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# Chinese Industry in the Post-WTO Era:

A Case Focus on the Automobile Sector

Eric HARWIT

(University of Hawaii)

Thank you Professor Takahashi, and thanks also to the organizers for kindly inviting me as a speaker today. My talk is only about one industry sector in China but I think it's a very useful one for understanding how China is adjusting to its new role in the World Trade Organization. Over the past years the number of cars in China has risen very dramatically and China is posed to be a major car market in the world, and today it is hard behind United States and Japan, but by the year 2010 it will be actually very close to the Japanese car market. Today almost all of the cars made in China are by Sino-foreign joint ventures, so that China has very few cars that they make by themselves. Almost all of the cars are made in cooperation with a foreign car company. So in a sense, China is already very open to participation, but not to the import of cars. As we see, one of the main topics is talk about the future of Chinese import market.

This presentation examines the factors determining the domestic markets for car imports including the question of after WTO implementation, what road can car imports play in the China market. Also how much can China try to protect its market, and finally what can prevent foreign car companies who want to come into the China market, and what kind of strategies can they adopt.

First I look at the record of the car authority in the past decade, and then consider some of the reasons why the car market in China has risen very quickly, in particular, well, let me go to table one first. Here, you can see during 1990s the car market in China was relatively flat, but in the last three years, there is coming to be a take off in the number of car and also truck sales within the country. So that today in China this year there will be almost two million cars sold in the country and by the year 2010, maybe there will be double that, four million maybe five million cars sold and perhaps ten million as a total of vehicles sold in China, so putting it number three in the world behind the United States and Japan as major car markets in the world. And now why has this occurred. China has low prices, and this was also talked about , and also there are easier credit laws for car loans so that if you borrow money to buy a car in China it's much easier than it was even two or three years ago. And these factors have contributed to this very rapid sales surge in car sales.

Next, I would look at the role of imported cars, Today most of the cars imported into China are large cars, luxury cars. There are Accuras of Honda, some Cadillacs from United States. In the mid 1990s when China made relatively few town cars, imported cars had quite a percentage. In the mid 1990s you can see up to close half of the cars in China were imported. Most of them were from Japan, and most of taxis we could see in Beijing or China were Toyota and Nissan cars. In the late 1990s, China started to make their own cars mainly

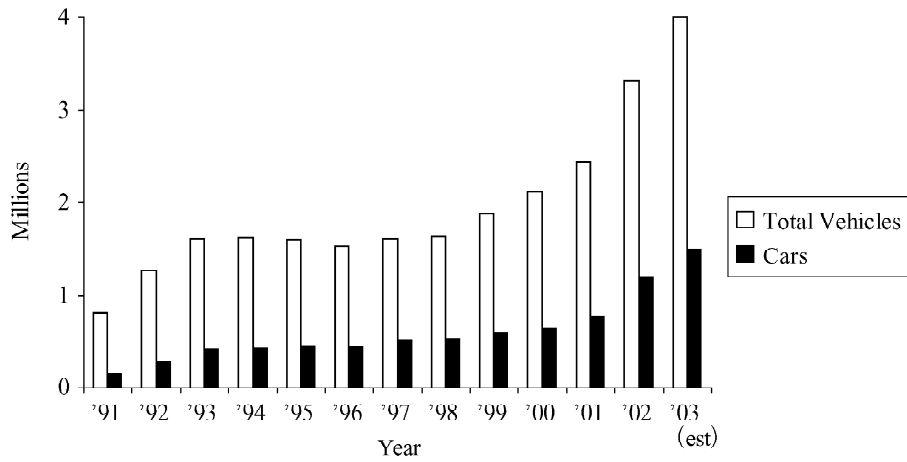
led by the joint venture car Volkswagen, and other car companies joined with General Motors and Citroen from France, and today the import car market is only about 5 or 6%, and if we consider trucks, it's only about 3%, so China has really imported very very few vehicles in the last few years. The official government projection is that by the year 2010, China will import about 10% of the vehicles.

Let's consider Chinese import of cars in the light of other countries. Japan imports about 5% of its vehicles, so not a very large percentage, about the same as China, more than China. But not very much more. South Korea hardly imports any cars at all, less than one percent. Malaysia, a developing country is at about the same level. China imports about 20% of its vehicles. The United States has a relatively liberal market. The Americans like Japanese cars, we also like Germany cars, and so import about quarter of our vehicles from Japan and Germany.

