

A Study on Rivalry Structure of Automobile Industry of China:

Focusing on Shanghai, Jilin and Guangdong Province

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ABSTRACT

China has been No.1 country in the world automobile production and sales volume since 2009. Chinese market condition became a critical factor being able to make a considerable impact on the norm change of world automobile industry. To access the rivalry structure of Chinese automobile industry, this study took the industry based view and the institution based view. Firstly through the performance analysis this study picked out three areas, Shanghai, Guangdong and Jilin province among Big Ten areas of automobile industry. Secondly the rivalry condition was reviewed by three phases: SOEs, JVs and local governments. Especially the rivalry among local governments was addressed through the analysis for the major policies or plans of Shanghai government, Guangdong and Jilin province government. Thirdly the governance structure of three representative SOEs, SAIC, FAW, GAIG was examined to clarify the connection among SOEs, JVs, MNEs and local governments. In the result there exist three kinds of competitions at the automobile industry of China, and the institution based view will be more needed as the government role increases due to the commercialization of green energy car.

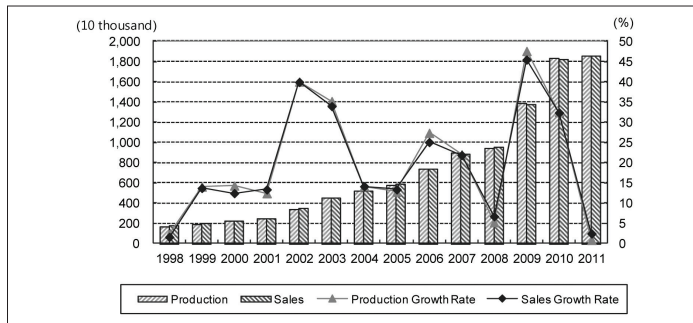
Key Words: China's Automobile Industry, Rivalry of China's Car Makers, Shanghai Automotive Industry Corporation, First Automobile Works, Guangzhou Automobile Industry Group

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I . Introduction

China has been the number one country in the world for automobile production and sales volume since 2009. The annual automobile production and sales volume of China in 2010 reached 18.26 million, 18.06 million respectively, both of the annual growth rates were 32.4% (CAAM Report January 10 2011). Japan took the second place at the automobile production of which was 9.63 million but the United States took the second place at the sales volume of which was 11.77 million (KAMA Report February 16 2011). Japan and the United States have maintained the third place at the automobile sale and production respectively since 2009. For last ten years, from 2000 to 2010, the CAGR for automobile production and sales volume of China were 24.2%, 24.0% respectively, which are two times higher than the CAGR for GDP of China for the same period (Figure 1).

〈Figure 1〉 Automobile Production and Sales Trend of China



Sources: China Automotive Industry Yearbook 2011, 467-478
China Automotive Industry Yearbook 2010, 513-514
China Automotive Industry Yearbook 2009, 455-456
China's Auto Market Almanac 2010, 3
China's Auto Market Almanac 2009, 37 & 207
China Association of Automobile Manufacturers (www.caam.org.cn)

The number one position of China at the world automobile industry will be continued for a long time, so Chinese government and its major manufactures will try to lead for the automobile industry norm change by using such a growing momentum. However the increase rate for car production and sales volume just reached 0.8%, 2.5% respectively in 2011. Many forecasts pointed out that the production and sales volume will surpass 25 million at around 2015 (Park 2009, 4), but the growth engine was braked abruptly in 2011. The biggest reason for it is closely related with the industry policy change; tax reduction policy & sales promotion policy. It might be a significant research topic for the automobile industry at the point of institution factor of China because formal institutions like regulations, rules or policies substantially affected the demand condition for car.

At the point of area study for China, the research methods for automobile industry can be arranged by three ways; the firm resource based method, the industry based method, institution based method. If taking the industry based method or the resource based method it needs to focus on 'Top Six makers' of China, large size SOEs (State Owned Enterprises) and other key players, private firms that centering on passenger car business.¹⁾ The former group includes SAIC (Shanghai Automotive Industry Corporation; 上海汽车工业集团总公司), FAW (First Automobile Works; 第一汽车集团公司), DFM (Dongfeng Motor Corporation; 东风汽车), Changan (长安汽车), BAW (Beijing Automobile Works; 北京汽车), and GAIG (Guangzhou Automobile Industry Group; 广州汽车工业集团有限公司). The latter group includes Chery (奇瑞汽车),

1) Actually Geely and BYD are private firms but Chery is a local government (Anhui province) and other public organizations owned firms, specifically to say a state joint ownership firm (国有联营企业).

BYD (比亚迪汽车), JAC (Jianghuai Automobile Corporation; 江淮汽车), GWM (Great Wall Motors; 长城汽车), and Geely (吉利汽车).

However if taking the institution based view, Chinese government is thought as an important variable because it creates most of the formal institutions. Actually local governments of China have been deeply involved in the operation of SOEs in each area. Therefore local governments of China need to be counted as critical members at the competition structure of automobile industry. Generally at the business administration, the structure refers to industry structure with covering the number of competitors, the heterogeneity of products or services, the cost of entry and exit in an industry (Barney & Hesterly 2010, 34). This study concentrated on the rivalry condition, rivalry change and dynamic relationship among participants, that is the rivalry structure for automobile industry of China. Furthermore this study considered that rivalry of Chinese automobile industry has been made through three phases; rivalry among SOEs, rivalry among MNEs (Multinational Enterprises) or JVs (Joint Ventures), and rivalry among local governments.

In appearance the competition among vehicle makers of China turns out a game among SOEs or JVs but it would be hard to ignore the role of local governments or MNEs behind them. In addition the competition among SOEs or JVs is related with the firm resource based approach but the competition among local governments is more related with the institution based approach. Now this study tried to examine the rivalry structure of automobile industry that composed with three types of competition. Through the case study the relation between SOEs and local governments or the relation between MNEs and JVs can be more clarified, further the difference among three research methods; the

resource based method, the industry based method and the institution based method can be revealed more specifically.

To do so it needs to answer which areas are more suitable to do the case study and what is the reason? That is the first question of this study. Secondly how about the rivalry condition and the performance of SOEs and JVs at the selected areas? Thirdly how about the governance structure for SOEs, JVs and MNEs at the selected areas? Which connection they make with each local government, and what is the suggestion of it for rivalry structure? In order to access to these three questions, at the chapter II of this study, not only theoretical background for the institution based method was presented but also the former research results were reviewed. At chapter III, the performance analysis for Big Ten areas (provinces or cities) of Chinese automobile industry was done, and the reason for selecting the case study areas was presented. At chapter IV, two analyses that would be a core part of this study, the rivalry condition analysis and the governance structure analysis for major SOEs at the selected areas were done. At chapter V, the analyses results were summarized and the implication was presented.

II. Theoretical Background

To access the difference of firms' performance it can take three approaches, the industry based view, the resource based view and institution based view (Peng 2006, 14-15). And those three approaches would be very useful for doing an area study because the researcher is

able to have multilateral view through them. The industry based view puts its emphasis on the industry structure by five competitive forces influencing on industry and then analyzes the external opportunities and threats for a firm. In contrast the resource based view takes more interest in a firm's internal resources or capability rather than external environment. Through the value chain analysis it tries to find out strengths and weaknesses of a firm, and check the sustainability for the sources of competitive advantage.

