

**Indigenous Development?**  
**-- Discourses on the Chinese Auto Industry**

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## **Abstract**

In response to the lack of research on the ideational aspect of the Chinese auto industrial policy and the strong influence of nationalism in China, the thesis looks into the nationalistic ideas and discourses on the indigenous development of the Chinese auto industry. The thesis first presents and analyzes the Chinese government's and auto makers' discourses on indigenous development respectively and then discusses the discourses through the lens of economic nationalism. In the government's discourse, the indigenous development of brands and technologies was considered the solution to the challenges brought by globalization and China's WTO accession to Chinese industries including the Chinese auto industry, as well as to the challenges faced by the auto industry dominated by joint-ventures. In the automakers' discourses, indigenous development was considered necessary for various reasons, including the symbolic value of indigenous brands and technologies, the desire to gain controlling power and historical missions. Employing the framework of constructivist political economy and economic nationalism, the research found that the two fundamental ideals of nationalism—national autonomy and national identity are two crucial elements in both government's and automakers' discourses on indigenous development.

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## List of Abbreviations

BAIC	Beijing Automotive Group
CPC	Chinese Communist Party
CPPCC	Chinese People's Political Consultative Conference
DI	discursive institutionalism
EU	European Union
FAW	FAW Group / First Automobile Works
MIIT	Ministry of Industry and Information Technology
MITI	Ministry of International Trade and Industry of Japan
NEV	new energy vehicle
NPC	National People's Congress
SAIC	Shanghai Automotive Industrial Corporation
SAW	Second Automobile Works
SETC	State Economic and Trade Commission
SOE	state-owned enterprises
WTO	World Trade Organizatio

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## Chapter 1. Introduction

Industrial policy is state planning for sectoral growth coupled with public incentives for targeted sectors.<sup>1</sup> According to Dani Rodrik, industrial policies “complement market force: they reinforce or counteract the allocative effects that the existing markets would otherwise produce”.<sup>2</sup> Industrial policies are sector specific, targeting at special sectors to improve the competitiveness of domestic firms and facilitate structural transformation of the sector. They share common elements with other types of interventionist practices such as trade policies and fiscal policies. Chang argued that most developed countries have in the past pursued industrial policies to promote the development of selected industries.<sup>3</sup> In Latin America, many countries, such as Brazil, Mexico or Argentina, had adopted import substitution industrialization from the 1950s to 1980s. In East Asia, the success of the Asian tigers such as Taiwan and South Korea has been explained by their active industrial policies.<sup>4</sup>

Although there is plenty of literature discussing the merits and drawbacks of industrial policies, industrial policies are often treated as barely economic subjects, whose presence, absence and contents can be best decided through conducting economic analyses. Once the best policies are found, the successful implementation of the policies depends on institutional and political factors. Some industries, such as automotive, steel and energy are often subjects of industrial policies, because of the perceived externalities (such as spillover effects and technologic diffusion) these

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<sup>1</sup> Graham, Otis L. 1992. *Losing Time: The Industrial Policy Debate*. Cambridge : Harvard University Press

<sup>2</sup> Rodrik, Dani. 2004. Industrial Policy For the Twenty-First Century. Working Paper, Cambridge: John F. Kennedy School of Government Faculty Research, P.2

<sup>3</sup> Chang, Ha-Joon. 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective: Policies and Institutions for Economic Development in Historical Perspective*. London: Anthem Press.

<sup>4</sup> Gereffi, Gary, and Donald L. Wyman. 1990. *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*. Princeton: Princeton University Press.

industries engender.<sup>5</sup> Also, the absence of industrial policies are also justified by various economic reasons, such as the market distortion industrial policies would bring and the inability of the state to pick winners.<sup>6</sup> However, besides these economic arguments for and against industrial policies, political reasons behind industrial policies are as important as their economic counterparts.

Many authors in the past have contributed to the political aspect of industrial policies with the rational-choice institutionalist approach and the historical institutionalist approach. For instances, Schneider employed career analysis to study how elite bureaucrats shaped the industrial policy in authoritarian Brazil;<sup>7</sup> Katzenstein in *Small States on World Markets: Industrial Policy in Europe* analyzed how historically shaped structures make possible a particular strategy of industrial adjustment.<sup>8</sup> However, few studies have looked into the how ideas influence industrial policies. There is a lack of literature discussing how actors, organizations and institutions affect the creation, framing and transmission of ideas in policy making processes.<sup>9</sup>

Ideas influencing policies are very important subjects to be analyzed, as Beland and Cox stated: “Ideas are at the core of political action. They shape the way we understand interests, are the inspiration for the construction of political and social institutions, and are the currency of our

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<sup>5</sup> Michalski, Wolfgang. 1991. "Support Policies for Strategic Industries: An Introduction to the Main Issues." In *Strategic Industries in a Global Economy: Policies Issues for the 1990s*, by OECD, 7-14. Paris: OECD.

<sup>6</sup> DiLorenzo, Thomas J. 1984. "The Political Economy of National Industrial Policy." *Cato Journal* 4(2).

<sup>7</sup> Schneider, Ross B. 2009. *Politics within the State: Elite Bureaucrats and Industrial Policy in Authoritarian Brazil*. London: Pittsburgh Press.

<sup>8</sup> Katzenstein. Peter J. 1985. *Small States in World Markets: Industrial Policy in Europe*. New York: Cornell University Press

<sup>9</sup> Campbell, John L., and Ove K. Pedersen. 2011. "Knowledge Regimes and Comparative Political Economy ." In *Ideas and Politics in Social Science Research*, by Daniel Beland and Robert Henry Cox, 167-190. Oxford, New York: Oxford University Press.



discourse about politics”.<sup>10</sup> For examples, Dobbin’s work on the industrial policies in the United States, Britain and France from 1825 to 1900 has showed the major role played by cultures and norms in the shaping of the three countries’ industrial policies;<sup>11</sup> Knudsen’s work on the European Common Agricultural Policy has discussed how ideas and norms, together with incentive structures and historical paths, constituted the political process involved in the creation of the policy.<sup>12</sup>

The important role of ideas has often been neglected in the research on auto industries and auto industrial policies. While most of the studies focus only on the economic aspect, those focus on the political aspect did not give sufficient attention to the ideas influencing political processes. However, the work of Edensor, which discusses the symbolic role of the British car industry<sup>13</sup>, and Rieger’s work, which discusses how Beetle was adopted by Germans as a symbol of postwar reconstruction and Germany’s integration into the new international order,<sup>14</sup> have demonstrated the relevance of ideational factors to auto industries.

Research on the Chinese auto industry and industrial policy shares the insufficiency that its ideational aspect has not been enough explored. Grey Anderson’s *Designated Driver: How China Plans to dominate the Global Auto Industry*<sup>15</sup>, for example, is a recent major work on the Chinese

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<sup>10</sup> Beland, Daniel, and Robert Henry Cox. 2011. "Preface." In *Ideas and Politics in Social Science Research*, by Daniel Beland and Robert Henry Cox, vi. New York: Oxford University Press. P.6

<sup>11</sup> Dobbin Frank. 1994. *Forging Industrial Policy: The United States, Britain, and France in the Railway Age*. New York: Cambridge University Press

<sup>12</sup> Knudsen Ann-Christina L. 2009. *Farmers on Welfare*. London: Cornell University Press

<sup>13</sup> Edensor Tim. 2002. "Automobiles and National Car Cultures", in *National Identity, Popular Culture and Everyday Life*, New York: Berg. 122

<sup>14</sup> Rieger, Bernhard. 2009. "The 'Good German' Goes Global: the Volkswagen Beetle as an Icon in the Federal Republic, in *History Workshop Journal*, 68.

<sup>15</sup> Anderson, G, E. 2012. *Designated Drivers: How China Plans to Dominate the Global Auto Industry*. Singapore: John Wiley & Sons Singapore Pte. Ltd.

auto industry. Although Anderson offers an detailed analysis of players in the industry—central government, local governments, state-owned enterprises, private enterprises and foreign multinationals—and their objectives, these players in the industry are seen as “unthinking” rational actors who act only according to the given incentive structure based on material interests. According to Anderson, the major objective of the central government is regime survival and therefore social stability, while the objectives of the local governments are local economic performance and support for the central government policy. State-owned enterprises have similar objectives to those of local government, given that the leadership roles in these state-owned enterprises are inherently political positions in the system. For private enterprises, their objectives are survival and profit making, given the tough competition they have with state-owned enterprises and foreign multinationals. Lastly, multinationals pursue for profit and returns for shareholders. Anderson argues that the Chinese auto industry is the result of the interactions of these various players who act according to their different objectives. However, the major shortcoming of Anderson’s work is that empirically agents are not motivated by material interests alone and they do not act in a social vacuum. Rather, they act and think within a boarder social context in which ideas shape their subjective perceptions of interests and hence their behaviors. Hence, ideational factors should be taken into account in the research on the Chinese auto industry and industrial policy.

Among ideas, nationalism is particularly relevant to the research. Woo-Cumings regards economic nationalism and the logic of security as the most important ideologies in Northern Asia including China.<sup>16</sup> He argues that Asian nationalism is not an abstract ideal but a reality born of the struggles

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<sup>16</sup> Woo-Cumings, Meredith. 2005. “Back to Basics: Ideology, Nationalism, and Asian Values in East Asia”, in *Economic Nationalism in a Globalized World*, pp. 91-117

with enemies, and that Asian states have chosen economic development as the means to combat Western imperialism and ensure national survival. According to Woo-Cumings, economic nationalism has been used to mobilize the populace for vast projects of national security and economic development. In the Chinese context, Shirk has discussed the influential role of nationalism in contemporary Chinese politics.<sup>17</sup> She considered that nationalist emotions of Chinese people, rooted in their understanding of Chinese history, were bubbling up in the popular psyche as China grew economically and militarily more powerful. These emotions, according to Shirk, were reinforced through school curriculum, media and billboards as they were attached to “the common script of China’s triumph under Communist leadership after the ‘century of humiliation’ at the hands of foreign enemies”.<sup>18</sup>

My thesis project concerns ideas and discourses regarding nationalism and the Chinese auto industry. While the auto industry has been regarded as a key industry by the Chinese government since 1986, the stress of the Chinese auto industrial policy had been domestic production (by joint-ventures with foreign carmakers) instead of indigenous brands and development until 2004. Since 2004, the policy has increasingly been emphasizing indigenous development. The policy shift is explained by scholars taking the rational choice approach, such as Anderson, by the desire of the Chinese government and car makers to trap more profit. Under joint-ventures, Chinese state-owned enterprises established joint-ventures with multinational car makers to manufacture and sell cars developed by their foreign partners in China. Manufactured cars are then sold under the brand names of the joint-ventures, such as FAW Volkswagan and Shanghai GM, and the profit from these car sales is shared by both sides of these joint-ventures. Anderson argues that by developing

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<sup>17</sup> Shirk Susan. 2007. *China: Fragile Superpower*. New York: Oxford University Press

<sup>18</sup> Ibid. 63

indigenous brands and technologies, state-owned enterprises and hence the government could capture also the other half of the gross profit.

However, there are at least two problems with this line of explanation. Firstly, it is doubtful whether conducting indigenous development of brands and technologies will actually be more profitable for both the Chinese government and state-owned enterprises. Given the sheer size of the Chinese blooming and protected market, the established brands of foreign multinationals and the low cost of conducting its own research and development, these state-owned enterprises have in past years earned enormous amount of profit. It is expected that the same trend would continue in the future since the passenger cars to population ratio of China (0.056 in 2011)<sup>19</sup> is still much lower than those of the developed world (for instance, the US's ratio is 0.403), the Chinese market still has tremendous growth potential. Hence, Chinese state-owned could still enjoy the huge inflow of profit for a long period of time.

Secondly, the development of indigenous brands and technologies is costly and risky, as there are no guarantees of success. An obvious example of such failed attempt is FAW's Red Flag. Despite the huge investment made by FAW, the sales of cars under the brand has been disappointing. Its new model Red Flag H7 for example, had the sales record of only 3000 units in 2013, far below its production capacity of 30000 a year.<sup>20</sup> A news article describes FAW's investment in Red Flag as "money burning".<sup>21</sup> In past years, Chinese consumers have indicated that they do not prefer indigenous brands over joint-venture brands if not for the much lower prices of indigenous brands'

<sup>19</sup> World Bank. 2014. Data. Passenger cars (per 1000 people)

<sup>20</sup> The Time-Weekly. 2014. "红旗 H7 官车之路崎岖:产能三万辆年卖不足三千辆", 29/05/2014

<sup>21</sup> Money.163.com. 2014. "红旗被指像暴发户端着架子死扛:新车 100 万起跳", 30/03/2014

products.<sup>22</sup> The top preference of Chinese government officials is still Audi. Products of foreign brands are considered by Chinese consumers as of higher quality and as the symbol of wealth and status. Without the support from Chinese consumers, it is a huge challenge for Chinese indigenous brands to “catch up” with their foreign or joint-venture counterparts. Hence, given the huge cost and risk involved in indigenous brands and technology development, it should not be taken for granted that indigenous development is necessarily a “rational choice” for both the Chinese government and state-owned enterprises to trap more profit.

Since the rational-choice approach have not satisfactorily explained the shift in policy direction, the thesis aims to take the constructivist approach to look into the policy shift and the Chinese auto industrial policy. Given the significant influence of nationalism in China, the thesis aims to explore the nationalistic ideas and discourses on the indigenous development of the Chinese car industry.

Hereby I introduce the research objective and thesis outline of the thesis. First of all, the research ask one question:

1. *What are the nationalistic ideas and discourses on the indigenous development of the Chinese car industry?*

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<sup>22</sup> This phenomenon is not only in the Chinese car market, but also the markets of all kind of products, from food, electronics to cars. See Gerth Karl. 2012. “A new “brand” of Chinese economic nationalism: from China made to China managed”, in D’Costa A. edited *Globalization and Economic Nationalism in Asia*, Oxford: Oxford University Press

The organization of the thesis is as follows: in the next chapter (Chapter 2), the theoretical framework, methodology and operationalization of the thesis are introduced. Chapter 3 offers background information, including brief introductions to the economic development in China, Chinese industrial policies, the Chinese auto industry and the Chinese auto industrial policy, of the research. Chapter 4 and Chapter 5 present and analyze the Chinese government's and auto makers' discourses on indigenous development respectively. Chapter 6 looks into the government's and automaker's discourses through the lens of economic nationalism, as well as sums up the findings and contributions of the thesis.

## Chapter 2. Theoretical Framework and Methodology

This chapter introduces the theoretical frameworks, methodology and operationalization of the research. Constructive political economy and discursive institutionalism, as well as economic nationalism, as the theoretical frameworks of the research, are elaborated and discussed first, to show how and what types of ideas and discourses matter in the research. Then the method of discourse analysis and the operationalization of the research are introduced.

