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THE COEXISTENCE OF TWO AUTOMOTIVE SYSTEMS IN CHINA

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Problematic

The Chinese automotive industry is currently experiencing impressive growth. During the past two decades, the average annual growth rate has been 15 per cent. The total output of motor vehicles ranked 8^{th} in the world in 2000 with over 2 million units of production. But this is not the total image. The dichotomy economy structure is creating a type of "farm vehicle" with its output approaching 3 million units in the year of millennium.

The organisation of automotive system in China is accordingly under two distinctive ways.

In the market of two million units, especially in the passenger car industry, the foreign direct investment (FDI) brought by the multinational companies (MNC) is playing the leading role. Chinese carmakers and components suppliers are still under the stage of learning-by-doing through the channel of joint venture. Their core competence is limited in the assembling. The joint venture is in fact the transplant of the world-class carmakers.

As to the industry of farm vehicle in China, a complete system (from the product design to the manufacturing activities till the sales) is organised by Chinese companies without any participation of foreign carmakers. A spatial division of labour within the regional system, the management of complete value chain, and the realisation of economie of scale are three key points manifest the emerging indigenous industry in China.

Why there is a coexistence of two patterns of automotive systems in China? What are those factors determinate the formation and development of these two systems? Since China became the member of WTO in the end of year 2001, what will be the impact of the accession to the Chinese automotive systems in the coming years?

Objective and principal findings

This study assesses two models of automotive systems in China. It has the important implication for the world automotive industry: will there be a vehicle tailored to the developing market and be manufactured by the new carmakers with economies of scale? The inspiration for the automotive industry in emerging countries is more profound: Under the process of globalisation, how long these new players can persist its existence while facing the accelerated world-scale concentration?

Beginning with the introduction of FDI inflows in the Chinese automotive industry and its impact to the changing industrial structure (section I), we then analyse the quick formation of a farm vehicle market during the last two decades (section II). Three key factors determine the difference of these two systems are analysed: market structure, competence of the firm, and industrial regulation. It is evident that present world class carmaker still fail to broaden their product range to the low-end category. However, the future strategic alliance with the new player or simple take-over of the last will be the next step towards the globalisation (section IV).

Methodology

The paper is principally based on a literature review on three aspects: the pattern of automotive systems, the industrialisation of developing country, and the impact of globalisation under the regime of WTO to the developing countries. The case of Chinese automotive industry is based on the official statistics and documents from the *China Automotive Industry Yearbook*.

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