The institution based view accounts for the performance difference by using external factors resulted from the state, government or a society like law, norms, ethics or cultures. Industry cluster²⁾ approach or Porter's diamond model³⁾ is the representative tool for it. Since 1990s it has emerged as a critical perspective for the international business as well as for a firm strategy together with the continuous growing of the area studies. Douglas North defined institution as humanly devised constraints that structure human interaction, and Richard Scott used institution as a term for regulatory, normative, and cognitive structures and activities that provide stability and meaning to social behavior (Peng 2006, 109). Regarding the former studies for institution based view, Peng (2001)

2) Industry cluster is the critical masses in one place of linked industries and institutions from suppliers to universities to government agencies that enjoy unusual competitive success in a particular field (Porter 1998, 78). It is a geographic concentration of interconnected companies and institutions to find out the functional commonalities or complementary in a particular field with low cost. In addition clusters encompass an array of linked industries and other entities important to competition (Porter 1998, 81).

3) Diamond model approach is generally used to analyze the competitiveness of a region or a cluster. Four factors of Diamond model are the context for firm strategy and rivalry, production factor conditions, related and supporting industries, and local demand conditions (Porter 1990, 77).

traced the reason why firms' business strategies differ in different places and at different times. Peng (2001) clarified the constraints of institution in choosing business strategies and its dynamic interaction for making organization through the researches for Asian firms' strategic choices.

Peng (2000) also accessed to the different connections between local governments and MNEs and compared the performances of MNEs at Chinese automobile industry in 1980s. He considered central government of China as a principal which managing overall development plan of automobile industry but handled local governments and SEOs as agents that practicing specific plans. He compared three FDI cases for China; Beijing Jeep, Shanghai Volkswagen, Guangzhou Peugeot, and picked out Shanghai Volkswagen as a successful case in local government's role & bureaucratic style, problem solving process of MNE, vehicle parts localization rate. Recently Choi (2012) analyzed the formal institution of China, three representative policies⁴⁾ for automobile industry. Choi (2012) classified each purpose of whole contents of three policies by using four factors of Porter's Diamond model; industry structure, demand condition, related industry, factor condition. In result the focus of three policies turned out to has changed from the industry structure to the demand condition.

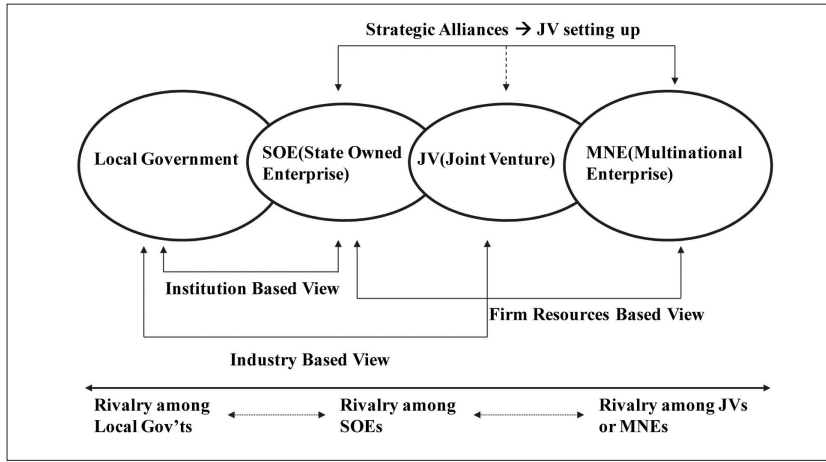
However the previous studies of Zhao (2005), Lee (2007) and Choi (2010b) can be handled as taking the industry based view in accessing Chinese automobile industry. Zhao (2005) used Porter's five competitive

4) Choi (2012) suggested 'Automobile Industry Policy (qiche chanye gongye zhengce: 汽车产业工业政策)' in 1994, 'Automobile Industry Development Policy (qiche chanye fazhan zhengce: 汽车产业发展政策)' in 2004 and 'Automobile Industry Restructuring & Promotion Plan (qiche chanye tiaozheng he zhenxing guihua: 汽车产业调整和振兴规划)' in 2009 as three major policies for Chinese automobile industry.

forces to analyze the automobile industry structure of China and suggested the implication by comparing the competitive positions of American, European, and Japanese makers. Lee (2007) traced the inter-firm trade relations between vehicle maker and parts suppliers at Chinese automobile industry. Through the actual data analysis for parts transaction in China, Lee (2007) pointed out the incomplete institutionalization of governance structure and trading system in automobile industry restricted the efficient market function and competitive resources allocation. Consequently his study also emphasized on the importance of institution based view in accessing Chinese automobile industry.

Choi (2010b) addressed the driving force of structure change for Chinese automobile industry with following five competitive forces of Porter. Choi (2010b) argued that commercialization project for alternative energy vehicle like hybrid vehicle or electric vehicle will greatly impact on industry structure, so the role of government and complementary like electric charging center will be more important than before. However Wang & Tanaka (2011), Choi (2009) and Choi (2011) took the firm resources based view. Choi (2009) approached the value chain of two JVs of SAIC, SGM & SVW and drew out the competitive advantage factors of them. Also Choi (2011) picked out the difference and similarity among strategies of Chery, Geely, BYD by dividing the strategy as corporate strategy and business strategy. Further he examined the results of strategies' divergence of Chery, Geely, BYD through three perspectives; demand condition, management performance and institutional response.

(Figure 2) Theoretical Application for Rivalry Structure of Automobile Industry of China



Source: Own Survey

Wang & Tanaka (2011) did a case analysis of the evolving nature of inter-firm relation of Tianjin Automotive Group (TAG). Wang & Tanaka (2011) argued that institutional ties between government and TAG had been weakened constantly since 2000, in result TAG became more responsive to market changes and could improve the learning effect from JV partner, Toyota. However their study also emphasized the institution based view by addressing the evolution of governance structure and the necessity of institutional consideration in SOEs' strategies.

Now to access the rivalry structure of Chinese automobile industry this study took the industry based view as well as institution based view. Except Lee (2007), Wang & Tanaka (2011), Choi (2010b) most of other former studies concentrated on one perspective but this study tried to take a comprehensive approach as much as possible. Actually the rivalry structure of automobile industry is a good research topic to multilaterally

look into the equity relation, governance structure, conflict & cooperation among four entities: SOEs, JVs, MNEs, and local governments. Therefore academically this study will be able to make a contribution to diversifying and deepening for area studies of China. Most of all this study considered that there exist three kinds of competition at the automobile industry of China. Those are the rivalry among local governments, rivalry among SOEs, rivalry among JVs or MNEs (Figure 2). The operation of SOEs is still under control of local governments even though major decisions of SOE are made by its own leadership. JVs are the outcome of strategic alliances between SOEs and MNEs, and JVs' equity ratios for SOEs and MNEs are mostly 50:50. In the result it can be said that industry based view of this study focuses on SOEs' and JVs' activities or performances but the institution based view takes more interest in local governments' activities.

III. Major Areas of Automobile Industry of China

1. Appearance of Six Clusters and Big Ten Areas

At present the core regions of automobile industry of China can be grouped into six industry clusters (China Automotive Industry Yearbook 2010, 132),⁵⁾ North-East cluster (dongbei gongye jiqun: 东北工业集群), Yangtze River Delta (YRD) cluster (changsanjiao chanye jiqun: 长三角产业集群), Middle Region

5) At present these six clusters are core region for overall industry development of China not only for automobile industry but also for other industries such as electronics, steel, IT or petrochemical (Wei et al. 2009, 27-29).

cluster (zhongbu chanye jiqun: 中部产业集群), Beijing-Tianjin cluster (jingjin chanye jiqun: 京津产业集群), West-South cluster (sinan chanye jiqun: 西南产业集群), Pearl River Delta cluster (zhusanjiao chanye jiqun: 珠三角产业集群). The reasoning for grouping six industry clusters is the geographic proximity, a relative proximity between core area and peripheral areas. Also the formation of core area is closely related with the location of headquarter for major SOE, the biggest vehicle maker at each cluster. So it can be said that such a grouping agrees with the concept of industry cluster.