### Constructivist Political Economy

Constructivist political economy is an undertaking aiming to take more than material factors into account in political economy research. Scholars in the past has taken a variety of theoretical points of departure in their analyses. There are four major paths taken—the path of meaning, the path of cognition, the path of uncertainty and the path of subjectivity. The research is informed mainly by the path of meaning and the path of subjectivity.

Built upon the presumption of human dependence on meaning and interpretation, the path of meaning considers economic actions, policies or rules as products not merely as rational responses to clear environments, but also as actors attach new and non-obvious meanings related to collective identities to their economic context. “How societies interpret the material processes of production and distribution, or how policymakers recognize patterns of interdependence as natural or worrisome, reflects purposes shared among members of an identity group.”<sup>23</sup>

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<sup>23</sup> Abdel-el Rawi, Blyth Mark, Parsons Craig. 2010. “Introduction: Constructing the International Political Economy”, in *Constructing the International Political Economy*. Ithaca and London: Cornell University Press.9

The path of subjectivity, on the other hand, is not built upon views of social construction. Taking an epistemological turn, scholars on this path—postmodern constructivists—do not see norms simply as regulatory or even constitutive features of the world. They see institutions as “expression of power in the world, insofar as adherence to an institutions excludes particular actions by defining what is possible and impossible to say and thus do in a given context”, “to demonstrate that creating political salient identities is an ongoing process wherein agents, rather than being socialized into a particular fixed role, are constituted as distinct subject by their position with a particular discourse and by performing distinct role within the discourse”.<sup>24</sup>

### Economic nationalism

Economic nationalism is a relatively new field in nationalism studies. Broadly speaking, it concerns the connection between nationalism and economic phenomena or economic policies. However simple it may seem to be, the use of the term ‘economic nationalism’ has often been confusing, since its definition is not at all agreed upon and different authors often refer to various meanings of the term—be it protectionist policies, a type of mercantilism<sup>25</sup>, the relationship between national identity and political economy<sup>26</sup> or the effect of nationalism on the economic relations between particular states<sup>27</sup>--in order to fit their needs. While it may not be necessarily problematic to leave the definition of economic nationalism flexible, the concept of economic nationalism should not be understood separately from the concept nationalism.

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<sup>24</sup> Ibid.13

<sup>25</sup> Balaam, David, and Michael Veseth. 2000. "Wealth and PowerL Mercantilism and Economic Nationalism." In Introduction to International Political Economy. Upper Saddle River, New Jersey: Prentice.

<sup>26</sup> Eichler, Maya. 2005. "Explaining Postcommunist Transformations--Economic Nationalism in Ukraine and Russia." In Economic Nationalism in A Globalized World, by Eric Helleiner and Andres Pickel, 69-90. New York: Cornell University Press.

<sup>27</sup> Abdelal, Rawi. 2005. "Nationalism and International Political Economy in Eurasia." In Economic Nationalism in A Globalized World, by Eric Hellner and Andreas Pickel, 21-43. New York: Cornell Unievrsity Press.



According to Anthony Smith, nationalism is “an ideological movement for attaining and maintaining autonomy, unity and identity for a population, which some of its members deems to constitute an actual or potential ‘nation’”.<sup>28</sup> In other words, autonomy, unity and identity are the three fundamental ideals of nationalism. To further explain Smith’s three fundamental ideals of nationalism, firstly, autonomy means self-regulation and ‘self-determination’ by “an autonomous collective ‘self’ seeking to realize its collective will and its individuality, and being solely responsible for its own collective goals and actions”.<sup>29</sup> Secondly, unity means not only territorial unity but also social and cultural unification of members in a nation. Unity cannot be confused with uniformity as unity does not require members to be alike, but they “should feel an intense bond of solidarity and therefore act in unison on all matters of national importance”.<sup>30</sup> Thirdly, national identity is based on the concern for national character and historical-cultural basis. In other words, national members identify themselves with a nation based on the nation’s characters, history and culture which are subjected to be shaped and reshaped.

Under Smith’s framework of nationalism, the thesis considers economic nationalism as economic behaviors or policies that aim to strengthen the autonomy, unity and identity of the perceived nation. Hence, it is the motivations behind but not the types of policies or behaviors that define what are or are not economic nationalism. This means protectionist policies and state-ownership are not necessarily manifestations of economic nationalism. If these policies are adopted to achieve or strengthen, for instance, socialism or the economic interests of a particular interest groups, then

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<sup>28</sup> Smith, Anthony D. 2001. In *Nationalism. Theory, Ideology, History*, 21-61. Cambridge: Polity. P.9

<sup>29</sup> Ibid. P.25

<sup>30</sup> Ibid. P.26

economic nationalism is irrelevant. Moreover, protectionist policies and state-ownership are not the only two types of policies that can be utilized to achieve the above aims. As argued by D'Costa, especially under globalization, new forms economic nationalism such as supporting and leveraging national resources overseas to achieve national economic gain are particularly worthy of attention.<sup>31</sup>

To demonstrate the relevance of economic nationalism to the research, the fundamental ideals of nationalism in the studies of political economy need to be explained further. Among the three core ideals, autonomy and identity are the most relevant, since issues that national unity often concerns such as migration, diaspora and historical vagaries of state boundary formation and hence kin-state politics are not closely connected to this research on the Chinese auto industry and industrial policy. Therefore, only autonomy and identity in the studies of political economy are elaboration below.

Autonomy means self-regulation and self-determination, thus seeking to minimize extra-national influence over affairs deemed as internal to the nation. Nationalists' desire for autonomy may lead to the adoption of isolationist foreign economy policy that go against free trade and investment, or to economic autarky so as to insulate the national economy from influence of foreign economic decisions, business cycles and currency fluctuations to enhance national independence and to prevent foreign states to exercise political coercion and control over the nation by exploiting asymmetrical economic interdependence.<sup>32</sup> According to Shulman, nonetheless, international

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<sup>31</sup> D'Costa, A. P. "Economic Nationalism in Motion: Steel, Auto, and Software Industries in India." *Review of International Political Economy* 16, 2009: 620 - 648.

<sup>32</sup> Shulman Stephen. 2000. "Nationalist Sources of International Economic Integration", in *International Studies Quarterly*. 44. 365-390.

integration also promotes majority nationalists' goal of autonomy.<sup>33</sup> Since the history of the 20<sup>th</sup> century provides abundant evidence that economic integration and globalization are superior to economic autarky and protectionism in producing wealth. Since wealth is a key basis for state power in the international arena, an economically strong nation is more able to protect its autonomy in the face for foreign threats and coercion than is an economically weak one. In other words, the pursuit of autonomy through economic independence is counterproductive for nationalists if it entails too much wealth lost. Therefore, under international economic integration, protectionism and autarky may be considered less able to strengthen national autonomy.

Identity concerns characters and historical cultural basis—such as values, beliefs, languages, religion, traditions and arts—that are shared among national members. These cultural features play the leading role in defining and distinguishing a nation.<sup>34</sup> Therefore, national culture is considered very important to be preserved and strengthened by nationalists, especially when the national culture is facing corrosive pressures from other cultures. Foreign cultures may diffuse across national boundaries through economic ties as well as movements of goods, people and ideas. Therefore, economic protectionism may be used by nationalists to protect national culture.<sup>35</sup> At the same time, according to Shulman, culture diffusion from foreign nations could enhance national identity as well, if the culture of the nations are close with each other. Therefore, nationalists may like to enhance economic ties with nations with similar culture. Finally, economic ties with foreign nation could strengthen the national identity of a nation by strengthening its economic performance, since economic prosperity could enhance the respect and prestige the

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<sup>33</sup> Ibid.

<sup>34</sup> Shulman Stephen. 2000. "Nationalist Sources of International Economic Integration", in *International Studies Quarterly*. 44. 365-390.

<sup>35</sup> Ibid.

nation enjoy among its own members and other nations.<sup>36</sup> Nationalists concern a lot about whether their national culture is perceived as “good” relative to other cultures, and whether their nations are respected by the people of other nations. As Liah Greenfield said, “National Identity is, fundamentally, a matter of dignity. It gives people reasons to be proud.”<sup>37</sup> Since the glory and quality of a nation and its national culture are often symbolized by and measures with its economic achievements, nationalists may support the economic policies perceived to be able to bring maximum wealth to the nation.

### Methodology

The major method employed in the research is discourse analysis of text materials. The origins of discourse analysis are critiques of traditional social science. Although there are a variety of different approaches to conduct discourse analysis, all the approaches share “the rejection of the realist notion that language is simply a neutral means of reflecting or describing the world” and “a conviction in the central importance of discourse in constructing social life”, which are in line with discursive institutionalism.<sup>38</sup> These viewpoints suggest that discursive institutionalism and discourse analysis cannot be used to address the exact questions as traditional approaches.

There are at least 57 varieties of discourse analysis which can be broadly categorized into three broad traditions.<sup>39</sup> The first one is critical linguistics, which associates closely with the discipline of linguistics; the second tradition is that influenced by speech-act theory, ethno-methodology and

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<sup>36</sup> Ibid.

<sup>37</sup> Levi-Faur. D.1997. “Friedrich List and the Political Economy of the Nation-State”, in *Review of International Political Economy* 4(1).154-178.

<sup>38</sup> Rosalind Gill. 2000. “Discourse Analysis”, in Bauer. M.W. and Gaskell G. edited *Qualitative Researching with Text, Image and Sound, A Practical Handbook for Social Research*, London: SAGE Publications. 172

<sup>39</sup> Ibid.

conservation analysis, which stresses the functional or action orientation of discourse; the third tradition is associated with postructuralism, which looks historically at discourses.<sup>40</sup>

The approach of discourse analysis the research adopted, which will be elaborated here, draws on the ideas of the all the three traditions. This approach has four main themes. The first one is that it concerns with discourse itself, which means “analysts are interested in texts in their own right, rather than seeing them as a means of getting at some reality which is deemed to lie behind the discourse”.<sup>41</sup> Secondly, it views language as constructive and constructed, which summarize the three facets of the approach: discourse is built out of pre-existing language resources; the construction of discourse involves the selection from a number of different possibilities; discourse constructs the world that we live in.<sup>42</sup> The third theme, finally, is that our approach concerns the ‘action orientation’ or ‘functional orientation’ of discourse, which means discourse is not only social practice, people also uses discourse to ‘do things’. It implies “discourse does not occur in a social vacuum”.<sup>43</sup> The fourth and the last theme is that it treats texts and talks as organized rhetorically. It implies that our social life is characterized by competing discourses which are organized to be persuasive.

### Operationalization

The thesis analyses relevant materials from 2002-2014 May of the Chinese central government and three auto makers. The Chinese central government and auto makers have been considered critical players in the industry. By analyzing their discourses on the importance of auto industry and auto indigenous development as well as problems of and solutions for the auto industry, the

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<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid. 175

thesis will test their consistency and find out the similarities as well as differences of ideas and discourses held. Further, to what extent and how these ideas and discourses influenced the Chinese auto industry and auto industrial policy would be analyzed.

For the Chinese central government, articles on the *People's Daily*—the official newspaper of the Chinese government are to be analyzed. The People's Daily is the mouthpiece of the Central Committee of the Chinese Communist Party (CCP), the top decision-making body in China, and is controlled by the Propaganda Department of the Central Committee.<sup>44</sup> Editorials and commentaries in the People's Daily reflects the viewpoints of the Chinese central government.

For auto makers, interview transcripts with the leaders of three Chinese auto makers—FAW Group (FAW), Beijing Automotive Group (BAIC) and Geely—collected online are to be analyzed. Semi-structured interviews were also conducted with 10 auto professionals during the author's research trip in Beijing. Records of these interviews were then transcribed to be analyzed. The three auto makers are chosen based on their different levels of business engagement with indigenous brand development of cars and types of ownership. The state-owned FAW has been with both significant joint-ventures and indigenous brands. The company, since 1956, is also the first auto manufacturer in China, with Red Flag as its oldest and the most symbolic brand. BAIC is also owned by the state. The first auto joint venture in China was between BAIC and Jeep in 1987. BAIC produced cars of international brands only, until it launched its indigenous car brands in recent years. Geely, on the hand, is private. Started as a motorcycle and commercial vehicle manufacturer, it started to produce and sell cars under the indigenous brand Geely only in 2002.

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<sup>44</sup> Wu Guoguang. 1994. "Command Communication: The Politics of Editorial Formulation in the People's Daily", in *The China Quarterly*. 137. P. 194-221

The text materials obtained were then coded and analyzed. Analyses of governments and automaker's discourses will be presented in the following two chapters, before analyzing the extent and processes that these ideas and discourses influence the Chinese auto industry and auto industrial policy.

## Chapter 3. Background

### Economic and Industrial Development in China

Since the establishment of the People's Republic of China in October 1949, Chinese leaders started to develop a massive socialist industrial complex through direct government control. Rapid industrialization was given the highest priority and maximum resources were poured into capital intensive factories producing metals, machineries and chemicals, based on an inward-directed strategy following the model of the Soviet Union.<sup>45</sup> Under the “Big Push Industrialization” strategy, most investment went to the industry, of which more than 80% was in heavy industry.<sup>46</sup> Industrial share of China's GDP climbed from 18% to 44% from 1952 to 1978.<sup>47</sup> New industries, such as those producing electric generating equipment, chemical fertilizer, motor vehicles were created. Industries that were considered able to create most linkage with other industries, such as steel, were focused on. Regardless of the initial success of the “Big Push”, the period until 1979 was marked with political and economic instability and policy oscillation, with the Great Leap Forward and the Cultural Revolution as the worst episodes.

Economic reform came to China since the end of 1978 under the leadership of Deng Shaoping, when the success of rural reforms in China paved the way for more continuous and profound changes in the economy. According to Barry Naughton, there were two phases of Chinese political reform, during which virtually all the institutions of the command economy were dismantled.<sup>48</sup> The first phase in 1980s was characterized by its dual-track system, growing out of the plan, particularistic contracts with enterprises, open to new entries, the introduction of market price,

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<sup>45</sup> Naughton Barry. 2007. *The Chinese Economy: Transition and Growth*. P. 56-110

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.



incremental managerial reforms in state-owned enterprises, and the graduate takeover of national saving from the government to household. Although the first phase of reform was highly successful, macroeconomic imbalance and urban discontent in the period of 1988-1989 ended the first phase of reform due to the political crisis of the Tiananmen Incident, after which a short period of conservative ascendancy followed. However, the economic imbalance was controlled quickly, which supported Deng to gain the government's commitment to economic reform again. During Deng's "Southern Tour" to the Special Economic Zones he authorized to establish in the 1960s, he saw the economic success of the south and reemphasized the need of accelerated economic reform with the non-ideological but pragmatically approach. Deng said, "Development is the only hard truth". Before the end of Deng's office, the CCP endorsed the "socialist market economy", affirming that market must be extend to all sectors of the economy.

