

Countermeasures on Reconstruction and Integration of Automobile Industry in China

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Abstract

It is coming to the twelfth periodical five-year plan in China. When taking national and international situation into consideration, China will be still in the strategic period full of opportunities, in which industrial reconstruction is her main task. Automobile industry is basic, mainstay and strategic in nature. It has a large added value, a long industrial chain and is high technologies loaded. A large scale and powerful automobile industry will be a mighty support to strategic development of economy in China. Therefore, it is necessary to take a chance to promote healthy development of automobile industry in China. The paper searches on changes of automobile industrial structure, discovers fundamental barriers to its reconstruction and integration and find out countermeasures to problems occurring in the industrial reconstruction.

Keywords: Automobile industry, Reconstruction, Integration

The national automobile industry has come across severe challenges at present, including dispersive industrial scale, upgrading over-capacity and low profits in industrial chain even tending towards zero. Till 2009, there are more than 130 enterprises that produce full cars. The top 10 sellers have made their sales of 7.8 million cars, or 83 percent of the total sales in China. In other words, the sales from the other 120 enterprises only take 17 percent of the total amount. There are series of problems existing in national automobile markets, and then it is imperative that the reconstruction and integration in automobile industry in China is imperative under the situation. At the same time, although the financial crisis attacked the automobile industry hard, it is also a good chance for industrial reconstruction. We should take the chance to reconstruct automobile industry while dealing with the crisis.

1. SCP analysis on automobile industry in China

1.1 Market structure analysis on automobile industry in China

Automobile industry is one of the most typical ones applicable to scale economy. The formation of oligopoly is the sign of a mature automobile industry and is its characteristics in nature. Till 2009, it is reported that CR4 is 43% in our automobile industry, which indicates a middle Concentrates widowed occupied market, or even an excessively competitive market if taking the number of enterprises into consideration. The greater car production countries are all extremely widowed occupied markets, such as USA whose big three sisters occupying the whole national car market, Japan whose market share has come to 80% nationally. Furthermore, CR 3 reaches to 100% in South Korea, France and Italy. According to statistics, the optimized scale is 250,000 to 300,000 sets in the enterprises that produce cars with the displacement volume of 1 to 2 litre; 60,000 to 80,000 sets in the enterprises that manufacture medium trucks; and 100,000 to 120,000 sets in the ones that manufacture light trucks. From this point of view, there are only a few enterprises that have reached to these standards in our country. In China, it is only 4 enterprises that produced more than 500,000 sets, 10 enterprises that produced more than 100,000 sets and 15 enterprises that manufactured more that 50,000 sets in 2008. As to product structure, the cars of high added-value and high profits have increased from 30 percent in 2000 to 50 percent in 2008 of all kinds of cars,

which indicates the more reasonable product structure in our automobile industry. When compared with the figure of 80 percent in the developed countries, we should do more efforts to improve the product structure in our industry.

1.2 Operation analysis on automobile market in China

In China, automobile enterprises are shortage of development capacity because of their small scale and weak power. When compared with foreign automobile enterprises, Chinese ones are the laggards. The foreign automobile enterprises invest 3 to 5 percent of their sales amount that ranges from US\$100 million to several billion US dollars into technology development annually, compared with best automobile enterprises' merely 1 percent in China. In 2009, the Chinese enterprises increased their investment on advertising by 50 percent. Although they advertised 17 percent more by media of newspaper, they did less in form of magazines, radio and outside media. As to price, the automobile enterprises have competed with each other by means of price, product, and services in order to lure more consumers. As a result, automobiles become cheaper and cheaper, including both low-end products and even more and more high-end products.

1.3 Performance analysis on automobile market in China

As to industrial profits, the sale and production have developed to the different directions, that is, the low price has led to more sales accompanied with no more profits. The sales amount reached to RMB ¥939.714 billion in the first 10 months in 2008, increasing 7.69 percent compared with the same period last year. At the same period, the industrial profits reached to RMB ¥40.385 billion, decreasing 36.63% from a year earlier. In the process of sustained development of economy in China, the automobile consumption will expand at a high rate and then to a stable rate. As to import and export, it is a milestone in 2008 that China experienced larger export than import of cars in quantity, but still lower export of US\$ 1.595 billion than import of US\$5.152 billion in value. It shows that automobile export is still on its first stage and mainly directs to the third world markets.

2. Exploration on reconstruction and integration of automobile industry in China

In developed countries and industrial countries, the concentration degree of automobile industrial organizations changes under the influence of several main factors, such as market change, scale economy created by industrial technologies, economy and sales features, product differences, ingress and quit barriers and etc. in China, besides what we have mentioned before, economic system and policies are also main factors. It will be analyzed as follows:

2.1 Difficult issue of diseconomic scale

Affected by intersected administration system, the regions and local departments are independent correspondingly in China. Then the automobile enterprises are diseconomic in scale and are ineffective in specialized coordination. Most of enterprises face difficulties to break through borders of intersected areas or even to develop the horizontal cooperation. They are too restricted by the traditional institution on property rights. Furthermore, because of the lack of acquisition and merger mechanism, it is difficult for these enterprises improve concentration degree of industrial organizations.

2.2 Barriers to multi-regional cooperation among big ones

The financial and tax systems are one of the largest barriers to multi-regional cooperation among big enterprises. The enterprises hand in income tax to the administrative department that preside over them in the region. The multi-regional reconstruction of property rights must lead to the change of local financial and tax revenue. The considering their own economic profits, the local governments often do not support mergers that will decrease their local tax income. Then the present tax system has become one of the most serious barriers to multi-regional cooperation among big ones.