〈Table 1〉 Six Clusters' Share for Automobile Industry of China in 2010 (billion RMB, 10 thousand)

Classification	Gross industrial output value	Value added of industry	Revenue from principal business	Gross profit (tax & other charges included)	Annual output volume	Annual sales volume
Overall China	43,173	993.0	4,319.0	647.0	1,826.5	1,806.2
Sum of Six Clusters	33,059	769.6	3,423.5	465.8	1,614.9	1,602.2
Share(%)	76.6	77.5	79.3	72.0	88.4	88.7

Source: China Automotive Industry Yearbook 2011, 134

These six clusters occupied 76.6% of gross industrial output value of Chinese automobile industry in 2010 (Table 1). In addition they accounted for 77.5% of value added of Chinese automobile industry, and took 79.3% and 72.0% of total revenue and gross profit respectively. In 2010 the annual automobile output volume of six clusters reached 16.2 million that corresponding to 88.4% of whole output volume, and the share went up 4.1% point than former year. However in order to clarify each area's development condition, the performance analysis for individual city or province is more needed rather than the six cluster analysis.

(Table 2) Development Condition of Big Ten Areas for Automobile Industry of China (2009)

Areas	Revenue (billion RMB)	Operating Profit (billion RMB)	Revenue to Profit Ratio(%)	Total Asset (billion RMB)	Vehicle Export Amount (million US dollar)	Number of Firms (unit)	Annual Average Employed Persons (10 thousand)
1, Shanghai	316,2	35,4	11,2	253,6	230,7	748	18,9
2, Guangdong	302,9	32,9	10,9	197,1	439,1	660	22,7
3, Shandong	297,3	20,8	7,0	229,8	239,0	1,172	26,7
4, Jilin	284,3	25,6	9,0	176,5	105,8	468	18,5
5, Hubei	223,2	19,8	8,9	285,9	225,3	1,026	29,6
6, Jiangsu	222,4	11,2	5,0	181,9	407,0	1,458	28,0
7, Zhejiang	166,7	11,0	6,6	153,4	236,6	2,222	30,4
8, Beijing	155,3	9,5	6,1	96,0	615,2	321	8,0
9, Chongqing	138,0	7,3	5,3	106,9	215,9	564	15,6
10, Tianjin	119,6	10,9	9,1	69,4	50,1	335	8,8
Overall China	2,978,8	229,6	7,7	2,367,8	5,083,0	12,862	307,8

Source: China's Auto Market Almanac 2010, 233 & 256

Therefore this study picked out, so called Big Ten areas among 31 provinces & cities of China on the basis of the revenue and operating profit of each area for automobile industry from 2006 to 2009. In result Big Ten areas were Shanghai, Guangdong, Shandong, Jilin (Province), Hubei, Jiangsu, Zhejiang, Beijing, Chongqing and Tianjin (Table 2). In 2009 the position of Shanghai and Guangdong was relatively stronger than other areas. Especially the revenues and operating profits of both areas were more than other areas, and both areas' revenue to profit ratios went over 10%. However Guangdong's position was not so strong for the automobile production & sales volume as for revenue or operating profit. At total asset of automobile industry Hubei (286 billion RMB), Shanghai (254 billion RMB) and Shandong (230 billion RMB) formed a leading group, but Guangdong's total asset was just 197 billion RMB.

2. Tripod Pivot of Performance; Shanghai, Guangdong and Jilin Province

The performance analysis for Big Ten areas was made by centering on three variables' trend; the revenue, the operating profit, the revenue to profit ratio. Through the analysis this study tried to pick out the best performed areas among Big Ten areas, and do the case study with focusing on them. Doing so would be a very efficient way to look into the rivalry structure for leading players and leading industry clusters of China. Firstly, at the revenue trend, the revenues for Shanghai, Guangdong, Shandong were 316 billion RMB, 303 billion RMB, 297 billion RMB separately in 2009 (Table 3).

However Guangdong got the first place at revenue raking of Big Ten areas while exceeding the revenue of Shanghai in 2008. Shandong had been the third highest area since 2007 with surpassing Jilin's revenue.

〈Table 3〉 Revenue Trend of Big Ten Areas of Automobile Industry of China (billion RMB)

Area	2006	2007	2008	2009
Shanghai	168,3	213,5	227,1	316,2
Guangdong	148,4	211,8	240,7	302,9
Shandong	128,9	185,8	236,5	297,3
Jilin	134,0	178,7	193,7	284,3
Hubei	119,2	142,4	212,9	223,2
Jiangsu	101,5	132,5	174,1	222,4
Zhejiang	100,8	128,0	148,9	166,7
Beijing	98,0	96,6	106,9	155,3
Chongqing	60,2	87,4	101,8	138,0
Tianjin	71,7	89,9	110,5	119,6

Sources: China's Auto Market Almanac 2007, 218
 China's Auto Market Almanac 2008, 263
 China's Auto Market Almanac 2009, 259
 China's Auto Market Almanac 2010, 233

The sum of revenue shares of Shanghai, Guangdong, Shandong for total revenue of automobile industry of China had continuously maintained 30~32% from 2006 to 2009. Secondly, at the operating profit trend, Shanghai and Guangdong formed the strongest two wheels. In 2009 the operating profits of Shanghai and Guangdong reached 35.4 billion RMB, 32.9 billion RMB respectively. Jilin (25.6 billion RMB) and Shandong (20.8 billion RMB) followed them (Table 4).

Guangdong's operating profit had been more than Shanghai's profit from 2006 to 2008, so it can be argued that the operational efficiency of automobile industry in Guangdong had been better than the efficiency of Shanghai except 2009. The sum of profit proportions of Shanghai and Guangdong for total profit of Chinese automobile industry was 36.4% in 2006, 33.2% in 2007, and 29.7% in 2009. As time goes on the concentration level of profit for Shanghai and Guangdong was weaker and weaker.

Thirdly, at the revenue to profit trend, Guangdong and Shanghai had shown great performance for recent four years (Table 5). Guangdong's revenue to profit ratio was 9.6% in 2006, 10.8% in 2007 and 9.6% in 2008. Guangdong's ratio was higher than Shanghai's ratio from 2006 to 2008 but Shanghai was higher than Guangdong in 2009. The revenue to profit ratio of Shanghai and Guangdong was 11.2%, 10.9% each in 2009. Tianjin (9.1%), Jilin (9.0%) and Hubei (8.9%) followed them. When overall considering the revenue, the operating profit and the revenue to profit ratio for recent four years, Shanghai, Guangdong and Jilin developed as tripod pivot of Chinese automobile industry. That is the reason why this study picked up these three areas for doing case study. In addition the focus of case study puts on the rivalry condition analysis and governance structure analysis of SOEs and JVs.