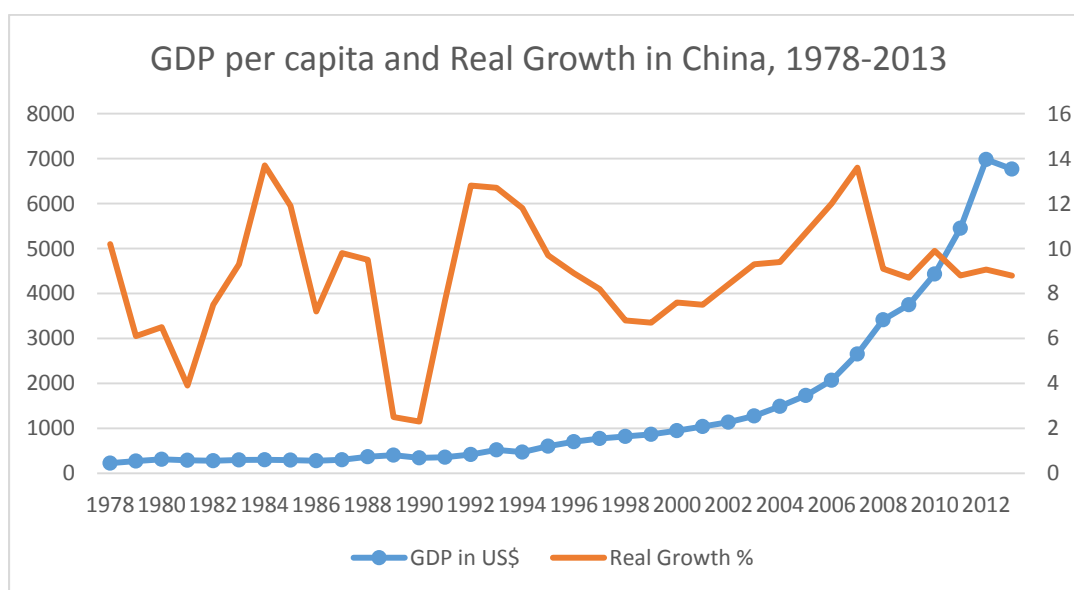
The post-Deng leadership then started the second phase of economic reform since 1993, in which the dual track system ended when planning was abolished altogether, fiscal resources were recentralized to strengthen the central government's regulatory and macroeconomic management functions, and macroeconomic austerity were implemented to counter speculation and inflation. A more regulatory approach to economic reform was taken by Zhu Rongji, according to Barry Naughton, new rules focusing on creating and regulating competition as well as to improve the legal and regulatory environment were introduced; regulatory and administrative reforms were conducted in the fiscal and tax system, banking and financial system, the state-owned corporate sector, and the sector of foreign trade—China's accession into the WTO in 2001.<sup>49</sup>

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<sup>49</sup> Ibid.

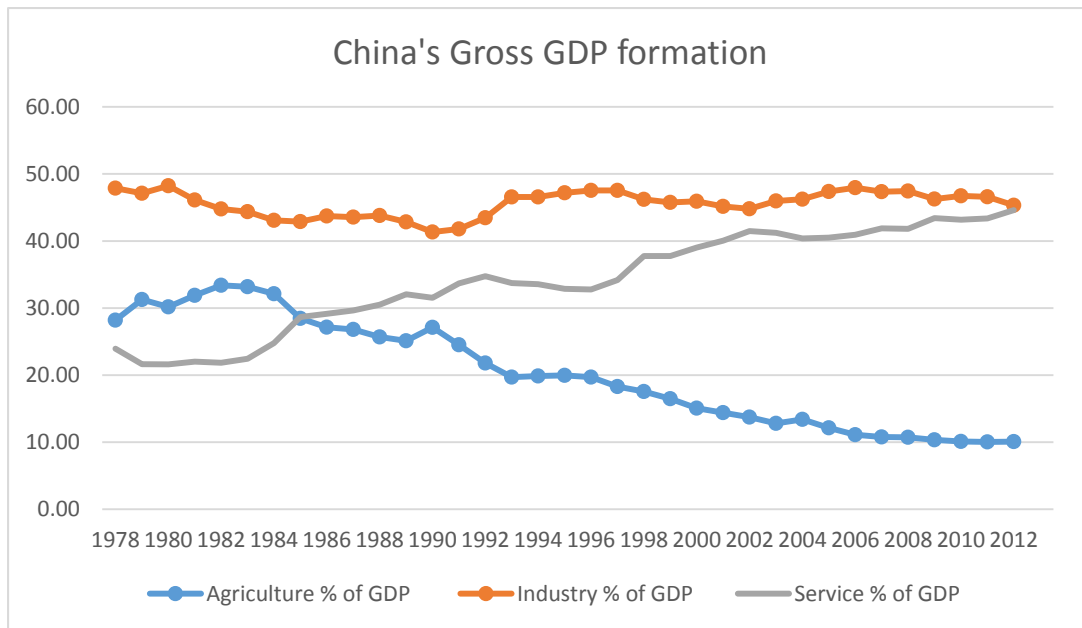
The general result of these reforms can be the best illustrated by the rapidly improving economic performance of China over the past three decades. GDP per capita in USD in China has multiplied unprecedentedly by almost 30 times and the real growth of GDP per capita has averaged 8.84% annually since 1978 (see figure 1). Moreover, there has been clear structure change in the economy (see figure 2). While the agricultural sector has been declining continuously, the industrial sector and the service sector have grown rapidly, reflecting China's rapid industrialization. Further, the rapidly increasing import, export (see figure 3) and inward foreign direct investment (see figure 4) can show not only China's economic development, but also its growing integration with the world economy.

Figure 1 GDP per capita and real growth in China, 1978-2013



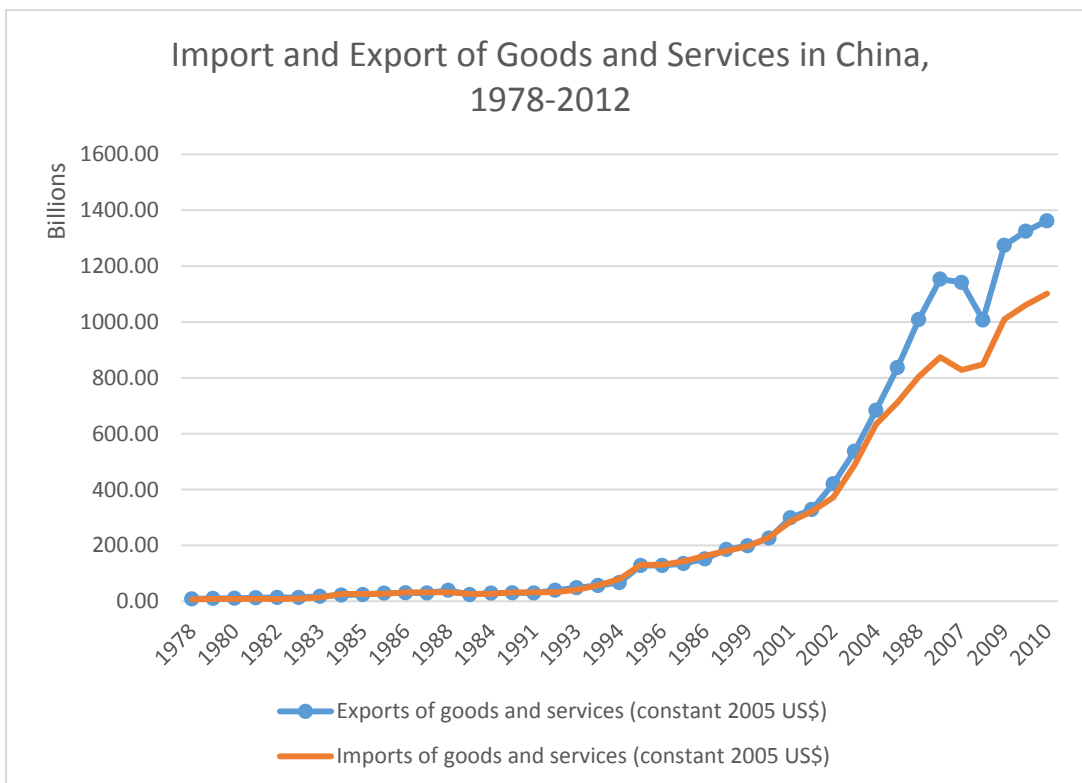
Source: National Bureau of Statistics of China

Figure 2 Gross GDP formation by sector, 1978-2012



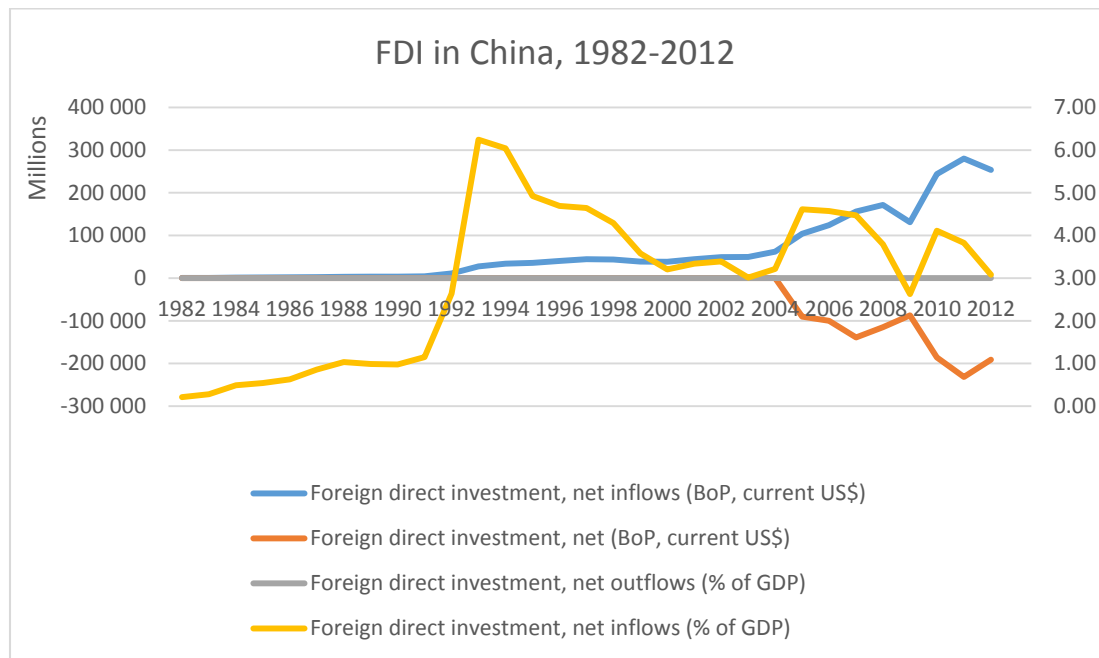
Source: World Development Indicators

Figure 3 Import and export of goods and services in China, 1978-2012



Source: World Development Indicators

Figure 4 FDI in China, 1982-2012



Source: World Development Indicators

### Industrial Policies in China

Industrial policy in China began only after China's opening up. Seeking to achieve economic development, leaders of post-Mao China actively sought advice, advanced technology and investment capital from abroad. Policy makers were no longer interested in finding a new economic model for China. Rather, they sought practicable policy recipes that would allow incremental and low-risk steps toward solving severe bottlenecks in the economic system.<sup>50</sup> According to Heilmann and Shih, the Japanese experiences of economic development in Japan's high growth period (1956-1972) were attractive to state-centric policy makers, since government guidance through non-imperative, indicative planning and industrial policies was perceived as the

<sup>50</sup> Heilmann Sebastian and Shih Lea. 2013. "The Rise of Industrial Policy in China, 1978-2012". Harvard-Yenching Institute Working Paper Series.

core factor for Japan's economic growth.<sup>51</sup> Research tours were conducted in Japan and various other countries, attempting to borrow the experiences from the others. In 1978, the Institute of Industrial Economics of the Chinese Academy of Social Science (IIE), which collaborated closely with the State Planning Commission, was found. In 1979, the Japanese terms "industrial structure" and "industrial policy" were introduced into Chinese policy by Ma Hong—the founder of IIE—who took part in research tours.<sup>52</sup> After that hundreds of economists and officials under IIE collaborated to conduct a national wide survey of Chinese industrial structure. Industry policy was then debated as a compatible and acceptable approach to recombining state guidance with market competition the Chinese reformed socialist system at the time. Three commissions—the State Planning Commission, the State Economic Commission and the Structural Reform Commission—involved in the investigation tours then proposed to borrow different policy tools from the Japan's experiences.<sup>53</sup> While the State Planning Commission proposed that government intervention at the macro level should be sustained by macroeconomic control and cross-sectoral balancing, and the State Economic Commission proposed to maintain particular relations between government bodies and enterprises, the Structure Reform Commission proposed to curtail government intervention and expand enterprise autonomy. Industry policies in China were then a combinations of these proposals.<sup>54</sup>

In 1987, Zhao Ziyang, the General Secretary of the Central Committee of the Communist Party of China (CCP) and a committed market-oriented reformist, announced the official consensus that

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<sup>51</sup> Ibid.

<sup>52</sup> Ma, Hong .1979a. "中国式的社会主义现代化和经济结构调整". 经济问题, 1. 1-10.; Ma, Hong. 1979b. "日本工业企业管理考察报告". 世界经济, No.3: 4-13.

<sup>53</sup> Heilmann Sebastian and Shih Lea. 2013. "The Rise of Industrial Policy in China, 1978-2012". Harvard-Yenching Institute Working Paper Series.

<sup>54</sup> Ibid.

industrial policies would help to renew traditional planning instruments and attain the optimal allocation of resources and strengthened market coordination.<sup>55</sup> In 1988, a special Industrial Policy Division was created in the State Planning Commission, with a group of young economists working for the division. In 1989 and 1994, the new division issued two pioneering programs aiming at a comprehensive restructuring and upgrading of industrial organization. However, these initiative failed due to the absence of implementing institutional prerequisites, instruments and bodies.<sup>56</sup> Despite these failures, research on sectorial restricting and upgrading continued in various reformed and new state institutions.

From 1993-2002, under the “Zhu Rongji agenda” of economic restructuring, the reformed State Planning commission—State Economic and Trade Commission (SETC)—the Chinese MITI—was evaluated to a national pilot agent that would coordinate industrial restricting; Government bureaucracies were to be separated from their state-owned enterprises; supports were to be given to financial, legal and intermediary institutions; and state firms were to be exposed to international competition.<sup>57</sup> Under the ambitious agenda, serial reorganizations of ministerial and subministeral bodies and restructurings of state-owned enterprises were conducted. In the 1994 industrial policies, four leading industries were targeted: automobiles, electronics and machinery, construction and petrochemicals. Service industries such as information and housing were added later.<sup>58</sup> In 1997, the Catalogue of Industries, Products, and Technology Currently Particularly Encouraged by the State for Development was issued. 25 sectors and 440 products and

<sup>55</sup> Zhao, Ziyang (1987). 在中国共产党第十三次全国代表大会上的报告

<sup>56</sup> Chen, Jijiang (1992). "日本实施产业政策的成功经验及对我国的启示". 经济研究参考. 6. 2-17.

