research snapshot
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China's automotive modernization and strategic industrial policy

What you need to know:

The fast modernization of China's automotive industry was made possible by a strategic industrial policy of the Chinese government. It pushed foreign automakers to transfer large amounts of capital and technology to China, and enabled China to catch-up in two decades.

What is this research about?

By February 2009, China overcame the United States to become the world's largest automotive market and a leading producer. It is important to know how the rapid modernization of this strategic sector happened. How much was due to the leadership of the Chinese government and its industrial policy? How much was due to favorable market forces and investment from foreign multinational corporations (MNCs)? Answers to these questions are even more important due to the recent global recession, which triggered a major restructuring in the North American automotive industry.

What did the researcher do?

Between 1998 and 2006, Dr. Gregory Chin studied the rise of China's automotive industry. He looked at policy and economic documents and interviewed the following groups:

- China's economic officials
- former senior executives of Volkswagen and General Motors
- Chinese researchers and academics who specialize in the automotive sector.

What did the researcher find?

The researcher found that the Chinese government had a key role in overhauling a relatively backward Chinese auto industry. This led to the industry having a modern large-scale assembly and supply capacity. The industry is now able to make a new generation of homegrown Chinese models. Most importantly, the government succeeded in getting foreign automakers to transfer large amounts of capital and technology to China. The key policy behind this shift was the 1994 Auto

Industrial Policy. The policy led to vital investments by GM and Volkswagen and their partnering with domestic Chinese manufacturers. The foreign manufacturers relocated the more sophisticated, higher value-added segments of their auto production chain to China. This ensured that their investments helped to increase the core capacities of China's national industry.

How can you use this research?

This research will help policy makers, business people, and automotive sector unions in North America to see how the government helped transform China's auto sector into a place to invest and a potential global competitor. In contrast to a laissez-faire approach (leaving industry free from state involvement and relying on market dynamics), the Chinese government used policy to get the most value from foreign investment. However, because of world conditions, and China's own characteristics, it is not an experience that other countries can necessarily repeat. Because of the conditions of China's entry into World Trade Organization (WTO), this experience will not necessarily be one the Chinese government can repeat.

About the researcher

Gregory Chin is an Assistant Professor in the Department of Political Science and Faculty of Graduate Studies at York University (Canada) as well as a Senior Fellow of the Centre for International Governance Innovation (CIGI), and an Associate Fellow of Chatham House. This ResearchSnapshot is based on his book *China's Automotive Modernization: The Party-State and Multinational Corporations* (Palgrave Macmillan, International Political Economy Series, 2010).
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Keywords

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