〈Table 4〉 Operating Profit Trend of Big Ten Areas for Automobile Industry of China (billion RMB)

Area	2006	2007	2008	2009
Shanghai	13,5	18,8	15,9	35,4
Guangdong	14,2	22,9	23,2	32,9
Shandong	6,4	10,8	13,3	20,8
Jilin	4,6	14,7	13,4	25,6
Hubei	5,3	5,1	19,3	19,8
Jiangsu	3,2	5,7	8,6	11,2
Zhejiang	5,4	9,1	8,1	11,0
Beijing	2,3	3,5	4,3	9,5
Chongqing	3,7	4,7	3,8	7,3
Tianjin	4,5	6,7	8,9	10,9

Sources: China's Auto Market Almanac 2007, 218
 China's Auto Market Almanac 2008, 263
 China's Auto Market Almanac 2009, 259
 China's Auto Market Almanac 2010, 233

〈Table 5〉 Revenue to Profit Ratio Trend of Big Ten Areas for Automobile Industry of China (%)

Area	2006	2007	2008	2009
Shanghai	8,0	8,8	7,0	11,2
Guangdong	9,6	10,8	9,6	10,9
Shandong	5,0	5,8	5,6	7,0
Jilin	3,4	5,8	6,9	9,0
Hubei	4,5	3,6	9,1	8,9
Jiangsu	3,2	4,3	4,9	5,0
Zhejiang	5,3	7,1	5,4	6,6
Beijing	2,3	3,6	4,0	6,1
Chongqing	6,1	5,4	3,7	5,3
Tianjin	6,3	7,5	8,1	9,1

Sources: China's Auto Market Almanac 2007, 218
 China's Auto Market Almanac 2008, 263
 China's Auto Market Almanac 2009, 259
 China's Auto Market Almanac 2010, 233

IV. Rivalry Condition and Governance Structure Analysis

1. Rivalry Condition Analysis

(1) Rivalry among SOEs

As mentioned above SAIC, FAW, and GAIG are the representative SOEs of vehicle manufacturing business for Shanghai, Guangdong, Jilin province respectively. According to the market share trend for the automobile sales volume in China from 2008 to 2011 (Table 6), SAIC has maintained the first place for recent four years since 2008, and its leading position has been more and more reinforced. Recently the growth speed of SAIC was faster than other competitors. In 2011 the market share of SAIC reached 21.4%, that went over 20% for the first time in China, and the market share difference with other two rivals; DFM (16.5%) and FAW (14.1%) was 5% points, 7.3% points each.

Actually FAW has competed with SAIC intensively since early 2000s while keeping its second place in automobile sales ranking but DFM captured the second place for the first time in 2010. However Changan acquired a SOE, Hafei Auto (哈飞汽车) in 2009 and then began to threaten the 'Big Three SOEs' dominance structure of automobile industry. The market share of Changan was 13.7% in 2009, 13.2% in 2010, and the market share gap between the third maker and Changan largely decreased. But the gap increased again in 2011 as Changan's share went down to 10.9%. GAIG has successfully maintained the 6th place from 2004 to 2011 but did not go forward any more, nor found a more dynamic growth engine until now. Furthermore the relative position of GAIG has been weak gradually. The market share of GAIG

went down to 4.0% in 2011 from 5.6% in 2008. At the same time the market share gap between BAW, the fifth maker and GAIG increased by 4.2% point in 2011 from 2.6% point in 2008 (Table 6).

Overall the market share sum of top four SOEs went up to 62.9% in 2011 from 57.9% in 2008, and the market share sum of upper ten makers went up to 87% in 2011 from 83.4% in 2008. As time goes on the automobile industry's concentration level for top four SOEs or upper ten makers more and more goes up in China. When considering that the passenger car business became a practical growth engine for automobile industry of China, a relatively weak position of passenger car business of GAIG would be an urgent issue to be tackled rapidly (Table

(Table 6) Market Share Trend of Automobile (commercial car & passenger car) Sales in China (10 thousand, %)

Rank	2011			2010			2009			2008		
	Firm	Sales volume	Market share	Firm	Sales volume	Market share	Firm	Sales volume	Market share	Firm	Sales volume	Market share
1	SAIC	396.6	21.4	SAIC	356.4	19.7	SAIC	270.6	19.8	SAIC	172.1	18.3
2	DFM	305.9	16.5	DFM	261.5	14.5	FAW	194.5	14.3	FAW	153.3	16.3
3	FAW	260.1	14.1	FAW	255.8	14.2	DFM	189.8	13.9	DFM	132.1	14.1
4	Changan	200.9	10.9	Changan	238.6	13.2	Changan	187.0	13.7	Changan	86.1	9.2
Top Four Sum		1,163.5	62.9		1,112.3	61.6		841.8	61.7		543.6	57.9
5	BAW	152.6	8.2	BAW	149.0	8.2	BAW	124.3	9.1	BAW	77.2	8.2
6	GAIG	74.0	4.0	GAIG	72.4	4.0	GAIG	63.7	4.7	GAIG	52.6	5.6
7	Chery	64.2	3.5	Chery	68.2	3.8	Chery	50.0	3.7	Chery	35.6	3.8
8	Huachen	56.7	3.1	BYD	52.0	2.9	BYD	44.8	3.3	Huachen	28.5	3.0
9	JAC	49.5	2.7	JAC	45.5	2.5	Geely	32.9	2.4	Hafei	22.4	2.4
10	GWM	48.7	2.6	Huachen	44.7	2.5	JAC	31.9	2.3	Geely	22.2	2.4
Upper Ten Sum		1,609.1	87.0		1,544.1	85.5		1,189.4	87.2		782.0	83.4

Sources: China Automotive Industry Yearbook 2009, 455-458
 China Automotive Industry Yearbook 2010, 513-516
 China Automotive Industry Yearbook 2011, 469-470
 China's Auto Market Almanac 2010, 19
 China Association of Automobile Manufacturers (www.caam.org.cn)

7). Therefore it can be argued that a more innovative strategy change such as equity alliances or M&A is required for GAIG to enter top four list of Chinese automobile industry in the near future. Further the restructuring policy for automobile industry of China is highly possible to be proceeded under the leadership of top four SOEs. Therefore it can be said that two representative SOEs of Shanghai and Jilin province, that is SAIC and FAW successfully preoccupied a much better position than SOE in Guangdong, GAIG.

(2) Rivalry among JVs, MNEs

Another game among Shanghai, Jilin, Guangdong has been played among MNEs, the strategic alliance partners of SAIC, FAW, GAIG. Actually this type of competition has been a core part of the rivalry structure for automobile industry because most MNEs have invested aggressively in passenger car manufacturing business in China for last 30 years. The passenger car manufacturing business has been a practical growth engine for automobile industry of China. In addition the key players for passenger car manufacturing business were mostly JVs established by SOEs and MNEs with the equity ratio 50:50. At the market share trend of passenger car sales in China (Table 7), the only indigenous vehicle maker that entered the market share top ten list continuously for recent four years was Chery.⁶⁾ Another local maker, BYD had emerged at the list in 2009 for the first time but Geely had been out of the list since 2008.

⁶⁾ Actually Chery has been the biggest independent model passenger car maker as well as the biggest exporter of its independent models in China since 2003. So it can be said that Chery is a local maker that is the most close to the global player level except major six SOEs in China (Roberts 2008a; Roberts 2008b).

In addition major subsidiaries of Changan that produce passenger cars are Changan Ford Mazda (长安福特马自达), Hafei Auto and Changhe Auto (昌河汽车), but over half a production of passenger car has made by Changan Ford Mazda, a JV between Changan and Ford. For recent four years it was hard to find any subsidiaries of GAIG like Guangqi (广汽) Honda or GAC Toyota at the top ten list. Guangqi Honda ranked the 6th in 2007 and the 8th in 2008 but it had been out of the list since 2009. In contrast SAIC had three affiliated JVs; SGM Wuling (上海通用五菱), SGM, SVW, and FAW had two affiliated JVs; FAW VW and FAW Toyota at top ten list.