<sup>57</sup> Heilmann Sebastian and Shih Lea. 2013. “The Rise of Industrial Policy in China, 1978-2012”. Harvard-Yenching Institute Working Paper Series.

<sup>58</sup> Kuchiki Akifumi. 2007. “Industrial Policy in Asia”, IDE Discussion Papers, Institute of Developing Economics

technologies were included. Under the catalogue, import of equipment and technologies from abroad in these sectors are waved from import duties and import value added tax. The 25 sectors included agriculture, forestry, water conservation, meteorology, coal, electricity, nuclear power, natural gas, railway, road, water carriage, air transportation, postal and communication, steel, chemical, petroleum, medicine, machinery, automobile, shipbuilding, aviation and light textile.<sup>59</sup> Moreover, the Catalogue for the Guidance of Foreign Investment Industries was issued at the same time, specifying more than 16 industries, including automobile, in which foreign investment was encouraged and more than 12 industries in which foreign investment was forbidden.<sup>60</sup> These two catalogues were then modified respectively in 2000 and 2004. Until 2004, no national cross-sectorial industrial policy program was issued.<sup>61</sup>

Under the Wu-Wen administration (2003-2012), cross-sectorial and multi-year programs moved to the center of industry policy. SECT was dismissed and the Planning Commission was reorganized as National Development and Reform Commission, as a supraministerial unit. In 2008, Ministry of Industry and Information Technology (MIIT) was also established to regulate and develop industries concerning information and technology. Since 2004, a series of national industrial policy programs was launched to give guidance and coordinate China's industrial and technological upgrading. The list of these industrial policy programs can be found in Appendix 1.

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<sup>59</sup>当前国家重点鼓励发展的产业、产品和技术目录. 1997. 31/12/1997

<sup>60</sup>外商投资产业指导目录. 1997. 19/12/ 1997.

<sup>61</sup> Heilmann Sebastian and Shih Lea. 2013. "The Rise of Industrial Policy in China, 1978-2012". Harvard-Yenching Institute Working Paper Series.

### The Chinese Car Industry

Thirty years ago, the production of passenger cars was virtually non-existent in China. Nonetheless, today China has become the biggest passenger car producer in the world, with 18 million units produced in 2013. In comparison, all of the EU-27 countries produced 15.9 million units in total and Germany alone contributed 5.4 million units to the EU figures, and the US had the output of 4.3 million units.<sup>62</sup> China is not only the biggest producer, it is at the same time the biggest car market in the world. In 2013, 17.9 million units was sold in China, while 12.3 million units was sold in all the EU-27 countries and 7.6 million units was sold in the US. Comparing the sales figure of 2005 and the figure of 2013, car sales in China had increased by 325% while car sales had dropped by 12.3% in EU-27 and 1% in the US.<sup>63</sup> The booming Chinese car production and market in recent years has made the Chinese auto industry an industry that no one can look down upon in fact. It is with this background that the thesis would like to further elaborate on the development of the Chinese auto industry and industrial policy.

The first car landed in China in 1901, when an ambassador from the West presented it to the emperor of the Qing Dynasty.<sup>64</sup> However, this new invention of the West was not welcomed by the emperor, given that modernization and modern technologies were not appreciated by the rulers at the time.<sup>65</sup> Soon after, the turbulence of China due to the fall of the Qing dynasty and decades of wars did not give the opportunity for China to consider car production or allow car market to develop. In 1958, when the Communist Party of China had ruled for 9 years with stable economic development, most of the cars in China were still imported from the Soviet Union. As a response

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<sup>62</sup> OIAC. 2014. World Motor Vehicle Production by Country and Type (2012-2013)

<sup>63</sup> OIAC. 2014. New PC Registration or Sales (2005-2013)

<sup>64</sup> Beijing Automobile Museum

<sup>65</sup> Century Dragon, 2014. History (of the Automobile Industry in China)



to this situation, Chairman Mao, the highest authority of the People's Republic of China (PRC) at the time, expressed in a meeting of the Politburo of the Communist Party of China (CPC) his wish to develop the production of Chinese passenger vehicles. At the time he asked: "When can Chinese own cars made in China?"<sup>66</sup> Following Mao's speech, a group of experts of the First Automobile Works (FAW)—the first vehicle producer in China established in 1953 producing commercial vehicles at the beginning—spent half a year to develop Dongfeng CA-71 based on the model of Simca (a French car producer)'s Vedette and the engine of Mercedes-Benz 190SL Roadster.<sup>67</sup> Chairman Mao and other top Chinese leaders took rides and were very satisfied with the first Chinese-made car.<sup>68</sup> Later on, other models were produced based on the car models of the Soviet Union at the time. However, these Chinese-made cars were exclusively used only by party elites and production was limited.<sup>69</sup>

The real development of the Chinese auto industry came only after the opening up of China to the outside world after 1978. In 1979, Beijing Automobiles Works (BAW) reached a joint-venture agreement with American Motors Corporation (AMC) to form Beijing Jeep. Jeeps were then assembled and sold in China, although its engines and its parts were mostly imported.<sup>70</sup> However, given China's low living standard and the lack of foreign exchanges at that time, the Chinese market was not expected to have any boom in the near future by AMC. It is also the reason why AMC as well as other potential foreign partners were not enthusiastic towards the Chinese market.

<sup>71</sup> Nonetheless, the economic reform progressively brought increasing living standard to Chinese

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<sup>66</sup> Beijing Automobile Museum

<sup>67</sup> Phoenix New Media. 2014. "The Birth of Dongfeng Sedan: our Dongfeng Sedan by Reverse-Engineering"

<sup>68</sup> Beijing Automobile Museum

<sup>69</sup> Anderson, G, E. 2012. *Designated Drivers: How China Plans to Dominate the Global Auto Industry*. Singapore: John Wiley & Sons Singapore Pte. Ltd.

<sup>70</sup> Jim Mann. 1997. *BEIJING JEEP: A Case Study of Western Business in China*. Boulder, CO: Westview Press

<sup>71</sup> Ibid.

people and demand of cars, especially for taxi business, surged.<sup>72</sup> Since foreign car makers could only enter China in partnership with Chinese companies, it was under this context that more and more joint-ventures between Chinese automakers and foreign car markets were started.

Today, almost all of the leading multinational car makers are present in China, in joint-ventures with their Chinese partners, who are often state-owned car manufacturers. The biggest joint-ventures include Shanghai Volkswagen, Shanghai GM, Dongfeng Nissan, Dongfeng Honda, Dongfeng Kia, FAW-Volkswagen, FAW Toyota, BAIC Hyundai, Changan Ford, GAC-Toyota, and GAC-Honda.<sup>73</sup> These joint-ventures producing foreign car models altogether sold over two third of all the cars made and sold in China.<sup>74</sup> However, the landscape of the Chinese auto industry is not formed without independent Chinese car makers, who are not in any joint-ventures. Chery, Geely, BYD, Great Wall and Brilliance are the four largest independents, producing cars under their own brands, although Chery, Brilliance and BYD has established joint-ventures with non-major foreign car makers—Isreal Corporation, Daimler and BMW respectively—very recently, and Geely has acquired Volvo in 2010.<sup>75</sup> Moreover, recently more and more Chinese car makers, such as BAIC, Changan, Dongfeng and Shanghai Automotive Industrial Corporation (SAIC), who are in joint-ventures launched their own indigenous brands. Among them some are joint-venture indigenous, which means that they are owned and were developed by the cooperation of joint-venture partners.

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<sup>72</sup> Anderson, G, E. 2012. *Designated Drivers: How China Plans to Dominate the Global Auto Industry*. Singapore: John Wiley & Sons Singapore Pte. Ltd.

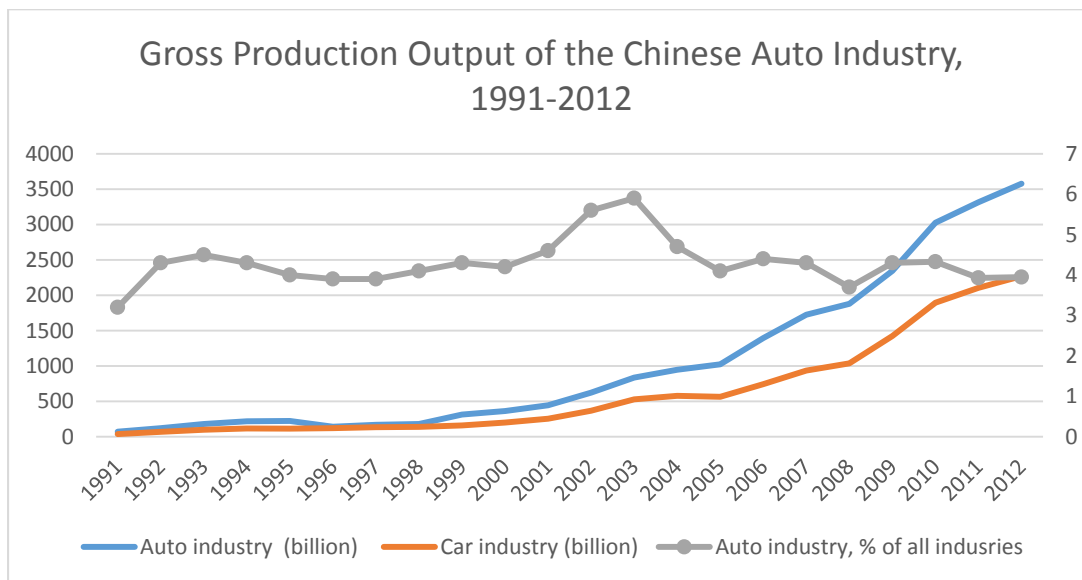
<sup>73</sup> Reuters. 2014. “China’s car joint-ventures”, in “Losing Mileage”

<sup>74</sup> Ibid.

<sup>75</sup> ChinaAutoWeb. 2014. “Chinese Auto Companies, Sino-Foreign Joint Ventures”.

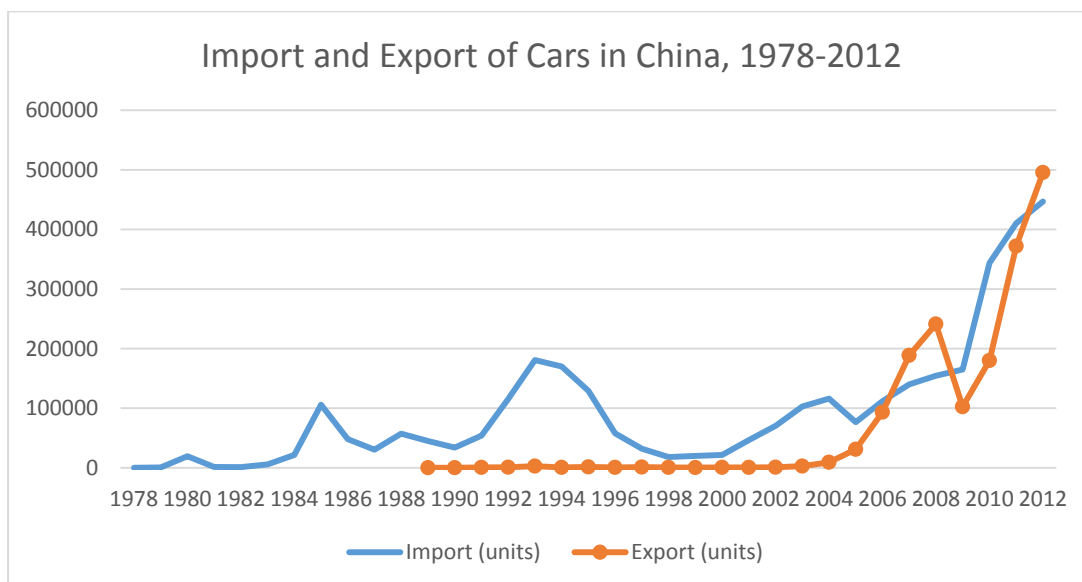
Here are some statistics of the Chinese auto industry:

Figure 5. Gross Production Output of the Chinese Auto Industry 1991-2012



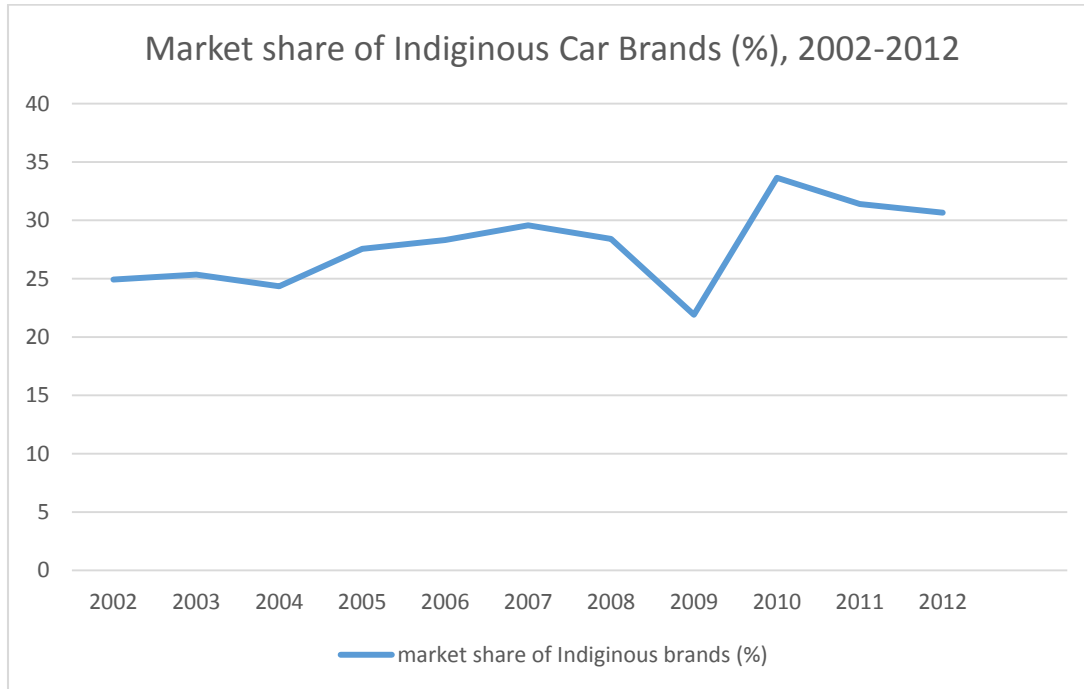
Source: 2012 中国汽车工业年鉴

Figure 6 Import and Export of Cars in China, 1978-2012



Source: 2012 中国汽车工业年鉴

Figure 7 Market share of Indigenous Car Brands (%), 2002-2012



### The Chinese Auto Industrial Policy

The auto industry has been the pillar industry of China since 1986, as directed by the central government. Being a pillar industry means that the industry has been obtaining special policy supports and protections from the government, on the ground of the industry's importance position in the economy. In order to protect the auto industry, import vehicles were heavily taxed. Vehicles exported from countries with most-favored nation status were taxed 100%, while vehicles from other countries were taxed up to 240%.<sup>76</sup> Value quota was also implemented. Since 2001, the government have gradually decreased the import tax of automobiles, in accordance with the accession requirements of the WTO. At the end of 2005, value quota were abolished. Until 2013, the import tax has decreased to 25%. Apart from tariff and quota, the industry had also been barred

