker, Shanghai-VW, were an important factor in its success. A relatively strong nation-wide supplier network which formed in the localization process of the main model 'Santana' was another very important contributing factor of the success of Shanghai-VW in China. When we further look into VW's competition supremacy, we can note the following points.

- ✓ \*VW was very successful in entering Chinese market with to preliminary strategy. That was the quick top-down method in decision-making. Another big factor was the best use of existing industrial accumulation. VW set up joint ventures with the only two passenger car makers in China, Shanghai Auto Works and First Auto Works.
- ✓ Meanwhile communications with both central and local government were good to it gained protection from policy and pioneer status. It was really very important that the government offered pioneer status to Shanghai VW at an early stage for its later development.
- ✓ Strong support from its national government. In Germany, there is APA (Asia Pacific Ausschuss), a consulting organization of the federal government. The former Prime Minister, Mr. Kohl acts as chairman and the presidents of each big enterprise are its members. In each state government, there is an organization called Deutchess Haus, which helps medium and small sized enterprises to enter Asian markets and offers low interest loans. Furthermore, Deutchess Haus also had Asian branch offices in Shanghai, Hanoi and Singapore, with offices in Wuhan and Seoul also planned<sup>7</sup>. This is the German system in which government and the private sectors work together.
- ✓ The entry into China was clearly thought through. First the concept of a popularly priced

<sup>7</sup> Pioneer status--the government provides preferential tax treatments and other protections for the companies those certain requirements for a certain period of time.

car was advocated. This means cheap, comfortable and safe. Next, environmental problems were taken into consideration. Promoted by VW, the German China Environment Committee between the two governments was set up in 1992. The main theme was countermeasures against exhaust gas. Further more Daimler Benz promoted the study of traffic problems and the German China Social Indirect Capital Committee was set up, which undertook a research project titled Overall Traffic System from 1996-2000.

- ✓ The auto makers are trying to speed up the local production of the parts. German makers are fully engaged in the entry into the Kunshan Industrial Complex and Shanghai Pudong areas. With VW's powerful technological push and the entire support of the Shanghai municipal government, local content rate was raised and the passenger car parts industry was promoted around Shanghai City. Thus Shanghai VW's priorities were determined.

### **Government Supporting Type 1. Prompt Reaction to Change in International Policies: GM**

In late March 1997, U.S. former Vice President Dole paid a visit to China. He praised the contract between Boeing Co. and the Chinese government which amounted to US\$680 million as a landmark, and also the General Motors venture in Shanghai. The signing ceremony held in the Great Hall of the People in China where Vice President Dole stood beside former Prime Minister Li Peng recalled the scene when former Prime Minister Kohl and Li Peng signed the Shanghai VW agreement in 1984. The Japanese mass media took it very seriously. 8 years after the Tiananmen incident the U.S. was signing on to huge projects. This showed that the U.S. policy was changing from a human rights based one to a more business oriented one<sup>8</sup>

Elsewhere, Ford put US\$54.5 million into Isuzu's subsidiary joint venture Jiangling Auto (Nanchang City, Jiangxi Province) so as to raise the investment level from 20% to 30%. In this way, Ford made Jiangling Auto into a parts assembly base. Jiangling Auto issued stocks valued at 170 million in the Chinese securities market. Ford underwrote stocks to the value of 120 million RMB. The product was a light truck called

<sup>8</sup> Japanese Economy Journal, May 27, 1997.

the 'China Transit'. The annual production volume was to be 60,000 units. Thus together with Chrysler's Cherokee produced in Beijing, the American Big Three's auto products will cover 20% of Chinese auto market where they are in full operation<sup>9</sup>.

### **Government Supporting Type 2. Making Use of Government Financing: PSA Group**

Some enterprises which got support from the Chinese government have not been successful. Let us look at the example of the PSA Group. Peugeot accepted the request of Guangzhou Auto Corp. and set up Guangzhou Peugeot Co., Ltd in 1985, producing commercial vehicles such as the "504", and a later passenger car the "505". Citroen set up Dongfeng Citroen Motor Company with DFM in 1992. But in April 1997, the French PSA group announced official retreat from Guangzhou, deciding that Peugeot (406) will concentrate on passenger car production with Citroen (ZX, local name: Fukang) in Wuhan. In the case of Peugeot, though it entered the Chinese market comparatively early, geographical conditions were not good enough in Guangzhou which is a commercial capital not an industrial center.