〈Table 7〉 Market Share Trend of Passenger Car Sales Volume in China (10 thousand, %)

Rank	2011			2010			2009			2008		
	Firm	Sales volume	Market share	Firm	Sales volume	Market share	Firm	Sales volume	Market share	Firm	Sales volume	Market share
1	SGM Wuling	121,8	8,4	SGM Wuling	113,6	8,3	SGM Wuling	97,7	9,5	SGM Wuling	58,6	8,7
2	SGM	118,6	8,2	SGM	101,2	7,4	SVW	72,8	7,0	FAW VW	49,9	7,4
3	SVW	116,6	8,1	SVW	100,1	7,3	SGM	70,8	6,9	SVW	49,0	7,3
4	FAW VW	103,5	7,2	FAW VW	87,0	6,3	FAW VW	66,9	6,5	SGM	43,2	6,4
Top Four Sum		460,4	31,8		401,9	29,2		308,3	29,8		200,6	29,7
5	DFM Nissan	80,9	5,6	Changan	71,0	5,2	Beijing Hyundai	57,0	5,5	FAW Toyota	36,6	5,4
6	Beijing Hyundai	74,0	5,1	Beijing Hyundai	70,3	5,1	DFM Nissan	51,9	5,0	Chery	35,6	5,3
7	Chery	63,4	4,4	Chery	67,5	4,9	Changan	51,9	5,0	DFM Nissan	35,1	5,2
8	Changan	54,3	3,8	DFM Nissan	66,1	4,8	Chery	50,0	4,8	Guangqi Honda	30,6	4,5
9	FAW Toyota	52,9	3,7	BYD	52,0	3,8	BYD	44,8	4,3	Beijing Hyundai	29,5	4,4
10	BYD	44,9	3,1	FAW Toyota	50,6	3,7	FAW Toyota	41,7	4,0	Changan	26,5	3,9
Upper Ten Sum		830,8	57,4		779,4	56,6		605,6	58,6		394,5	58,4

Sources: China Automotive Industry Yearbook 2009, 455-458
China Automotive Industry Yearbook 2010, 513-516
China Automotive Industry Yearbook 2011, 469-470
China's Auto Market Almanac 2010, 28 & 73
China Association of Automobile Manufacturers (www.caam.org.cn)

But the major operation for SGM Wuling and FAW Toyota has been done in Liuzhou (柳州) of Guangxi (广西) province and in Tianjin respectively. What a noticeable thing is that four JVs, SGM Wuling, SGM, SVW, FAW VW have not only kept top four ranks without any interruption but also formed a strong entry barrier for their own dominance structure. Shanghai became the most influential area for the automobile industry of China on the basis of such a great performance of SAIC three JVs for passenger car manufacturing business.

However at the revenue to operating profit ratio, Guangqi Honda and GAC Toyota displayed relatively better results than other JVs. In 2009 the revenue to profit ratio for Guangqi Honda was 20.3%, and the profit ratio for GAC Toyota was 24.8%. In contrast the profit ratio for SGM, SVW, DFM Nissan, Changan Ford Mazda and Beijing Hyundai was 17.9%, 15.8%, 15.3%, 16.3%, 17.5% respectively (Table 8). The revenue to profit ratio of JVs mainly operated in Guangdong was higher than other areas' JVs. The revenue to profit ratio of FAW VW and DFM Honda reached 27.2% and 28.2% each in 2009. A new emerging private maker in Guangdong, BYD (比亚迪)⁷⁾ showed a better performance at revenue to profit ratio (20.4%) than the performance of similar sized makers, Chery or Geely. At the revenue to profit ratio trend from 2007 to 2009 (Table 9), the ratio for Guangqi Honda and GAC Toyota had been kept at around

7) Originally BYD was a rechargeable battery and mobile phone parts manufacturer but entered the automobile manufacturing business by acquiring a deficit stated SOE, Xianjinchuan Auto (西安秦川汽车) in 2003. Due to the explosive popularity of a passenger car, F3, BYD automobile sales volume reached 448 thousand in 2009 and entered the top ten list for the first time. BYD became a representative icon of electric car development in China after launching a plug-in hybrid electric vehicle (PHEV), F3DM in 2008 for the first time in China (Choi 2010a, 39).

20% without a big difference but the ratio for SGM and SVW showed a big deviation as 11%~17.9%.

<Table 8> Revenue & Profit for Major Automobile Makers of China in 2009 (100 million RMB, %)

Firm	Revenue	Profit	Revenue to Profit Ratio
Overall Automobile industry of China	23,817.5	3,033.9	12.7
Automobile Manufacturing Business of China	14,486.6	1,932.5	13.3
SAIC	3,422.3	621.9	18.2
Shanghai GM(SGM)	924.4	165.6	17.9
Shanghai VW(SVW)	756.0	119.4	15.8
Shanghai GM(SGM) Wuling	352.0	50.5	14.4
Nanjing Automobile	92.3	16.7	18.0
FAW	2,065.5	346.6	16.8
FAW VW	931.6	253.9	27.2
Tianjin FAW Toyota	532.6	91.2	17.1
FAW Car Co.	263.6	26.2	10.0
Tainjin FAW Xiali	75.8	4.2	5.5
Dongfeng Motor(DFM)	2,691.6	433.4	16.1
Dongfeng Nissan	647.5	105.8	16.3
Dongfeng Honda	337.1	95.2	28.2
Dongfeng Peugeot	229.1	35.3	15.4
Dongfeng Yueda Kia	224.2	26.6	11.9
Guangzhou Auto(GAIG)	1,262.8	186.4	14.8
Guangqi Honda	507.4	103.2	20.3
GAC Toyota	386.2	95.9	24.8
Beijing Auto(BAW)	1,113.9	125.8	11.3
Beijing Hyundai	476.2	83.5	17.5
Beijing Benz Daimler	62.7	6.6	10.6
Changan Auto	1,029.4	105.2	10.2
Changan Ford Mazda	364.0	55.9	15.3
Changan Hafei	72.4	6.1	8.4
Jiangxi Changhe	53.1	5.1	9.5
Chery	222.9	14.3	6.4
Geely	165.1	22.5	13.6
BY D	210.4	42.9	20.4

Source: China Automotive Industry Yearbook 2010, 536-538 & 542-543

(Table 9) Revenue to Profit Ratio Trend for Major Automobile Makers of China (%)

Major Firms	2007	2008	2009
Shanghai Auto(SAIC)	15,6	19,2	18,2
Shanghai GM(SGM)	16,9	11,0	17,9
Shanghai VW(SVW)	14,1	12,0	15,8
Shanghai GM(SGM) Wuling	11,0	16,1	14,4
Nanjing Automobile Co.	n,a	n,a	18,0
First Auto(FAW)	15,5	12,7	16,8
FAW VW	21,4	16,2	27,2
Tianjin FAW Toyota	15,6	15,5	17,1
FAW Car Co.	11,1	15,2	10,0
Tianjin FAW Xiali	9,3	6,2	5,5
Dongfeng Motor(DFM)	14,2	11,6	16,1
Dongfeng Nissan(Passenger Car)	13,7	13,1	16,3
Dongfeng Honda	22,4	28,7	28,2
Dongfeng Peugeot(Shenlong Auto)	12,2	8,0	15,4
Dongfeng Yueda Kia	4,7	10,1	11,9
Changan Auto	11,6	10,2	10,2
Changan Ford Mazda	16,0	13,7	15,3
Changan Hafei Automobile	3,6	3,5	8,4
Jiangxi Changhe Automobile	7,1	n,a	9,5
Beijing Auto(BAW)	7,9	8,1	11,3
Beijing Hyundai	12,2	12,6	17,5
Beijing Benz Automotive Co.	10,2	13,4	10,6
Guangzhou Auto(GAIG)	20,9	18,7	14,8
Guangqi Honda	21,4	20,6	20,3
GAC Toyota	19,3	18,7	24,8
Chery	9,5	6,2	6,4
Geely	13,4	13,6	13,6
BYD	15,0	15,5	20,4
Automobile Making Business of China	11,8	10,8	13,3
Overall Automobile Industry of China	11,1	9,7	12,7