<sup>76</sup>中华人民共和国进出口关税条例. From 1993-2013.

from new entrances, only specified enterprises could manufacture and sell cars. In 1987, the government specified FAW, Second Automobile Works (SAW) (today's Dongfeng), and SAIC to be the three car manufacturers. Later on in 1988, it clarified that only FAW, SAW, SAIC and three other smaller manufactures in Beijing, Tianjin and Guangzhou could produce cars, and no others would be allowed in the industry.<sup>77</sup> Later on the government continued to restrict entrances into the industry, although these policies were not completely implemented back then. In general, before 2004, consolidation and acquisition of foreign technology through joint-ventures had been the main focus of the policy.<sup>78</sup> Since 2004 the development of indigenous brands and innovations has become a regular and emphasized feature of the policy. More recently, under the Eleventh Five-Year Plan (2006-2010), the development of new energy vehicles (NEVs) became another regular feature of the policy.<sup>79</sup> During and after 2008, in the midst of the global financial crisis the central government strengthened the auto industry by the introduction of tax and subsidy measure to boost auto sales and increase the funding for the research and development of NEVs, with the main beneficiaries being Chinese car makers.<sup>80</sup> Another focus point of the policy at the time was the government's goal of consolidation, under which targets in terms of the numbers of auto groups and production volumes were specified. Then under the Twelfth Five-Year Plan (2011-2015), the focus was placed on the development of NEVs predominantly.<sup>81</sup>

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<sup>77</sup> Bloomberg Businessweek/China. 2004. "中国汽车产业政策的演化：从战略失误到编造神话". 06/04/2004

<sup>78</sup> Anderson, G, E. 2012. *Designated Drivers: How China Plans to Dominate the Global Auto Industry*. Singapore: John Wiley & Sons Singapore Pte. Ltd.

<sup>16</sup> Ibid.

<sup>80</sup> Ibid.

<sup>81</sup> Ibid.

## Chapter 4. The Government

This chapter presents and analyses Chinese government's discourse on indigenous development of the Chinese car industry. Government's discourse on the importance of the Chinese auto industry will be presented and analyzed first, followed by its discourse on indigenous development.

### Assumed importance of the auto industry

The importance of the Chinese auto industry was not often mentioned in the government's discourse, showing that its importance was often assumed. When it was mentioned, it was only briefly mentioned through the words of FAW's auto leaders. As the leaders of the first and one of the largest auto makers in China, they represented the authorities to remind the general public of the importance of the industry.

Overall, the major argument for the importance of the Chinese auto industry was that the industry was an important pillar industry supporting the rapid growth of the whole Chinese economy. FAW's general manager Zhu Yanfeng, in his article published on the People's Daily in 2002, mentioned that starting from the second half of 2002, the auto industry had been the strong driver of industrial growth in China.<sup>82</sup> According to Zhu, the auto industry could stimulate the development of 100 relevant industries by its forward and backward linkages. For each unit of value added in the auto industry, it could bring 0.65 unit of value by its backward linkages and 2.63 units by its backward linkages. It could also facilitate the restructuring of the Chinese industrial structure. Zhu's argument on the economic function of the auto industry sounds

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<sup>82</sup> People's Daily. 2003. "走新型工业化道路振兴中国汽车工业——写在中国汽车工业暨一汽五十周年之际 第一汽车集团公司总经理竺延风". 16/07/2003

pervasive, but the spillovers he referred to was more on the theoretical instead of empirical level. Zhu also regarded the development of auto industry as the symbol of national scientific technology and cultural advancement of countries, but he did not further elaborated why or how.

Apart from its economic and attached symbolic values, Zhu also mentioned how cars had change the lives of people. He said, “Automobiles have increasingly become partners and friends of people”. Vehicles had enhance the mobility, work efficiency and life quality of people; and it had become important consumer goods for general consumers. According to Zhu, family vehicle ownership had become a trend; and the fact that they were no longer merely the symbol of position and status of elites symbolized the advancement of the society. Zhu in fact overstated the popularity of vehicle ownership. Even as of 2013, there were only 105 vehicles for every 1000 people in China in 2013<sup>83</sup>. Although owning cars may not necessarily reflect elites’ status and power these days, the brands, models and number of cars owned matter.

Geng Zhaojie, the Director of FAW until 2006, mentioned that the discussion on the relations between the industry and the national economy had long been over. He said: “There has been many discussions amid the development of the Chinese auto industry. At the beginning it was the relations between the industry and the national economy—is the industry a pillar industry? It is a pillar industry, then should the industry focus on developing cars? Then car manufacturing started to develop...”<sup>84</sup> He mentioned that the focus of the discussions nowadays was whether to promote indigenous development and develop national brands. Geng’s claim in fact functioned to persuade the general public that the importance of the industry was endorsed after mature discussions and

<sup>83</sup> Beijing Times, 2014. “全国机动车保有量破 2.5 亿 31 城市过百万”. 05/02/2014

<sup>84</sup> People’s Daily. 2003. “没有品牌，造多少车都是别人的辉煌”. 29/10/2003

hence further justifications on the importance of the industry was not necessary, closing the discursive space for this position to be challenged.

### Justifying the necessity of indigenous development

The importance of the auto industry was mostly assumed in government's discourse, but the importance of indigenous development of the auto industry was not until 2004 and 2005. Hence, numerous articles were published on the People's Daily to offer justifications of the necessity of indigenous development of the industry. Two levels of justifications were offered. The first level concerns the challenges of globalization and China's World Trade Organization (WTO) accession for all the Chinese industries. The second level concerns the specific challenges faced by the auto industry.

### Challenges for Chinese industries

One of the perceived major challenges for Chinese industries under globalization and China's WTO's accession is the active roles of foreign governments to protect their own markets and to assist their own firms to enter China's market by raising their technological standards. In a 2002 article named "Are Chinese Products Really Inferior?" on the People's Daily 2002, the trade position of China were described as deteriorated due to the rise of import standards in developed countries after China's accession into the WTO in 2001.<sup>85</sup> The export situation of lighters produced in Wenzhou was mentioned as an example. These lighters were described as of high quality and safety standard, occupying 70% of the world lighter market. However, within the European Union (EU) a safety act requiring an additional safety device to be installed in all lights was adopted. Given that device had been patented and Chinese companies had to buy the license from European

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<sup>85</sup> People's Daily Overseas. 2002. "中国货真的不行吗?" 04/06/2002



firms in order export lighters to the EU, the increased cost then forced all the Chinese firms out of the EU market. The article claimed: “Are Chinese products really inferior? They are not. The real reason behind this situation is that some countries raised their import standards in response to China’s accession into the WTO.” According to the article, technology standards had become the sharp weapon for developed countries to protect their own markets, to occupy the other’s market and to obtain maximum benefits. It considered technology standards as a greater hurdle than conventional protection measures such as tariffs and quotas for China, as it had incurred direct and potential losses of more than USD 50 billion for China every year. On the other hand, given that the technology standards in China were not as developed and uniformed, these standards were considered unable to serve to protect the national industries in China. It considered that technology standards had become ‘the rule of the game’, those who obtained the right to set up standards and whose standards became international standards would obtain the controlling power over markets. The article suggested that if China could not adopt measures to protect its own industries, economic development of China would be hampered. Therefore, the development of indigenous technologies and hence China’s own technological standards were considered necessary. Further, it suggested that these technology standards developed needed to be promoted to international standards for China to gain control over the international market.

Another perceived challenge to Chinese industries under globalization and China’s WTO accession is the lack of ability for Chinese companies to compete internationally given the global trend of transnational merger and acquisitions and revenue concentration. A 2002 article named “Strategic Measures to Deal with International Competition” on the People’s Daily analyzed that given these trends and the fact that only a small number of Chinese companies had reach the

reasonable scale, China should pay attention to cultivate and develop large companies and groups with strong brands and technological innovation that could compete internationally.<sup>86</sup>

Additional, another perceived challenge is the increasing number of disputes over intellectual property rights (IPR) between Chinese and foreign companies after China's WTO accession, which were considered harmful to Chinese industries and enterprises. A 2004 article named "When National Brands Meet Intellectual Property Rights" in the People's Daily mentioned that more and more foreign companies came to China to sue Chinese companies who were considered violating the IPR of them.<sup>87</sup> Well known examples of these disputes included lawsuits between Cisco and Huawei and Toyota and Geely. A number of political elites had expressed concerns that these disputes would constrain the development of many small and medium enterprises, as these lawsuits often incurred huge amount of compensation paid by Chinese companies. Also, these disputes had also become an embarrassing topic for many rapid growing Chinese companies.

Under globalization, as China was perceived to be the "world factory", the loss of potential profit is another concern. In the same article, it was mentioned that the value of export processing and foreign-owned companies' export had reached more than half of the total export value of China. However, the right to profit from these products did not belong to China, said in the article. Quoted an analyst, the export value of China was around USD 150 billion—1.5% of the global export value, but exported products could be sold at prices around 20 times higher than their export prices. The reason for this, suggested by the article, was that many Chinese companies did not have indigenous IPR over the products they produced but produced only goods of other brands. Quoted

<sup>86</sup> People's Daily. 2002. "应对国际竞争的战略性举措(学习贯彻中央经济工作会议精神)"21/2/2002

<sup>87</sup> People's Daily. 2004. "当民族品牌遭遇知识产权....."07/01/2004

an expert, the article suggested that the Chinese government should take a balance between fulfilling the obligations as a WTO member and protecting its national firms and national brands. It argued that only with indigenous innovation and obtaining IPR could save Chinese companies.

### *Challenges for the Chinese auto industry*

On the second level, also related to globalization and China's WTO accession, challenges faced by the Chinese auto industry raised serious concerns on the necessity of building indigenous car brands and conducting indigenous development. First, the lack of controlling and discursive power of Chinese companies over their joint-ventures and the industry is the major source of concern. A 2004 article named "Auto Joint-ventures reached The Cross-road" on the People's Daily mentioned an incidence in which the CEO of Nissan said his Chinese partner Dongfeng had zero contribution in their joint-ventures, as reported by foreign media. The article said although later on Nissan's CEO clarified that this was fabricated by media, "but we can roughly see the low status of the Chinese auto industry in the mind of multi-national companies"<sup>88</sup>, equaling the insult against a Chinese car maker to an insult against the whole industry. The article described the situation of the industry that since all the capable Chinese car makers had established one or even two joint-ventures, foreign car makers who came to China late had to cooperate with less capable Chinese car makers. In order to share the rapidly growing market, these Chinese firms had lowered down their negotiating weight when negotiating with foreign car makers. The result of this is that they had low discursive power in their joint-ventures, although the equity ratio between partners was still 50:50. In established joint-ventures, multinational companies would always like to keep key decision making power to themselves, and this had led to many disputes and problems especially in car model selections and marketing strategies. Since joint-ventures could not give the

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<sup>88</sup> People's Daily. 2004. "汽车合资走到十字路口", 12/01/2004

discursive and controlling power that Chinese firms would like to have, indigenous development were considered a solution.

Another related perceived challenge was the industry's loss of independent survival, elaborated by Lu Feng, Professor at the School of Government of Peking University, in an interview with the People's Daily in 2004.<sup>89</sup> His position was that the industry would not be able to survive independently if the joint-venture model would continue to be relied on. He said the reason why the joint-venture model survived and earned profit until today were because of the special structure of the Chinese auto market. With protectionist measures such as high tariff and quotas, as well as restrictions on foreign investment, foreign companies could only enter the Chinese market by establishing joint-ventures. For a long period of time, entries to the industry were restricted such that protected enterprises had enjoyed the monopolistic position such that high car prices and hence high level of profit were maintained. However, according to Lu, this seemingly blooming scenario had actually covered the danger threatening the healthy development of the industry. Since Chinese companies could earn high profit without risking to conduct research and development, they had lose the confidence and motivation to conduct indigenous research; and the industry's dependence on foreign companies had increased. After the transition period of China's WTO accession, protectionist policies would have to be abolished, and the existing foreign investment and entry restrictions would be challenged. Therefore, he regarded indigenous development as the only way by which Chinese auto firms and the Chinese auto industry could survive. The Deputy Minister of Ministry of Science and Technology Liu Yanhua had expressed a similar concern in a 2005 article

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<sup>89</sup> People's Daily. 2004. "自主开发是振兴汽车工业唯一出路——访北京大学政府管理学院教授路风". 12/4/2004

named “Trading market for technologies did not work.”<sup>90</sup> “In this past there was a saying ‘trading market for technologies’ which suggests that once the market is open technologies could be bought with foreign firms and capital. However, what we have seen today is that this path did not work.” He mentioned that multinational firms had occupied 90% of the Chinese auto market but the Chinese indigenous brands and development had been discarded. In fact, ‘trading market for technologies’ was not only a saying but the development path taken by the Chinese auto industry since the opening up of China. By rejecting its outcome, Liu pointed out the necessity of indigenous development.

#### The ways, achievements and roles

In fact, government’s discourse on indigenous development have started to shift since 2004. The importance of indigenous development or the consequences of not having indigenous development were not mentioned as much anymore. Rather, the focuses have started to become the ways to achieve indigenous development, companies’ achievements in indigenous development, and the roles of the government and consumers in achieving indigenous development. This reflects that the necessity of conducting indigenous development and developing indigenous brands might have been accepted widely and therefore had become assumed in the government’s discourse.