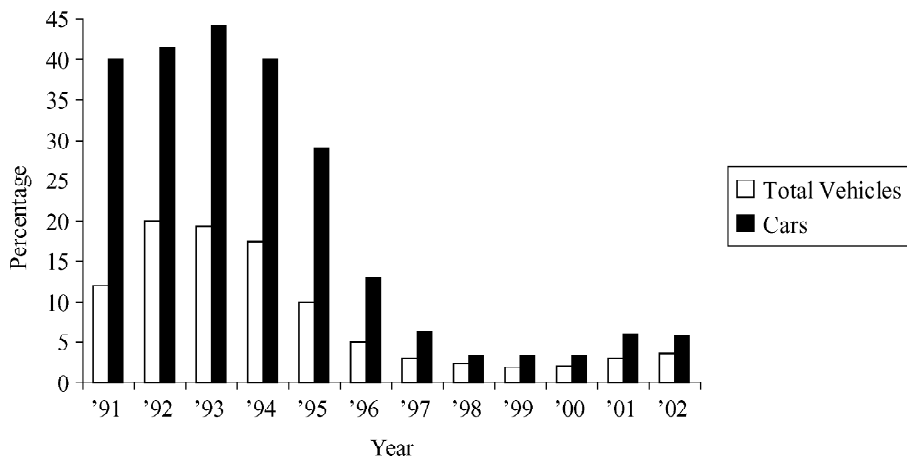
Now, how can China protect its industry? In the interests of time I won't spend too much time on this comparative discussion, but Japan has kept its imports low, mainly because it uses a vehicle inspection system, I think. Those of you here, who want a car, will be familiar with the Shaken (车检) inspection system. South Korea has kept its imports very low, even though the import duty is only 8%. In Japan there is no import duty, by the way. But South Korea has kept their imports at only one percent of all of imports, and South Korea also has luxury cars. South Korea has used non-tariff rules to limit the number of imported cars. If you buy an imported car, you must admit it on your tax forms to the South Korea government, so people are reluctant to buy imported cars. In Malaysia, they protect their car market with import tariffs ranging from 123%, but the cars made in Malaysia are very expensive with relatively low quality, so some Malaysians still import many cars. Before considering China, why we could ask, why can't countries use the WTO rules to force China, or to force Japan, and South Korea to open their markets. Well, in the mid 1990s, the US tried to force Japan to buy more cars. But Japan didn't open its market, but Japan did say that they would make more of their cars in the United States, so Japan today has car factories in Ohio, in California, in very set of parts in the United States, and the United States didn't use the World Trade Organization at that time because they thought using direct pressure on Japan would be more effective.

And what about China? I'd say there are two factors that will probably limit the import of cars into China even after the WTO rules are fully enforced in 2006, China will still have tariffs on imported vehicles, and there is an interesting dynamic that foreign car makers are actually wanting to protect the market from imports. Foreign companies want to keep the China market closed. Let me briefly talk about tariffs in China. Import tariffs were very high until the mid of 1990s, with the late of 1990s actually more than 100%. The 2001 import tariff was 80% and today is about 40%, and within two years or three years it should be under 25%. You have to buy licenses for cars worth over 18000 US dollars, and these make imported cars very expensive. One question is whether imported car can be price competitive with cars made in China, though the cars made in China are still very expensive. So it's hard to calculate exactly how imported cars will compete on price. In interviews I did last year in China, some people said that imported cars will be cheaper, others argue they will be still be expensive, but I think Chinese are consumers with a preference for imported cars if they can choose. Today cars made in China are relatively inexpensive and imported

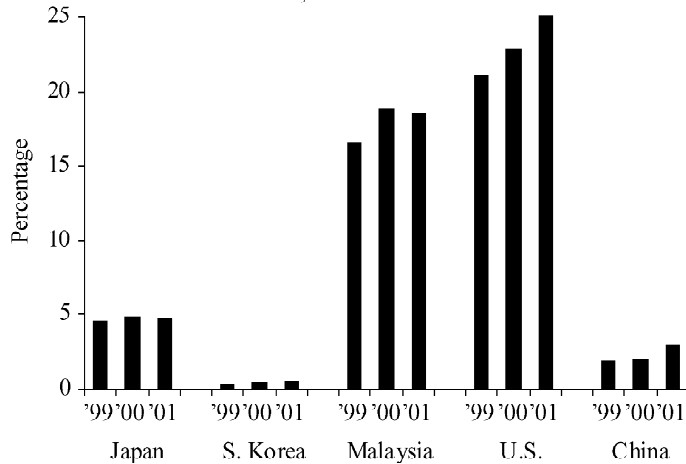
Vehicle Sales in China, 1991–2003



Vehicle Imports as Percent of Total Sales, 1991–2002



Vehicle Import Percentages for Japan, S. Korea, Malaysia, US, and China 1999–2001



cars and joint-ventured cars cost at least ten thousands dollars and some Citroen, Daihatsu, and Suzuki cars are at least five thousands US dollars, so the prices are coming down. But there are factories in China of General Motors, Toyota, Nissan, Honda, all of these companies are in China, so because the foreign car companies are already in China, they don't want to find competition, they want to sell their cars they are making in China without the worry about imported cars. As I said before, foreign car makers seek protection for China, not allowing imported cars into the country because they've already invested some much of money in their car factories in China.

Now it could be said that in five or ten years the Chinese will have their own domestic car makers. They are two, Jili and Cherry, who will be important Chinese car manufactures. Right now the quality is very low, so I don't expect them to act as major players in the future, but if the prices for the joint-venture cars are raised, then it could be that imported cars will be attractive. Chinese, as I said, like to import products. In fact, the Chinese government has some plans to limit imports. Perhaps they will make it hard for foreign car companies to distribute and to set up their sales networks in China to sell their cars. In fact, the Toyota now is trying to set up their sales network to import cars into the country. In some sense, the World Trade Organization has tried to cut tariffs and make it easier for foreign car companies to export to China, but I think in the near future China is very eager to protect its car market and it's very unlikely that we'll see a large number of imported cars in the very near future, thank you.