Sources: China Automotive Industry Yearbook 2008, 498-501 & 504-505
 China Automotive Industry Yearbook 2009, 480-483 & 486-487
 China Automotive Industry Yearbook 2010, 536-538 & 542-543

So it can be said that at the quality of automobile sales performance rather than at the sales quantity, JVs of GAIG had been better than JVs of SAIC or JVs of FAW. The revenue to profit ratio of FAW- VW was 16.2% in 2008 but went up to 27.2% in 2009. Except DFM Honda, JVs of GAIG

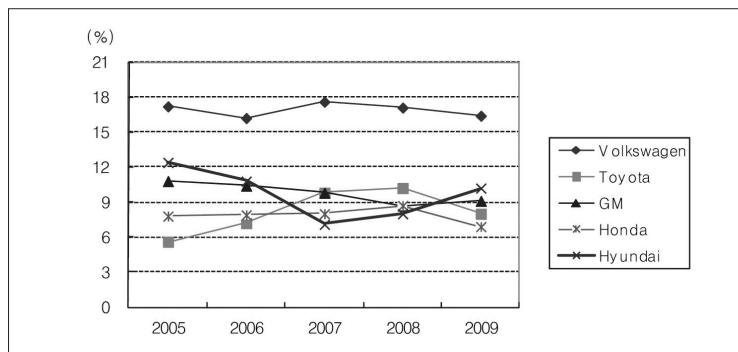
had displayed a better performance than other JVs in China. If looking into the vehicle sales performance of MNEs in China with including the domestic sales and export (Table 10), the sales volume of Volkswagen reached 1,440 thousand in 2009 that was the most among MNEs in China. Hyundai, GM, Toyota, Honda followed Volkswagen (VW) but the difference with Volkswagen was bigger and bigger.

<Table 10> Automobile Sales Volume Trend of MNEs in China (10 thousand)

MNE	2005	2006	2007	2008	2009	CAGR(%)
Volkswagen	57	72	94	103	144	26,1
Toyota	19	35	52	62	70	38,5
GM	36	46	52	52	80	22,1
Hyundai	41	48	38	48	90	21,7
Honda	26	35	42	52	61	23,8
Nissan	18	22	28	36	54	31,6
Ford	13	19	29	30	44	35,6
PSA	14	20	21	18	27	17,8
Suzuki	13	17	16	18	23	15,3

Sources: China's Auto Market Almanac 2008, 42
China's Auto Market Almanac 2010, 56

<Figure 3> Vehicle Sales Volume Share Trend of MNEs in China



Sources: China's Auto Market Almanac 2008, 42
China's Auto Market Almanac 2010, 56

From 2005 to 2009 Volkswagen had kept its number one position constantly in China and it was the first maker that goes beyond one million sales in 2008. Currently a strong position of Shanghai as the biggest automobile industry cluster might be resulted from a successful alliance relation between SAIC and Volkswagen. Furthermore Volkswagen, as alliance partner of FAW, also has made a big contribution for upgrading the Jilin's position. Another alliance partner of SAIC, GM has emerged as the most influential rival for Volkswagen while selling 800 thousand vehicles in 2009. Alliance partners of GAIG, Toyota and Honda sold 700 thousand, 610 thousand each in 2009.

However Toyota showed the highest growth rate, CAGR 38.5% from 2005 to 2009. Changan's alliance partner, Ford and DFM's partner, Nissan also showed above 30% CAGR for the same period. The CAGR for Volkswagen, GM, Honda was 26.1%, 22.1%, 23.8% respectively. Overall the number one position of Volkswagen has been more and more powerful in China but the competition for catching the second place among Toyota, GM, Honda, Hyundai became more severe than before. Market share of Volkswagen in China has been kept at around 17% but other MNEs' market share has gone up and down largely from 6% to 12% (Figure 3). However the market share difference among MNEs that trying to get the second place has decreased since 2007.

(3) Rivalry among Local Governments

The result for rivalry among three local governments, Shanghai, Jilin and Guangdong leads to the difference of plans or policies for facilitating the automobile industry development of each area. For recent 3~4 years the key points of automobile industry related plans or policies can be

summarized as three issues; creating the competitive advantage for local leading maker, improving the independent model launch & parts production capability, facilitating the hybrid vehicle or electric vehicle (EV) commercialization (China Automotive Industry Yearbook 2009, 10; China Automotive Industry Yearbook 2010, 8-11). According to the analysis of this study, those three local governments have tried to play a leading role for the national automobile industry while meeting actively the policy requirements of central government. In addition each local government has made all efforts to use the automobile industry as a facilitator to upgrade whole industry basement of each area (Tong 2008, 26-27). Because the automobile manufacturing business is a kind of synthetic one with covering machine, electronics, information technology, steel, petrochemical industry etc. Further it is closely related with the financial market like insurance, installment payment, or lease.

Firstly in order to create the competitive advantage for leading makers of three areas (Table 11), Shanghai municipal government tries to make SAIC be a global player being able to compete MNEs seriously beyond No. 1 player in China.⁸⁾ Shanghai government intends to enlarge the manufacturing scale of SAIC through the restructuring policies by central government like 'Notice for Automobile Industry Restructuring Suggestion (guanyu qiche gongye jiegou tiaozheng yijiande tongzhi: 关于汽车工业结构调整意见的通知)' published in 2006 and 'Plan for Automobile Industry Adjustment and Development (qiche chanye tiaozheng he zhenxing guihua: 汽车产业调整和振兴规划)' published in 2009 (China Automotive Industry Yearbook 2010, 134).

8) Generally the annual sales volume for vehicle, 5 million might be regarded as a critical factor to be a global player. SAIC sales volume reached almost 4 million in 2011, so if considering sales volume, SAIC will be a global player at around 2015.

(Table 11) Major Contents for Automobile Industry Related Plans & Policies of Local Governments

Government	Three Key Points	Major Contents of Policies & Plans
Shanghai City	Competitive Advantage of Local Leading Maker	SAIC's strategy to be as a global maker beyond No.1 player in China
		Production scale enlargement by leading the industry restructuring policy
		Facilitating going abroad strategy by global M&A & alliances with VW, GM
	Independent Model & Parts Production Capability Increase	Shanghai International Automobile City
		Sales promotion by focusing on independent model, Roewe(荣威) of SAIC
		Global parts supply chain management, 27 R&D centers for new parts
Hybrid, Electric Vehicle Commerciali-zation	Support for local firms' R&D activities for alternative energy vehicle	
	Test operation for 1,000 electric vehicles at Shanghai EXPO in 2010	
	Double dealing strategy for independent innovation & alliances with MNEs	
Jilin Province, Changchun City	Competitive Advantage of Local Leading Maker	Jilin Automobile Industry Leap Over Plan
		Nine suggestions for sustainable growth & sales promotion of FAW car
		Support for production lines remodeling & extension project of FAW-VW
	Independent Model & Parts Production Capability Increase	Changchun Auto Industry Development Area, Jilin Auto Industry Complex
		Locally sourced parts rate increase plan for 96 major suppliers
		Support for 100 core projects for new parts & parts quality improvement
Hybrid, Electric Vehicle Commerciali-zation	Jilin new energy automobile industry collaboration covering 22 institutions	
	Test operation for 200 hybrid bus made by FAW in Dalian & in Changchun	
	Three core bases for new energy automobile parts R&D & production	
Guangdong Province, Guangzhou City	Competitive Advantage of Local Leading Maker	Guangdong Automobile Industry Adjustment and Development Plan
		Vehicle output capacity 2 million & vehicle export share above 10% goal
		National leadership for hybrid, electric vehicle R&D & commercialization
	Independent Model & Parts Production Capability Increase	Eastern(Northern, Southern) Guangzhou Auto Industry Cluster
		Independent model passenger car production share above 15% goal
	Hybrid, Electric Vehicle Commerciali-zation	Vertical integration & partnership between parts makers and car makers
Test operation for 800 hybrid bus in Shenzhen, EV market share 5% goal		
Industry-government-academic collaborating organization for EV in 2009		
		Traffic system remodeling plan for hybrid car, EV operation & recharging

Sources: China Automotive Industry Yearbook 2010, 133-134, 137, 147-150, 153, 172-174 & 183-184. China Automotive Industry Yearbook 2009, 156-159, 160-161 & 176-178.