Many interviews with leaders of Chinese auto firms with indigenous brands were then covered in the People’s Daily, in which the determination and various paths to indigenous development of these enterprises were shown. Only in 2004, leaders of Changan, Brilliance, SAIC, Geely, Chery, Dongfeng and FAW had been interviewed on various issues related to indigenous development. For example, in the interview with the CEO of Changan, the shift of the company’s focus from

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<sup>90</sup> People’s Daily (Overseas). 2005. “市场换技术的路子走不通--访中国科技部副部长刘燕华”. 12/12/2005

joint-development with foreign firms to indigenous development was highlighted, and the launch of its first indigenous car model and the building up of its indigenous development term were described.<sup>91</sup>

Regarding the development paths to indigenous brands and technologies, it was shown in these interviews that companies had chosen various paths to achieve indigenous development. For instances, the indigenous path of Brilliance's—conducting indigenous development first and transferring technologies in after—was affirmed, highlighting that there were actually no contradictions between joint-venture and indigenous development brands; the indigenous path of SAIC—joint-venture development of indigenous brands and technologies—and the works it had done were also elaborated.<sup>92</sup> The divergent paths taken by Chinese car makers were then further affirmed by an article concluding that there were four indigenous development models—to start and learn everything from the scratch, to mimic the others, to obtain capitals from joint-ventures and then build up a system outside the joint-ventures, and to follow multinational firms in order to obtain the market share first—and all of them had their own pros and cons.<sup>93</sup>

Enterprises' achievements in indigenous brand and technology development in terms of production and sales volumes, particularly export volume, and their operations abroad were particularly emphasized and praised. For instance, Chery, as a non-stated own car maker, had in total manufactured 200,000 units of cars from its establishment in 1991 to the beginning of 2001. In a 2004 article on the People's Daily, this was described as “the miracle in the history of Chinese car

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<sup>91</sup> People's Daily. 2004. “从微车到小车的跨越——访长安汽车(集团)有限责任公司总裁尹家绪”. 12/01/2004

<sup>92</sup> People's Daily. 2004. “先创建自主品牌，再与宝马合资，华晨“两条腿走路”的战略，给汽车界提出了一个课题——自主品牌与合资并非水火不容”. 10/01/ 2004

<sup>93</sup> People's Daily. 2004. “如何掌控汽车工业的自主权”, 19/04/2004

development”.<sup>94</sup> Also, the success of Chery to export had been widely mentioned. In 2001, Chery exported the first batch of cars to Syria.<sup>95</sup> Soon after that it established a factory in Iran with the capacity of producing 50000 units a year. This was described as “creating the first record of Chinese export car assembling factory”.<sup>96</sup> It then also engaged with a Malaysian car dealer in order to enter the ASEAN market, and signed an agreement to establish a joint-venture selling its cars in Northern America.<sup>97</sup> These events were all covered and mentioned in various articles.

Moreover, the establishment of Geely’s new factory in Malaysia in 2005 and especially its acquisition of Volvo in 2010 were considered two other milestones of the industry. Greely acquired 100% of Volvo’s shares from Ford in March, 2010. This was described in article on the People’s Daily as “the honor of not only Geely but also all Chinese people in the auto industry”.<sup>98</sup> As mentioned in the article, this acquisition had been the largest overseas acquisition by Chinese car makers. The article quoted the words of the honorary president of China Association of Automobile Manufacturers: “The meaning of this acquisition is that it is the first step of a strategic turning point. In the past there were only foreign companies entered the Chinese market, we didn’t have a successful case of going-out.”<sup>99</sup> The secretary of the Society of Automotive Engineers of China also said that the acquisition “has the historical function of pushing forward the development of the Chinese auto industry”. In another article on the People’s Daily, it was mentioned that Geely could build its new high-end brands with the core IPR of Volvo, and this would further enhance the image and publicity of Geely-made and China-made brands, further connecting the

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<sup>94</sup> People’s Daily. 2004. “奇瑞：自主开发越来越有信心”, 25/04/2004

<sup>95</sup> People’s Daily. 2005. “奇瑞的“二次革命””, 21/04/2004

<sup>96</sup> People’s Daily. 2004. “奇瑞：自主开发越来越有信心”, 25/04/2004

<sup>97</sup> People’s Daily. 2005. “奇瑞的“二次革命””, 21/04/2004

<sup>98</sup> People’s Daily. 2010. “让中国车走遍世界”. 02/04/2010

<sup>99</sup> Ibid.

achievement of Geely with the achievement of the whole industry<sup>100</sup> The words of Li Shufu—the founder and director of Geely—were quoted: “My dream is to make the safest, the most environmentally friendly and the most energy-saving cars, and to let Chinese cars reach everywhere in the world, instead of letting cars from all over the world reach China.”<sup>101</sup> Li’s optimism towards the future of Volvo in China was also quoted: “From the standpoint of national passion, Chinese consumers hope to see the acquisition of international brands by local brands. This (the acquisition) enhanced the affirmation of Chinese consumers towards Volvo, and Volvo’s share in the Chinese luxurious car market will be expanded.” The success of the Volvo acquisition was seen as the result of not only Geely’s efforts, but also the supports given by the Chinese government. “Geely was not ‘fighting alone’, it was greatly supported by national banks, local governments and even departments of the central government. Most importantly, Geely relied on the Chinese auto market—the largest new car market in the world.”<sup>102</sup>

Geely’s acquisition of Volvo highlighted the perceived roles of enterprises, the Chinese government and the market in the development of the Chinese auto industry. In a 2005 article, the opinion of Huang Shanglian, a member of Chinese Academy of Engineering and a member of national committee of CPPCC, on how to realize indigenous innovation in general was mentioned. He thought the government should enhance its support for fundamental as well as core technologies research; companies should increase their efforts to conduct product and technology development; mechanisms and policies to support extended research should be established; and talents should be nurtured to tackle technical difficulties.<sup>103</sup> In another 2005 article, the role of

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<sup>100</sup> People’s Daily. 2010. “并购沃尔沃 吉利图些啥”. 30/03/2010

<sup>101</sup> People’s Daily. 2010. “让中国车走遍世界”. 02/04/2010

<sup>102</sup> People’s Daily. 2010. “并购沃尔沃 吉利图些啥”. 30/03/2010

<sup>103</sup> People’s Daily. 2005. “自主创新时不我待”. 09/03/2005



government policies to coordinate technology development and economic development was mentioned by the deputy minister of the Ministry of Science and Technology: “Establishing mechanisms to digest, absorb and re-innovate is very important. At the same time, government procurement policies should be able to function to stimulate technological innovation of enterprises. In the aspects of tax, investment and trade, a fair environment for competition should be created to fully promote the development of science and technologies.”<sup>104</sup> From the above remarks, one can see the perceived important role of the government. In a 2008 article in the People’s Daily’s China Automotive News, in the midst of the global financial crisis, the role of the government’s ‘visible hand’ was emphasized to tackle the challenges the auto industry was facing and to make use of the crisis situation to promote the industry’s development towards energy efficiency and low emission.<sup>105</sup> The balance between market competition and government intervention was considered necessary to build a successful market economy. Measures such as adjusting consumption tax rate of vehicles with both high and low emission rates, policy supports for the selected innovative enterprises and capital support for small and medium enterprises were therefore adopted, as explained in the article.

In February-2012, a notice about restricting the procurements of central government units was announced. It stipulated that procurement priorities were to be given to national products. Many observers of the industry expressed that the restriction went against China’s commitments as a WTO member. However, an article on the People’s Daily named “Procurement Priority should be given to National Products” argued that the restriction was not contradictory to WTO’s

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<sup>104</sup> People’s Daily (Overseas). 2005. “市场换技术的路子走不通--访中国科技部副部长刘燕华”. 12/12/2005

<sup>105</sup> China Automotive News. 2008. “困难之时，政府“有形之手”该抓什么. 01/09/2008

principles.<sup>106</sup> An expert mentioned that the goals of government procurement included also promoting economic and social development, apart from saving and enhancing the effectiveness of spending. The article also mentioned the government procurement list issued at the same time by the Ministry of Industry and Information Technology, in which all vehicles included were of indigenous brands. According to the article, this was an important step to demonstrate government's support on auto indigenous brand development. It justified the move by mentioning that this policy was commonly adopted by other countries such as Korea, Japan and Russia, and there were other types of restrictions adopted by the US as well. It also mentioned that the restriction was not to discriminate foreign products, but to remove "the discrimination against national products", which meant the prejudice of Chinese consumers against China-made products.

Recently, given the insufficiency of both governments and firms' efforts to promote indigenous development, the role of consumers was also proposed. In a 2010 article named "Be Proud of Buying National Products", the head of the Policy and Law Department of Ministry of Science and Technology Mei Yonghong shared his view on the attitude consumers should have on national products.<sup>107</sup> He suggested that if there were no renowned national products, the modernization path of China would have been much more difficult, and the cost of it would have been much larger. He mentioned that "indigenous innovation is not only the business of government and enterprises, every citizen has also the responsibility to push forward indigenous innovation" by consuming national products. He further explained that new technologies and products would only have advancements if they were used and consumed continually, and there would not be space for national products to develop if consumers did not buy and use them. He also mentioned the

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<sup>106</sup> People's Daily. 2012. "政府采购就是要国货优先". 28/05/2012

<sup>107</sup> People's Daily. 2010. "要以买国货为荣". 01/02/2010

development of the Japanese and Korean car industries as an example, arguing that their success were due to the support of their national consumers. “Being proud of using national products is the consumption culture of Japan and Korea,” he added. At the end he said again that general consumers could show their care for indigenous innovation with their consumption behaviors.

### Summary of the government’s discourse

In government’s discourse, the importance of the auto industry has been assumed, but justifications for the necessity of indigenous development were mainly elaborated until 2004. To briefly sum up the government’s discourse on the necessary of indigenous development, indigenous development of brands and technologies was consider the solution to the challenges brought by globalization and China’s WTO accession to Chinese industries including the auto industry, as well as the challenges faced by the auto industry dominated by joint-ventures. Challenges to Chinese industries include the active role of foreign government to protect their own market and assist their companies to enter the Chinese market, the tough environment of international competition, IPR disputes between Chinese and foreign companies, and the loss of potential profits with IPR. Challenges to the Chinese auto industry include the loss of controlling power in joint-ventures and the loss of independent survival ability of Chinese auto firms under the joint-venture system. The focus of government’s discourse have shifted since 2004. Since then, the paths to indigenous development, the achievements of enterprises with indigenous development, and the role of government became the focuses of the discourse, as the necessity of indigenous development became assumed. Recently, the role of consumers in indigenous development was emphasized, as a response to the perceived insufficiency in both government’s and enterprises’ efforts to promote indigenous development.

## Chapter 5. The Auto Makers

This chapter presents and analyzed automakers' discourse on indigenous development of the Chinese auto industry. Automakers' discourses on the importance of the auto industry will be analyzed first, before presenting their discourses on indigenous development respectively.

### Assumed importance of the auto industry

What is the importance of the auto industry from the point of view of carmakers? Among the interview transcripts obtained online, only the leaders of FAW mentioned it. Apart from the interviews with the People's Daily mentioned in last chapter regarding the industry's function as a strong economy drive and its integration into people's life, leaders of FAW shared more of their opinions on the importance of the auto industry in various other interviews.

In an interview about the development of the auto industry from the perspective of national strategies with China Information News in 2005, Zhu Yanfeng said that "the auto industry concerns national interest and people's livelihood, and is also an important component of the national strategic resources", when he was asked about the role of the industry in building a harmonious society.<sup>108109</sup> Zhu then mentioned that "the Chinese auto industry bears an important responsibility and mission in building the harmonious relations between people and nature. However, how exactly the industry serves national interest and people's livelihood, as well as functions as national strategic resources and builds harmonious relations were left unexplained.

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<sup>108</sup> Building harmonious socialist society has served as one of the official ultimate goals for the ruling of CPC since the Hu-Wen Administration.

<sup>109</sup> China Information News. 2005. "从国家战略高度看汽车产业发展--访一汽总经理". 15/03/2005

Xu Jianyi, the director of FAW since 2006, mentioned very briefly during the 12<sup>th</sup> CPPCC meeting in 2014 in Beijing that the auto industry also symbolized the level of industrialization of a nation, apart from that it could pull the development of a series of relevant industries.<sup>110</sup> He used the US, Germany, France, Japan and Korea as examples that these economic powers were all at the same time auto powers, pointing to the need for China to build a strong auto industry.

Given that the importance of the auto industry was rarely explained and discussed in detail by car makers, it seems that the industry's importance has already been assumed as in the government's discourse. During an interview I conducted with a senior manager of a car maker, when asked if he considered the auto industry important, his first response is that "the importance of the auto industry is unquestionable." He then took more than two minutes contemplating and then mentioned the spillovers the industry had on other industries. In fact, all the interviewees mentioned various kinds of economic benefits the industry brought to the Chinese economy. However, other relatively less tangible perceived importance of the industry such as serving national interest and symbolizing the level of industrialization may contain more abstract ideas and values whose importance is often assumed and hence left unexplained.

### Consensus on Indigenous development

As FAW's former direction Geng mentioned, whether to promote indigenous development and develop national brands was the topic of the industry's hot debates since early 2000s. Leaders of car makers have all been very vocal on various topics encompassing indigenous development. There are three level of discussions in general. The first level is why indigenous development is

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<sup>110</sup> China News Net. 2014. "徐建一：中国官员应带头消费本土品牌", 07/03/2013.

important at all for them. All leaders agreed with the importance of indigenous development but justified it in various ways. The second level is how the existing systems of joint-ventures and the continuation of the system would hamper the Chinese auto enterprises and indigenous development. The articulations of these problems then lead to the third level of discussions: solutions and the role of government and policies to solve these problems. Discourses of Chinese car makers' leaders are to be presented chronologically to reflect their evolutions over time and their responses to various debates in different periods of time in the coming sections.

### FAW

In a 2004 interview with People's Daily, Geng firstly affirmed various contributions of joint-ventures towards the industry's development, but then stressed the need for the industry to develop indigenous brands and conduct indigenous development. He said "the path of joint-ventures has to be ascertained, but it is not the end result that we have longed for".<sup>111</sup> He then made an analogy between the industry's current situation and joining Olympic Games with all foreign sportsmen, expressing the feeling of shame towards the lack of indigenous brands in the industry. He further mentioned that when an auto makers did not have its own indigenous development, producing only cars of the others' brands, they were only factories manufacturing cars but not genuine car manufacturers, and they would never have the controlling power over the joint-ventures no matter what were the equity ratios. Geng said, "You have to always beg for your bread and butter from the others. If they don't give you new products, you can no longer survive." He then further illustrated the problem of staying with the status quo by pointing out that foreign partners nowadays asked for extending ancillary rights such that the scale of the Chinese auto parts industry

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<sup>111</sup> People's Daily. 2003. "没有品牌，造多少车都是别人的辉煌". 29/10/2003

could not be developed. The situation of auto trading network was similar, according to Geng, as trading networks were developed based on brands regardless of production locations. He then used Toyota's operation in the US as an example to show that multi-national firms would not support their joint-venture operations anymore once they became overly dominant, warning about the future of Chinese auto companies.

