Introduction

For two decades, the auto industry has been at the core of China’s plans to develop a modern economy. The automobile industry has an enduring appeal for developing countries, in part because it is often thought to be a symbol of a modern economy, but even more importantly because it serves as the hub of an integrated industrial structure: extensive forward and backward linkages create the potential for a substantial positive spillover effect. It is not simply about making cars, it is about developing basic manufacturing capabilities in a wide variety of industries.

This appeal was not lost on Chinese officials, and early in the process of economic reform and development, Beijing policy makers began to target the auto industry as a lynchpin of development efforts. Linkages with foreign auto manufacturers would increase the technical knowledge and management skills of joint-venture (JV) assembly plants, and this knowledge would then disseminate to the hundreds of supply firms that would be created to support the core assembly plant. All firms would develop together. This at least was the hope in 1984, when Premier Zhao Ziyang announced the need to ‘switch from “self-reliance” and the all-under-one-roof mentality of small-scale development, to the cooperative industrial complex system, centred around large-scale factories based on modern technology’ (Iwagaki, 1986: 11).

However, the very linkages which make the sector such an attractive development target, also increase the difficulty of coordinated development. It is not a single factory that must be constructed, but a complex network of relationships between firms, markets, and governments. An automobile consists of thousands of components that are manufactured by hundreds of firms. Because these components are part of an assembled product, each
must be in a certain place at a certain time at a certain level of quality. Coordination of this process is a challenge for highly developed economies; it is a Herculean task for a government that is trying to develop an industrial base while simultaneously make the transition from centrally-planned economy to a market economy. What is the most effective manner of coordinating auto sector development?

Given the context of East Asia, it is probably unsurprising that there were many calls for the state to direct the development of strategic industries in China. However, implementation of such an approach was difficult. The central problem was that the central government usually defined ‘strategic’ industries according to political rather than economic criteria, and as a result, directed the resources of the financial system (via ‘policy’ loans) to those places and firms that were least competitive, and therefore most likely to cause political instability in the event that they failed. Even if implementing an industrial policy at the central level had been possible, such a policy would have contradicted the broader objectives of the reformist agenda: making the transition from a centrally-planned economy to the market necessitated a weakening of central control, not a strengthening. Unable to impose an industrial policy from above, the central government relied upon local governments to come up with solutions.

The central government created the space for local development efforts by protecting the domestic market with high tariff walls and imposing domestic content regulations on foreign-invested projects. Local governments were given fiscal incentives to promote the development of local industry, and were also given the autonomy to experiment with a variety of policy approaches (Hao and Lin, 1994). In other words, the local government, in cooperation with their foreign partner, had to construct an industrial model that was conducive to the development of an assembly plant and the coordinated development of a network of supply firms. The political and economic histories of each locality became critical determinants of their chosen approach, and outcomes varied widely.

In the mid-1980s three cities in China established joint-ventures (JV) assembly projects for sedans, two more were added in the early 1990s, and then numerous projects were added at the end of the 1990s. Due to space restrictions, this chapter focuses on only the three earliest localities: Beijing, Guangzhou, and Shanghai. Each of these localities sought to use a JV assembly project as a mechanism for developing a network of local auto supply firms (Beijing with Chrysler, Guangzhou with Peugeot and then Honda, Shanghai with Volkswagen and then General Motors), and after two decades of development it is clear that only Shanghai has realized this objective.

By tracking the sourcing patterns of the assembly plants it is possible to determine which supply firms are the strongest. The assembly plants are intent on finding high-quality parts for the lowest possible price, and therefore their sourcing policies are a good indication of where the most