China Automotive Industry Yearbook 2008, 165-167 & 182-183

Jilin province government with including Changchun city also announced 'Jilin Province Automobile Industry Leap Over Plan (jilingsheng qiche chanye yuesheng jihua: 吉林省汽车产业跃升计划)' in 2009 to reinforce the competitiveness of its leading firm, FAW. In addition it made nine suggestions to promote the vehicle sales as well as to create the sustainable growth basis for FAW (China Automotive Industry Yearbook 2010, 148). Guangdong province government with covering Guangzhou city also announced 'Guangdong Province Automobile Industry Adjustment and Development Plan (guangdongsheng qiche chanye tiaozheng he zhenxing guihua: 广东省汽车产业调整和振兴规划)' in 2009 for supporting its leading players like GAC Toyota, Guangqi Honda, Dongfeng Nissan. Through the plan Guangdong government set specific goals for the vehicles produced in Guangdong to be total production 2 million, to surpass the domestic market share 15%, and to export over 10% of total production (China Automotive Industry Yearbook 2010, 174).

Secondly for improving the independent model launch & vehicle parts production capability, Shanghai municipal government actively propels the parts localization projects through twenty seven R&D centers in Shanghai while focusing on the quality and satisfaction level improvement for the independent model of SAIC, ROEWE (荣威) (China Automotive Industry Yearbook 2010, 153). A representative R&D complex of Shanghai is called the 'Shanghai International Automobile City (Shanghai guoji qichecheng: 上海国际汽车城)' (China Automotive Industry Yearbook 2009, 187). Jilin province government selected one hundred core R&D projects for new parts or parts performance upgrade, and invested 7.2 billion RMB by 2010 (China Automotive Industry Yearbook 2009, 156). Also it designated the ninety six provincial level parts suppliers, and made the managerial consulting &

financial supports for them to raise the parts localization rate. The main R&D complexes of Jilin province are ‘Jilin City Automobile Industry Complex (jilinshi qiche gongye yuanqu: 吉林市汽车工业园区)’ & ‘Changchun Automobile Industry Development Area (changchun qiche chanye kaifaqu: 长春汽车产业开发区)’ (China Automotive Industry Yearbook 2009, 187).

Guangdong province government intends to have the market share of independent model passenger cars produced in Guangdong reach 15% of whole independent models in China. Most of all the vertical integration & collaboration system between local parts suppliers and GAIG or its’ JVs have been handled as a major assignment. At present there are five R&D complexes in Guangzhou including ‘Northern Guangzhou Automobile Industry Cluster (guangzhou beibu qiche chanye jiqun: 广州北部汽车产业集群)’ and ‘Eastern Guangzhou Automobile Industry Cluster (guangzhou dongbu qiche chanye jiqun: 广州东部汽车产业集群)’ (China Automotive Industry Yearbook 2009, 188).

Thirdly, for promoting the hybrid electric vehicle (HEV) or electric vehicle (EV) popularization, Shanghai government already successfully finished the test operation for one thousand EVs during Shanghai EXPO in 2010. To facilitate the commercialization of hybrid version for Roewe of SAIC, so called ‘Double Dealing Strategy (liangtiaotui zoulu: 两条腿走路)’ that is, ‘Self Innovation (zizhu chuangxin: 自主创新)’ & ‘Strategic Alliances with MNEs (neiwai jiehe: 内外结合)’ has been applied as a fundamental rule (China Automotive Industry Yearbook 2010, 153). Jilin province government also began the test operation for one hundred fifty hybrid buses in Dalian city and fifty hybrid buses in Changchun city. All of those hybrid buses were supplied by FAW.

In order to accelerate the commercialization project for hybrid vehicle

or EV, it created the 'Jilin Province New Energy Automobile Industry Union (jilincheng xinnengyuan qiche changye lianmeng: 吉林省新能源汽车产业联盟)' that composed of twenty two organizations with covering vehicle makers, parts makers, academic & public R&D centers and public institutions (China Automotive Industry Yearbook 2010, 148). Guangdong government also made a similar organization as the union of Jilin, a kind of industry-government-academic collaboration system to promote the commercialization for hybrid vehicle or EV. Through the organization, Guangdong government intends to accomplish a specific goal, one hundred thousand annual output for hybrid vehicle and EV as well as above 5% market share of total vehicle output in Guangdong (China Automotive Industry Yearbook 2010, 174).

2. Governance Structure Analysis

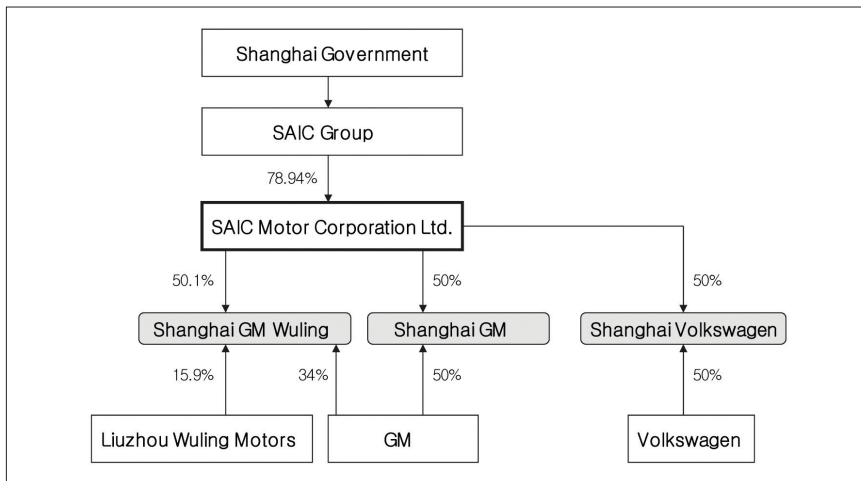
Through the rivalry condition analysis for three areas, three types of games were confirmed. However it needs to check how four entities, SOEs, JVs, MNEs and local governments have been connected with each other for accessing the rivalry structure more specifically. To do so this study looked into the governance structure of SAIC, FAW, and GAIG. The SAIC Group (shanghai qiche gongye jituan zonggongsi: 上海汽车工业集团总公司), in short SAIC is a holding company of SAIC Motor Corporation Limited (shanghai qiche jituan gufen youxian gongsi: 上海汽车集团股份有限公司), and SAIC Motor is also a holding company for thirty one subsidiary firms⁹⁾ (Figure 4).

9) Until 2010 the number of subsidiary firms of SAIC Motor was thirty one. Among them vehicle makers were twenty one firms including Shanghai VW & Shanghai GM, and the parts makers were ten but financial service firm was just one.

SAIC holds 78.94% of total share of SAIC Motor, and SAIC Motor not only takes 50.1% share of Shanghai GM (SGM) Wuling but also takes 50% share for SGM, Shanghai Volkswagen (SVW) respectively. In addition GM and Volkswagen take 50% share of SGM, SVW each. GM also has 34% share of SGM Wuling. However the operation of SAIC has been mostly affected by Shanghai municipal government since the establishment in 1978. So Shanghai government and SAIC, its affiliated JVs can be considered as one team at the point of governance structure.