He continued to analyze the situation of the industry, "those who do not have the qualifications to conduct joint-ventures are proactively working on indigenous development, while those who have tasted the benefits and obtained huge profits from joint-ventures are not willing to conduct indigenous development". He emphasized that indigenous development of the industry could not rely only on small auto enterprises, therefore pointing out the responsibility of large enterprises with joint-ventures to conduct indigenous development. Under globalization, according to Geng, there were actually more opportunities to conduct indigenous development, since companies could rely on the technologies developed by the others to conduct indigenous development at the beginning and acquire these technologies progressively. To make the case that government supports are necessary for indigenous development, he mentioned an example how government policies requesting product co-development between Chinese enterprises and their joint-venture had partners forced Audi to make a concession to conduct a small scale co-development. At the end of the interview he called for auto professionals to set indigenous development as their "most sacred goal", to think long-term and not to concern merely short-term interests, such that "we will have our place in the world".

In an interview with China Information News in 2005, FAW's general manager Zhu shared his view on the indigenous development of the Chinese auto industry: "In the industrial system of a great power, if there are no indigenous auto industry, it is like a great power without nuclear power. If we have no nuclear power, then what would be our international position?"<sup>112</sup> He argued that the system to support the production of the highest end products could not be developed and indigenous development as the main model of the industry could not be achieved without putting efforts on indigenous development. He then described indigenous development as the historical position and responsibility of FAW.

Zhang Lei, the general manager of FAW Car Company (the company under FAW Group manufacturing indigenous brands), elaborated further on the historical position and responsibility of FAW during an interview about Red Flag with Sina Auto in 2004.<sup>113</sup> He mentioned that Red Flag had been regarded as a very noble brand by Chinese people historically, since a model of Red Flag was the first car made in China when China had not been open to the world. He said: "No one compared it with foreign cars at that time, everyone just felt really proud." He told that Red Flag contributed unquestionably not only to the Chinese auto industry, but also to FAW, since it was an important bargaining chip during FAW's cooperation with foreign companies, as it had proved the ability of China to produce its own cars in front of foreign companies.

Xu Jianyi, the director of FAW since 2006, continued to elaborate on the historical position and responsibility of FAW in an interview with Chongqing Evening News in 2010. "FAW was born and grew out of indigenous development. It has the gene of indigenous development and has gone

<sup>112</sup> China Information News. 2005. "从国家战略高度看汽车产业发展--访一汽总经理". 15/03/2005

<sup>113</sup> Sina Auto. 2004. "一汽红旗--探索自主品牌的成功之路". 10/06/2014



through indigenous development. When FAW was constructed, the responsibility of FAW as the eldest son of the auto industry of new China, the spirits of diligence and aggressiveness, and the mindset to struggle and self-improve stood before its factories and chimneys.”<sup>114</sup> These words of Xu was to demonstrate the determination of FAW to conduct indigenous brand development. Xu later on has showed this determination of FAW in various other interviews.<sup>115</sup>

In 2013, the general manager of the sales company of FAW Car Company Zhang Xiaojun expressed in an interview with *Qichezhongheng*<sup>116</sup> that Red Flag bore the passion and expectation of the nation and all the countrymen, so it was not only auto products but also the brand representing the national auto industry.<sup>117</sup> He further mentioned that Red Flag symbolized the courage and dignity of the nation. Therefore, Red Flag is the soul of FAW, the auto dream of Chinese people, and an important component for China to become an auto great power.

In a recent hot debate about whether the restriction of joint ventures' equity ratio should be open up<sup>118</sup>, Xu expressed his disagreement when interviewed by media during the meeting of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) in March 2014 as a member of the National People's Congress (NPC) and the director of FAW, but he emphasized that indigenous (development) strategy was the strategy of the highest priority of FAW.<sup>119</sup> He later on explained his position in the 2014 Auto Forum. If the restriction would be

<sup>114</sup> Chongqing Evening News. “访一汽集团总经理徐建一：继续做实自主”. 07/05/2010

<sup>115</sup> Sina Auto. 2014. “专访徐建一：红旗轿车是一汽的魂”. 24/10/2014

<sup>116</sup> *Qichezhongheng* is an auto magazine published by the China Association of Automobile Manufactures

<sup>117</sup> *Qichezhongheng*. 2013. “一汽红旗：国家公务用车的“使命” 专访一汽轿车销售有限公司总经理张晓军”. 24/10/2013

<sup>118</sup> Currently, the foreign partner in a joint-venture can own up to 50% of the shares.

<sup>119</sup> *Auto Herald*. 2014. “车界两会代表齐“放炮”：中国要防“狼”，股比放开是产业的灾难”. 14/03/2014

open up now, he believed the controlling and discursive power of Chinese companies in joint-ventures would become much more passive, and many resources such as talents, procurement networks and distribution networks would be drained away from indigenous brands.<sup>120</sup>

During the CPPCC meeting in Beijing in 2014, Xu also commented on the role of government officials in the development of indigenous brands. Xu suggested that on one hand indigenous brands' designs, performances and prices had to be improved such that highly satisfactory cars could be provided to the market; on the other hand, the market should offer supports when indigenous brands were at their developmental stage.<sup>121</sup> According to him, leaders and cadres should take the lead to use indigenous cars. Moreover, he believed this initiative should be extended to other sectors and products. "...government officials should use all kinds of national products", said Xu.

## BAIC

In an interview with Sina Finance in 2005 about BAIC's just established joint-venture with Mercedes Benz, the director of BAIC An Qingheng mentioned that he believed the perfect combination between indigenous brands and international brands was a pillar of Beijing's auto industrial development, when asked about how he would coordinate the relations between its indigenous and joint-venture brands.<sup>122</sup> At that time BAIC had only indigenous commercial vehicle brands but no indigenous car brands.

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<sup>120</sup> *Sichun Daily Net*. 2014. "汽车产业政策修订将重点讨论合资股比问题". 12/05/2014

<sup>121</sup> *China News Net*. 2014. "徐建一：中国官员应带头消费本土品牌". 07/03/2014

<sup>122</sup> *Sina Finance*. 2005. "北汽掌门人安庆衡：让奔驰奉献三个第一次". 27/04/2005

In 2011, when the sales volumes of Beijing Hyundai achieved remarkable 3 million units, in an interview with *Economic Information Daily*, the new director of BAIC Xu Huoyi expressed that BAIC would enhance the Sino-Korea cooperation, to spend up the development of joint-venture-indigenous brands and new energy vehicles.<sup>123</sup> Joint venture indigenous brand was a new concept at the time, referring to indigenous brands whose intellectual property rights of car models belong to the joint-ventures instead of their foreign partners. He expected that in the near future the market of indigenous brands would be second and third tier cities whose consumers had higher acceptance towards indigenous brands. Moreover, although there was large survival space for Chinese indigenous brands in the international market, he believed indigenous products and brands should be improved in the Chinese market first. “There are actually some other companies concern only about short-term profit and take no care of after sale services and their brands. It turns out that people criticize Chinese products and it damages Chinese brands.” Regarding the roles of the government and consumers, he mentioned that car makers “cannot beg for the government policies’ mercy or consumers’ favor, product technologies and brands have to be accumulated progressively, it is the only way that indigenous development will be prosperous”.

In 2012, the vice director of BAIC Dong Haiyang shared his view on indigenous development extensively in an interview with Sohu Auto.<sup>124</sup> He pointed out the unbalanced relations between partners in joint-ventures these days. He said when he was working for a joint-venture, he neglected the power of brand, which made the relations between partners of a joint-venture unequal. He gave an example that in a joint-venture, both partners have to pay for the cost of advertisement, but the brand advertised belonged only to the foreign partner. Under this system, he thought foreign

<sup>123</sup> Economic Information Daily. 2011. “北汽集团董事长徐和谊：打造汽车品牌需要几十年”. 22/11/2011

<sup>124</sup> Sina Auto. 2012. “北汽股份副总裁董海洋：自主品牌的铺路石”. 25/09/2012

car makers obtained more benefits than their Chinese counterparts in joint-ventures. Although he admitted that there were spillovers from joint-ventures, he considered the value these spillovers brought as tedious when comparing to the value of creating indigenous brands. Moreover, he mentioned that Chinese partners in joint-ventures did not have much decision making power, and the control of joint-ventures were held in the hands of foreign companies. Although he had gotten much honor from working for a joint-venture in the past, he did not feel like a host to master the company.

Apart from regarding the current system of joint-ventures problematic, he also expressed his personal passion towards indigenous development. He made a metaphor: “It is like a child. You adopt a child when he is already five or six year old. You do not know what the others have experienced, like planning when to have the child, bearing him, suffering from the pain of giving birth, raising the child and so on”, showing that although building up indigenous brands involved slow and tough processes, he regarded witnessing the growth of indigenous brands valuable. He continued to express that he felt the sense of achievement when he saw his indigenous products in the market. “When I was working for Toyota, I heard that once a worker saw a Toyota (car) with very dirty wipers parked just outside his company, he just took out tissue papers from his pocket and cleaned the wipers”, said Dong, “I will do the same for Little E (an indigenous model of BAIC).”

He continued, “Many people have asked me that as there are already enough production capacity in the Chinese auto industry, why so much effort was still put into indigenous development? Is it that the government requests it? Or just to show the achievements of the leaders of state-owned

enterprises? I do not think so. Everyone who has gone through higher education and every intellectuals with the sense of national justice hope China can become a global power instead of a big global factory.” For him, although the Chinese economy was big, China did not have its own technologies. He regarded a great power as one with advanced technologies. Therefore, he regarded indigenous development as a common wish of Chinese people to make China a global power. He mentioned Huawei as an example to be followed, since it possessed the “wolves spirit to break through the line of besiegers” and finally become respected, implying the hostility of existing multinational firms to block the rise of Chinese firms and the difficulties they had to get through to develop technologies. Further, he ascertained that indigenous development had to be done, and the tough work of them as the first batch of people to pave the way was historically inevitable. Finally, he expressed optimism towards indigenous development of the industry, believing that one day China would move from a host to the main driver of the Chinese market.

Recently in April 2014, Xu talked about the BAIC chapter of the Chinese Dream in an interview with *Qicheren*.<sup>125</sup> The Chinese Dream is a new slogan proposed by CPC General Secretary Xi Jinping. As summed up by a China analyst, the Chinese dream encompasses “national rejuvenation, improvement of people’s livelihoods, property, construction of a better society and military strengthening as the common dream of the Chinese people that can be best achieved under one party Socialist rules”.<sup>126</sup> Xu believed that the Chinese dream was composed of many dreams, and the BAIC chapter is one of them. He mentioned that pillar enterprises including BAIC must genuinely become internationalized enterprises for the Chinese auto industry to become strong. He admitted that BAIC had a later starting point than the others to conduct indigenous development,

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<sup>125</sup> Qicheren. 2014. “捕梦者徐和谊”. 03/04/2014

<sup>126</sup> Osnos Evan. 2013. “Can China Deliver the China Dream(s)?”

but he believed BAIC had the responsibility to build it up progressively as a large state-owned enterprise.

### Geely

For Li Shufu, the founder and director of Geely, indigenous development means Li's personal ambition and dream in the industry. In a TV interview with *Managing China* in 2009, Li said although there were no guarantees for indigenous development to be successful, indigenous development was also about dreams, hobbies and beliefs. He told that his dream was to make cars.<sup>127</sup> As an outsider of the auto industry at the beginning, he told the story how he got into the auto industry. In the mid-90s, he thought cars were too expensive at that time, and one could not buy a good car even he or she paid a lot. He sensed that the situation was not right and he had to take the opportunity to make changes after he was driven out from his refrigerator manufacturing business due to intense competition. He then had many failed attempts to enter the car market. He set up an industrial area and locked down a few foreign cars while trying to learn how to make cars. Later on he acquired some parts of a model of Mercedes-Benz from Hong Kong and produced the first and only Li's Mercedes-Benz. The result was really good according to Li, but he did not get the appreciation from the government, however. Since the auto industrial policy at the time did not permit any new entries into the car market which were facing the issue of over-capacity, he had no choice but started to produce motorcycles and later on commercial vehicles. The opportunity came to Li only after China's accession into the WTO in 2001. Then Geely started to produce cars targeting at the lowest tier of the market. Li scraped the first two batches of cars it produced because of their very low quality. The third batch were finally accepted by its dealers and were sold on the market, with the slogan "to make cars that people can afford". Geely's car

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<sup>127</sup> Managing China. 2009. "中国经营者专访吉利李书福--吉利"二年级" " 23/04/2009

sales went better and better later on. In 2006, it occupied 5% of the Chinese car market. In the 2004 interview with the People's Daily mentioned in the previous chapter, Li mentioned that he aimed to make the safest, the most environmentally friendly and the most energy-saving cars, and to let Chinese cars reach everywhere in the world, instead of letting cars from all over the world reach China.

In 2005, when it was the fourth year that Geely produced cars, it planned to enter the Malaysian market. In an interview with *First Financial Daily*, Li described indigenous development as a knife of Geely, “although it is not very sharp, but since it is ours, we can share the cake of the world auto market.”<sup>128</sup> He said it did not matter whether one produced high-end or low-end cars, as long as one found the entry point with a knife on hand, he could get the share that belonged to him. Therefore, for Li, apart from a dream and an ambition, indigenous development is also a tool for him to expand its business abroad.

Li expressed also his proudness and happiness towards the indigenous technologies Geely had developed. Around 2008, Geely successfully developed the first indigenous automatic gearbox in China. In the same year, it displayed the self-developed tire blowout testing and safety system in an auto show in Detroit and was given a technology award. He said “we don't have to worry if Geely has a blowout” and “now I don't dare to ride on a car if it is not Geely”<sup>129</sup>, to show his confidence and proudness. Moreover, he emphasized that the technology had been internationally patented. “I have to tell you that it is the only indigenous innovation in the history of the Chinese auto industry. Can you name another company that has this sort of innovation and so much

<sup>128</sup> First Financial Daily. 2005. “李书福：自主研发是把刀 有刀就能切蛋糕”. 08/06/2005

<sup>129</sup> Managing China. 2009. “中国经营者专访吉利李书福--吉利“二年级” “ 23/04/2009

respected by peers in the global auto industry?” Moreover, he said the most exciting moment for him in the industry was when new technologies were invented. “No any other things could make me happier.”

Li was not only proud of Geely, he regarded it as an achievement of the Chinese auto industry as well. In a 2009 interview, he said this had proven that the Chinese auto industry had achieved tangible results and would improve the position of the Chinese auto industry in the world. “Chinese auto industry is not about copying and stealing technologies from the others, we has invented this technology by ourselves.” When asked about whether he would sell this technology to other automakers, he expressed that he hoped China could turn the advanced technologies it had to the standard of the industry. He analyzed that currently China was the number one country in terms of car sales and a relatively large car manufacturer, but its technological systems and standards were mostly rely on the ones of Europe, the US and Japan. Only when China had its own technological system and standard would China become respected by both peers in the global car industry and consumers, according to Li. Therefore, he regarded indigenous development as the only way for the Chinese auto industry to go.