These two joint venture projects had strong support from the French government and a low rate loan. But, they were easily affected by political events such as Tiananmen incident in 1989. During that period, the construction of assembly factory was delayed and afterward, relations between Chinese and French governments were not so good.

Dongfeng Citroen Motor Company was quick in launch-up and the local production of parts, though late in market entry. It began CKD production in 1993 and succeeded in raising the parts local content rate to 65% in 1996 and then enjoyed the privilege of low tax of imported parts. In 1997, it raised the rate to 82% which had been reached by Shanghai Volkswagen in 8 years, twice the period.

### **Production Network Oriented: Honda**

Honda took over Guangzhou Peugeot and established the joint venture Guangzhou Honda Automotive Co., Ltd with Guangzhou Auto Group Co. in May 1998. It started production of the American specification Accord in March 1999.

Through above Honda secured a parts production base in Huizhou and assembly foothold in Guangzhou. Guangzhou Honda has the production capacity for the moment as 50,000.

Guangdong is famous for its links with the overseas Chinese network in Southeast Asia. Honda is dreaming of an Asia Car concept with auto parts production in other parts of ASEAN. And by establishing mutual supply and complementary production bases in both South China and Southeast Asia, Honda's dream may well come true.

### **Market Adaptation Oriented: Tianjin Automotive Industry Co. (TAIC)=Correct Choice of Car Models and a Low Price Strategy**

In 2000, TAIC was ranked as No.2 auto maker in China and next to Shanghai VW. The choice of car model (Charade=3D, 1000cc and 1300cc) which fits the Chinese passenger car market and the relatively low prices are the key factors of the enlargement of market share by TAIC. Chang'an Suzuki can also be regarded as of this type.

Tianjin Auto is trying to enlarge its market share by introducing licensed production from Japanese Daihatsu and expanding production scale of both Hijet and Charade. It inclined to low quality for enlargement of production. Although the quality problem is still to be noted, it can be improved by the suppliers of the Toyota Group which entered the Tianjin area through transfer of the lean principle.

### **Group Dynamics Oriented: Toyota Group**

At present the Toyota group has set up 12 joint ventures with Tianjin Auto which include Denso, Aishin Seiki, Toyota Gosei, Arako etc. as the main suppliers. Toyota itself also inaugurated in setting up 5 joint ventures as Tianjin Toyota Motor Co. Ltd., Tianjin Toyota Motor Engine Manufacturing Co. Ltd. etc.. In 1995 it also started giving technological support through Toyota China Technology Center in Tianjin. Also, in 2000, Toyota set up a joint venture with Tianjin Auto for producing Yaris car (1300cc), the famous world strategic model of Toyota. Generally speaking, Toyota is trying to set up a group in China for both parts and finished car production. In contrast, Honda is attempting to set up an international production network.

<sup>9</sup> "Sino-American Times, Series 3", Japanese Economy Journal, November 24, 1996 and April 15, 1997.

**Tentative Conclusive Remarks**

From the above analyses of competition structures and privileges of Japanese, the U.S. and European makers' entry into the Chinese market, we can draw four tentative conclusions.

- ✓ The patterns of foreign enterprises activities in China in the 1980s and the 1990s are different, that is they changed from low ranked makers to top players with strategy. The reason lies in Chinese market growth, and the world industry's structural change as well as production overcapacity in advanced countries.
- ✓ With the changes in both the domestic and international environments, the Chinese government let foreign makers compete with each other. By making use of privileges for capital and technology it succeeded ensuring its own bargaining power. This is quite different from other developing countries.

- ✓ The automobile industry policy and the ninth five-year plan were made against the above background. The central government role was a strong player for the first time.
- ✓ Accordingly Japanese, the U.S. and European makers had different approaches. Only those foreign enterprises which could match the needs of the Chinese side, that is to let China develop its own independent automobile industry, while making full use of its competition advantages may succeed in entering the Chinese market.

We can foresee that globalization will further affect Chinese auto industry and international politics is changing the main issue from one of geography to one of economy. Those projects connected with the automobile industry may get more important in the beginning of 21<sup>st</sup> century.

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