FAW Group Co., in short FAW is also a holding company that has sixteen wholly owned subsidiaries and thirteen partially owned subsidiaries until 2010. FAW takes 60% of total share of FAW Volkswagen and 20% share of Tianjin FAW Toyota (Figure 5). Also FAW holds 51% share of Tianjin FAW Xiali (天津一汽夏利). In contrast

〈Figure 4〉 Governance Structure of SAIC Group

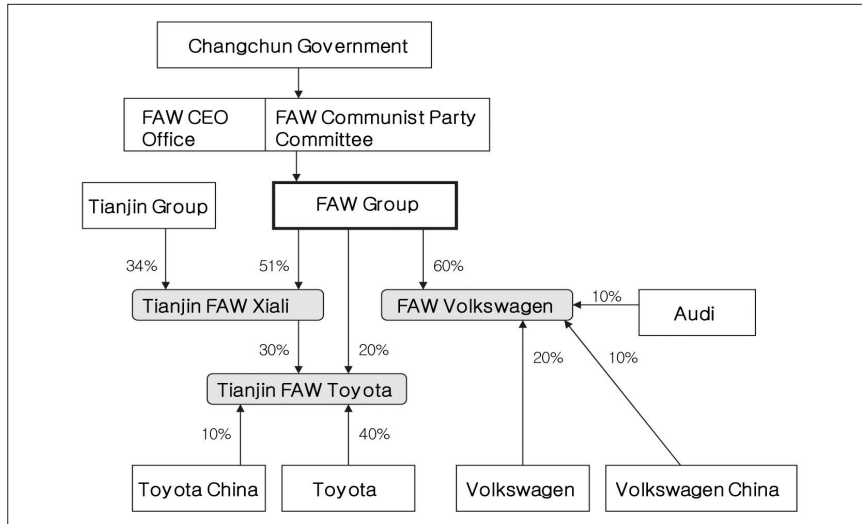


Sources: China Automotive Industry Yearbook 2009, 106 & 404
China Automotive Industry Yearbook 2010, 88 & 454

Toyota and Toyota China have 50% share of Tianjin FAW Toyota, and Volkswagen and Volkswagen China hold 30% share of FAW Volkswagen. Actually it can be said that the operation of FAW has been mainly under control of Changchun (长春) municipal government rather than Jilin province government because the headquarter of FAW has been located in Changchun since the foundation in 1953. It can be inferred that the inner Communist Party Committee of FAW (yiqi jituan gongsi dangwei: 一汽集团公司党委) seizes the real power of governance structure. Changchun government or Jilin province government and FAW have set a common goal in managing FAW for a long time.

GAIG is also a holding company of GAG Corporation Ltd., in short GAC. Until 2010 GAIG had four subsidiaries but GAC had fifteen

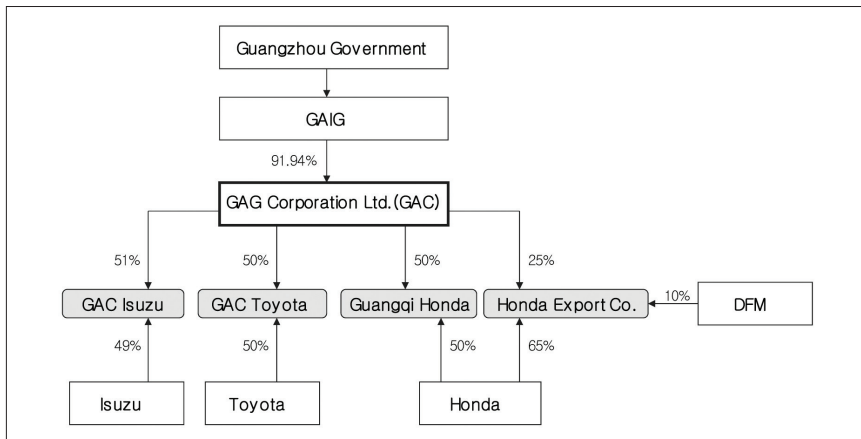
〈Figure 5〉 Governance Structure of FAW Group



Sources: China Automotive Industry Yearbook 2009, 104 & 402
China Automotive Industry Yearbook 2010, 86 & 452

subsidiaries including GAC Toyota & Guangqi Honda. GAIG takes 91.94% of total share of GAC, and GAC holds 51% share of GAC Isuzu, 50% share of GAC Toyota, 50% share of Guangqi Honda (Figure 6). In addition Honda takes 50% share of Guangqi Honda, and 65% share of Honda Export Corporation, GAC and DFM also hold 25% share, 10% share of Honda Export Corporation each. An important decision making power of GAIG has been under control of Guangzhou municipal government rather than Guangdong province government or any other organizations because the real owner for GAIG's assets is Guangzhou government. In the result Guangzhou government and GAIG, JVs of GAC can be handled as one team or the networked entities even though there exist some rival relations among JVs like GAC Toyota or Guangqi Honda.

〈Figure 6〉 Governance Structure of GAIG



Sources: China Automotive Industry Yearbook 2009, 108 & 406
China Automotive Industry Yearbook 2010, 90 & 457

IV. Conclusion

To access the rivalry structure of Chinese automobile industry this study presented three questions at chapter I. In the result firstly, this study selected Big Ten areas of Chinese automobile industry on the basis of revenue and operating profit analysis for thirties one areas from 2006 to 2009. Among Big Ten areas, Shanghai and Guangdong, Jilin province turned out as tripod pivot of automobile industry, so this study looked into the rivalry structure of these three areas in detail. Secondly, at the rivalry condition SAIC's No.1 position of market share in China has been more and more strengthen but FAW went down the third in 2010, GAIG rarely got out of the most weak position among top six SOEs. Three JVs of SAIC and FAW VW have got great performances at the passenger car sales volume by creating a strong entry barrier for their own dominance structure. But two JVs of GAIG, Gaungqi Honda and GAC Toyota had been out of top ten list since 2009 even though their revenue to profit ratios had been relatively better than other JVs.

Among MNEs in China VW showed up the best sales performance for recent five years but the competition for catching the second position among Toyota, GM, Honda, Hyundai became more and more severe. The successful JV partnership of SAIC with VW and GM became a critical source to make Shanghai the biggest automobile industry cluster in China. Each local government has supported actively for its SOE to take a leadership of national automobile industry. This study examined the major policies and plans for Shanghai, Jilin province & Changchun city, Guangdong province & Guangzhou city, and suggested that their

purposes have converged on three issues.

Thirdly at the governance structure analysis for three SOEs, SAIC, FAW, GAIG have played the holding companies' role and the operation of each firm has been affected by local government. MNEs and three SOEs established JVs through the equity alliances, therefore SOEs, JVs and MNEs which mainly operated in each area can be regarded as one team at the governance structure. Such a phenomenon supports enough the argument of this study that there exist three kinds of competition at Chinese automobile industry because the connection that grouping four entities; local governments, SOEs, JVs and MNEs was confirmed.

After all the institution based view is necessary to understand the rivalry structure of Chinese automobile industry, and it will be more needed as the government role grows due to the commercialization plan for alternative energy vehicle (Barbosa et al, 2010, 117). At present the increase of government role is an universal phenomenon at the world automobile industry because the commercialization of alternative energy vehicle needs lots of capital, technology innovation and institutional support (Tang et al, 2009, 31). Chinese government considers that its automobile industry has many advantages over other developed nations in commercializing it because the technology gap between Chinese makers and MNEs is not so big as gasoline cars (Dumaine 2010 139-140; Beijing Business Today January 5 2010). The government role or activities, so called the government intervention in market mostly leads to the expansion of formal institution. Therefore the institution based view is inevitable to address the rivalry structure of automobile industry, in particular for China it would be more

significant rather than industry based view or firm resource based view.

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