2.3 Rigidity of nationalized economic mechanism operation

Most automobile enterprises are national in nature in China. The national enterprises in the automobile fields have become subordinates to local and national government. As a result, they are lack of development motivation and capacity, and are short of a mechanism to coordinate with other industries. Most enterprises coordinate with others with governments as middleman, which would explain their inefficiency in operations. The background of planned economy shows their characteristics of large framework, overstaff, big social burden and etc. Even in the process of acquisition and merger, the government often intervenes enterprises with non-productive departments cutting and staff unemployment. The more government intervenes, the higher cost of enterprises acquisition. Then it reduces the enthusiasm for enterprises to enforce acquisitions.

2.4 Inefficient entry and exit mechanism

The strict restriction on entering into market results in insufficient competition in the market and creates a severely distorted market. The government has taken a series of methods to protect the newly emerging market and results in the existence of so many poor operated enterprises that delay in exiting the market voluntarily. The imperfect management system has become the awful barriers to reconstructing the industrial organizations.

2.5 Immature market system

Firstly, financial markets are immature and it is lack of effective capital market and even financing mechanism. The enterprise investments mainly come from the unique and inflexible channel with bank loans for example, which leads to insufficiently initial investments and some short-term operations. Then their scales are limited because of their weak self-accumulation. Secondly, it is immature in regulations on market transactions and legal conceptions. Due to undergrowth of regulations on market operations, there occurs a big increase of production cost of specialized corporations and big decrease of agglomerative effect of specialized corporations.

2.6 Slow technology innovation

The upgrade of standards on technologies is the drive to automobile innovations. For a long time, the nation takes the loosened standards on technologies in order to protect the national enterprises in the newly emerging market. The present operated standards would be matched by any enterprises in the market and has lost their functions of market entry and exit. The nation has set down very low standards on China characterized vehicles used in agricultural fields. Some special preferential policies lead to the issues, such as double-channel system and diverse markets.

The factors have worked synthetically on the automobile industry and leads to its low degree of concentration. We must shoot these troubles in order to change the status of our automobile industry in China.

3. Suggestions on promoting reconstruction and integration of automobile industry in China

3.1 Promotion of standardized components and replacement

It is the main task to unify different cars from China, USA, the Europe and South Korea. The Automobile Industrial Association should work with General Administration of Quality Supervision together to set up a committee on product standards on automobiles in order to set up and carry out standards on production form, regulation, and content. After selecting and cleaning up different parts, the organization should control the quantity and quality and form of these components, encourage reduction of quantity of parts

3.2 Improvement of technology and legal standards on automobiles

The first aim of improving technology and legal standards on automobiles is to improve entry conditions in order to restrict repeated construction at a low level. The industrial resources would be optimized in conformity by the theory of Survival of the fittest. The second aim is to attest approval system in the place of content system and bulletin system according to the standards and regulations mentioned above in order to replace the administrative barriers with technology ones. The third aim is to improve protection of consumers' benefits and market cultivation. The consumers would protect their own legal rights and interests according to these technology standards and regulations, increase the confidence on the quality of national produced automobiles, and help national automobile enterprises establish their brand standing.

3.3 Promotion of reconstruction by property right and tax system reform

The automobile industry should escape from the totally national control of property rights, introduce private capital into national one to form a mixed ownership, set up a platform supporting open financing and capital operation by taking North Automobile for example. Automobile industry would become more capable of financing only if there would have a change of original capital structure and internal management of these nationalized enterprises radically.

Firstly, it should be some adjustment of automobile consumption policies, reform of tax structure, cancellation of unreasonable charges, setup of experimental outlets transforming production-type added-value tax into consumption-type added-value tax, transfer tax collection from transactions to utilization of cars. Secondly, further efforts should be also taken in the process of canceling unreasonable tax collection and discriminatory price, and then setting up unified and transparent system of tax collection. Finally, the systems mentioned above should offer more support to projects focused on development and marketing of economical cars, mini type cars and farming cars that have high comparative competitiveness, conduct low consumption tax on popularized cars that have reached technology attestation index, carry out high consumption tax on luxurious cars, and cancel discrimination of some kinds of cars driving in cities.

3.4 Setup of funds and united conference of automobile industry reconstruction

The first aim of the funds is to strengthen authority and execution power of national industrial policies. The funds mainly root in national financial allocation and specialized bond issue. The bonds should be reimbursed with different interest rates calculated according to national and local tax collected from automobile enterprises and their profits. The unified conference should be set up among relative departments and regions. It should be responsible for doing researches on monopoly degree and for authorizing reconstruction and merger cases, harmonize relations among relative related parties, minimize affects from profits, simplify approval processing and ensure the national as well as consumers benefits in the process of industrial reconstruction.

3.5 Support to large automobile groups based on export proportion

The large automobile groups should increase their export proportion to 10 percent to 15 percent of their total production with three years in order to get more support from the nation. Of course, the earlier they reach to the target, the more encouragement they get. The enterprises may take the chance to balance import and export, relax pressure of production surplus and promote their competitiveness in the international market. At present, some green hands are interested in entering the international markets while multinational companies ignore export, the preferential tax on exported cars based on the basic export policies offered by our Ministry of Commerce should be taken in order to encourage enforcement of unified tax system on these enterprises.

3.6 Utilization of bulletin system and exit system in automobile industry

Bulletin system has loosened the permission system for automobile enterprises but exit system is absent now. Besides declaration monthly, it should show the bulletin of contents of enterprises and projects that have stopped production annually. The enterprises should be picked out of the contents if having on production for two years and limit their re-entry by another examination. And for the no production ones for more than two years, licenses should be out of force automatically.

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