In 2010, Geely acquired Volvo, a Swedish high-end car manufacturer, from Ford. Volvo was a much larger car company than Geely at the time, in term of both car production, sales and fame. In an interview with *Xinhau Net*, Li explained that he wanted to acquire Volvo back in 2002 already, when he just got the government’s permission to produce cars.<sup>130</sup> He said he dreamed to produce the best cars and build an as respectable company as Volvo. Moreover, he mentioned that the

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<sup>130</sup> Xinhua Net. 2010. “吉利集团董事长李书福：我为什么能买下沃尔沃?” 03/08/2013



competition in the Chinese auto industry was too tough, if Geely would not enter the higher end of the industry, Geely would not be able to survive. Since Li had commercially and legally acquired the technologies, brand and distribution channels of Volvo, he was asked whether Geely would acquire the competitiveness, mindset, vision and wisdom of Volvo. Instead of addressing how Geely would merge with Volvo, Li addressed how Volvo would benefit the Chinese auto industry. He said: “It was just a wishful thinking to make Volvo a Chinese property, but if we did not acquire the brand and technologies first, we would not even have the chance.” He said because the technological gap between the Chinese auto industry and the ones in the world were too huge, what “we can do firstly is to acquire since capitals are available”. He further said that the way to transfer Volvo’s competitiveness into China’s competitiveness was to let Volvo to produce in China, such that the local developers could enhance their technologies and parts companies could develop. At the end, Li said since the technologies of Volvo were too advanced, these technologies cannot be not all absorbed by Geely, but by “the strength of the nation”. Right after the acquisition of Volvo, Geely was actually hoping that Volvo can be treated as an indigenous brand by the Chinese authority since it was now owned by Geely. However, against Li’s expectation, the Chinese authority at the end treated Volvo as foreign brand and requested Volvo to establish a joint-venture with Geely such that Volvo cars could be produced and sold in China.

Recently, Li was involved in the hot debate on whether the restriction of joint ventures’ equity ratio should be open up. Against the view of the leaders of the four biggest state-owned carmakers that the restriction should not be waived, Li expressed his view in an interview with *China Net* in January 2014. Li said, “The restriction could completely be waived. It should have been waived

30 years ago.”<sup>131</sup> He argued that protectionist policies would not speed up the development of the Chinese auto industry, it would only hamper its competitiveness. On the same issue, he spoke up to the media again after the recent meeting of the National Committee of CPPCC in March 2014 as a member of the committee. He said opposing the opening up of the equity ratio restriction was actually obtaining private benefits in the guise supporting local enterprises. Li suggested that there were no car models of joint-ventures whose prices were lower than their prices in Europe, the US and Japan and that joint-ventures monopolized the market. “Opposing the opening up is to stand against consumers.” He emphasized that the interests of car makers were protected at the expense of the interests of consumers and the competitiveness of the industry. He claimed he was not saying this from a private car maker’s point of view, but from the point of view of the whole Chinese auto industry. “The Chinese auto industry needs to advance its creative ability, China can only become an auto great power if private enterprises are competing with state-owned enterprises fairly and equally”, said Li.

#### Summary of automakers’ discourse

In order to further analyse the discourses of auto leaders, hereby their discourses would be summed up according to the three levels of discourses—justifications for indigenous development, present problems and solutions. Auto leaders offered mainly five types of justifications for indigenous development. The first one is the personal dream and ambition of indigenous development as car makers, mentioned by leaders of both BAIC and Geely. The second one is indigenous development as the way for the Chinese auto industry to survive, gain control and develop, mentioned by leaders of FAW and BAIC. The third one is the symbolic value of indigenous development and brands for

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<sup>131</sup> China Net. 2014. “李書福：保護國內汽車工業 結果會削弱競爭力”, 15/01/2014

the nation, mentioned mainly by leaders of FAW. The forth is indigenous development as the historical mission and responsibility of enterprises, mentioned by leaders of both FAW and BAIC. The last one, mentioned by Li Shufu of Geely, is that indigenous development is necessary for survival and market expansion from the commercial point of view.

Regarding the problems of the current situation of the industry, four problems were mentioned. Most of them are related to the current joint ventures dominant system of the Chinese auto industry. The first one, mentioned by leaders of FAW, is that Chinese enterprises with joint-ventures were not willing to devote into conducting indigenous development, given the huge profits they obtained easily from their joint-ventures. The second one, mentioned by leaders of BAIC, is that the currently joint-venture system was unfair and the relations between Chinese enterprises and their foreign partners was unbalanced, given that their foreign partners owned established brands and therefore had more controlling power and gained benefits from the joint-ventures. The third and the fourth problems were raised by Li of Geely. They are that the restriction on the equity ratio of joint-ventures are hampering the interests of consumers and the indigenous development of the industry, and that the technology gap between the Chinese auto industry and the global industry was too huge.

Regarding the solutions of these problems and the roles of government and policies in solving these problems, leaders of the three car makers had different views. Apart from supporting indigenous development, leaders of FAW emphasized the role of government policies. They stressed the positive effects government policies brought in the past, suggested that protection of the industry through the equity ratio restriction of joint-ventures should be maintained, and claimed

that the government and government officials should take the lead in using products with indigenous brands. BAIC's leaders, while also supporting indigenous development, emphasized the responsibility of enterprises to improve their brands and products instead, saying that indigenous development could not be relied on the support of government policies and special preference of consumers towards indigenous brands. Li of Geely, supported indigenous development as well, but suggested that the government should remove its protectionist policies on the industry and guarantee free and fair competition among enterprises to improve the competitiveness of the Chinese auto industry, and the technological gap should be filled by doing overseas acquisition as the first step.

Auto leaders' discourses on indigenous development did evolve over time. For FAW's leaders, their overall position on indigenous development had not changed much over the past decade. It supported indigenous development and claimed the historical responsibility of FAW to conduct indigenous development. However, the position of BAIC on joint ventures and indigenous development has a more obvious change, from mentioning "the perfect combination of joint venture and indigenous brands"<sup>132</sup> in 2005 to problematizing the partnership of its joint-ventures and claimed its responsibility to conduct indigenous development in 2012. Leaders of BAIC had increasingly stressed on the necessity of indigenous development. For Geely, as a producer of indigenous brands, has consistently expressed its concerns on consumer welfare, its own business interests, as well as the development of the Chinese auto industry.

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<sup>132</sup> Sina Finance. 2005. "北汽掌门人安庆衡：让奔驰奉献三个第一次". 27/04/2005

The major differences in the discourses of the leaders of the three Chinese car makers seem unsurprising, as they correspond well with the background and interests of their enterprises. While FAW is the oldest and the largest state-owned Chinese car makers with the symbolic indigenous brand Red Flag among its 3 major indigenous brands, the state-owned BAIC is a new comer in terms of indigenous development, Geely is a private producer of indigenous brands, who produced cars of relatively low prices and survived after tough competitions with joint-ventures and the protected state-owned enterprises. Then, does it represent that they were saying what they said only to advance their personal or corporate interests?

In fact, the concerns of the auto leaders actually go beyond personal and business interests. Apart from personal dream and corporate interests, their discourses on indigenous development based mostly on ideas of economic nationalism. In the next chapter, these discourses on indigenous development would be looked into through the lens of economic nationalism.

## Chapter 6. Discourses, Economic Nationalism, Auto Industry and Policy

### Economic Nationalism and the Industry

Throughout both the Chinese government's and automakers' discourses, ideas of nationalism were highly salient. The Chinese auto industry was considered not merely as a group of independent auto firms, but as a collective that served Chinese people's livelihood and national interests of China, and as a symbol that represented the industrialization level of the Chinese nation. Chinese auto firms were considered not only as profit maximizing institutions for private gain. Rather, they were considered as the bearers of national historical mission, the representatives of and the guidance of national interests and pride. Chinese indigenous brands were not perceived only commercially but as symbols of the Chinese nation and spirits. Technology innovation, export, international acquisitions and overseas development of Chinese auto firms were perceived not merely independent business operations. Rather, they were considered as sources of national pride and symbols of the development of the national industry. Threats and challenges Chinese auto firms and brands were facing were not considered as independent issues of individual firms, but issues concern the whole national industry and even the whole Chinese nation. Solutions of these threats and challenges, therefore, were considered as collective missions and responsibility of all actors in the industry and even all people of the Chinese nation.

The pursuit of national autonomy and national identity, as two ideals of nationalism according to Smith (2001), is prevalent in the discourses. National autonomy is about self-regulating, self-controlling, and the absence of foreign influence, this is what exactly pursued by both the Chinese government and the automakers. For the Chinese government, globalization and China's WTO accession threatened its controlling power over its industry, market and economic power. Without

the controlling power over its own industry and market, minimum foreign influence could not be guaranteed. The Chinese economy would then be subject to foreign economic decisions and economic fluctuations. For instances, international rules and norms, such as the rules of WTO, set mainly by the West were considered as favoring only Western nations but harmful to and imposed on China; the prices of multinational firms' products, from Starbucks's coffee to luxurious Audi sedans, were considered inappropriately high and unfair to Chinese consumers; the fluctuating prices of oil, gas and various types of natural resources in the international market were considered one of the biggest risk for China's energy security; the ever-evolving global production chain and its moving production bases were considered as the cause of China's unemployment and economic instability during the unwanted economic structure changes. Nonetheless, the biggest fear for the Chinese government is that foreign governments would make use of China's dependency for political and military gains. Two very good examples to illustrate this are the concern of the Chinese government over spying activities and cyber espionage by foreign governments through the activities of foreign multinational IT firms in China, and the foreign restriction on arm sales to China.

In the case of the China's auto industry, apart from the perceived unreasonable and unfair pricing strategies of multinational auto firms, the Chinese government had strong worry about the negative impact of the evolving global production chain on the Chinese economy. As considered by leaders of FAW, auto industry related to many other industries, such as auto parts, steel and various types of services. The decision of auto makers in China on where to design, source and assemble were perceived as influential to the Chinese economy. Without controlling the automakers in China, the government could not guarantee economic stability and its source of economic growth.

Regarding the perceived danger of being over-dependent, auto professionals explained to me further about the need to control during the interviews conducted in Beijing. One interviewee mentioned: “The lessons I learned from our history had great a influence on me. We cannot trust the others. In case of war, we can only rely on ourselves.” I asked her what she imagined would happen if China went to wars with the others. She had difficulties to explain, but after a while she said: “then they will not supply (to us)”. She is not the only one who made this point. A few other interviewees shared the concerns that foreign companies and countries would take advantages of China’s weakness in technologies economically and politically. Another interviewee said, “Which countries are the allies of China? China has no friends. One has to be prepared for the worst.” These perceived threats were actually rooted in the mistrusts of foreigners and foreign nations. These mistrusts were based on their understandings on both histories and current international affairs. For the understanding of histories, since the history of new China was built upon the struggle against foreign imperialism since the end of the Qing dynasty<sup>133</sup>, it is of no surprise that the mistrust of foreign countries exists. As for the understanding of current affairs, how the Chinese government perceived the motif of foreign government was shown quite clearly in Chapter 5 in the case regarding the raised safety standard of the lighters in the EU, in which the EU was described as aggressive and hypocritical while China was described as defensive and rule-abiding.

Economic strength can also enhance national autonomy, as economic strength can often be translated into political and military strength. This is exactly the meaning of the Chinese notion “rich nation, strong army”. Given the sheer size of the Chinese auto market and the high profitability of the industry, the Chinese government hoped to keep the wealth to itself in to

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<sup>133</sup> National Museum of China. 2014. “The Road to Rejuvenation”



strengthen its economic strength and hence national autonomy. Given that both the Chinese government and automakers had observed the limitation of the highly competitive Chinese market, the international market was also targeted by carmakers for more profit. The connection between the wealth of the Chinese auto industry and the wealth of the Chinese nation is particularly strong, since all the biggest Chinese carmakers are state-owned. Their profit and loss impact directly the wealth of the Chinese state. This is probably a part of the reason why both FAW and BAIC claimed that they had the historical responsibility to conduct indigenous development, as the two “sons” of the Chinese state.

According to Smith, identity concern characters and historical cultural basis that distinguish a nation from other nations. Red-Flag was perceived as the symbol of the Chinese auto industry as well as the spirits of the Chinese nation by leaders of FAW. However, given that Red Flag was also considered as a brand serving only party and government elites, the idea that Red Flag could represent the national spirits may not be endorsed by many people in China. Apart from Red Flag, almost all the other indigenous car brands of China are very new and not popular among Chinese consumers. Then, are there actually any symbolic values in the indigenous development of the car industry? During an interview I conducted in Beijing, one auto professional mentioned, “It does not look good that cars in China are all with foreign brands,” she then went on to explain, “China is a big and strong nation. Different from small nations, a big and strong nation should use cars of its own brands”. She then justified her view by mentioning that all the other big and strong nation, such as the US, Germany and Japan, had their own indigenous brands and development, and both leaders and the general national public of these nations liked to drive cars with national brands. FAW’s general manager Zhu had mentioned a relevant concepts during an interview. He said a

great power without indigenous auto industry was like a great power without nuclear weapons. Hence, indigenous auto industry was regarded as the cultural symbol of a great power. Without indigenous brands and development China was considered only as a global factory but not a great power. Geely's director Li Shufu, in the previously mentioned 2004 interview, also mentioned that he aspired to let Chinese cars reach everywhere of the world, instead of letting cars from all round the world to be in China. Director of BAIC Xu mentioned the Chinese auto dream. Hence, the symbolic role of indigenous brands and development can be considered quite significant. Since indigenous brands and technologies would not come overnight, it is the progress to indigenous development that counts in China. This is a part of the reason why achievements of enterprises in indigenous development such as export, overseas expansion and acquisition were always emphasized, some of these events were even referred as historical events or moments of the Chinese auto industry. The best example is Geely's acquisition of Volvo. The acquisition were considered a huge achievement of both Geely and the Chinese auto industry as a whole in both government's and Geely's discourses.

## Conclusion

To conclude, the thesis looks into the nationalistic ideas and discourses on the indigenous development of the Chinese auto industry. The thesis first presents and analyzes the Chinese government's and auto makers' discourses on indigenous development respectively and then discusses the discourses through the lens of economic nationalism. In the government's discourse, the indigenous development of brands and technologies was considered the solution to the challenges brought by globalization and China's WTO accession to Chinese industries including the Chinese auto industry, as well as to the challenges faced by the auto industry dominated by joint-ventures. In the automakers' discourses, indigenous development was considered necessary for various reasons, including the symbolic value of indigenous brands and technologies, the desire to gain controlling power and historical missions. Employing the framework of constructivist political economy and economic nationalism, the research found that the two fundamental ideals of nationalism—national autonomy and national identity are two crucial elements in both government's and automakers' discourses on indigenous development.

The contribution of the thesis is that it found out the relevant nationalistic ideas and discourses on the indigenous development of the Chinese auto industry. The work serves as the foundation of further research on how ideas and discourses influence the Chinese auto industry and industrial policy. Additionally, it demonstrates the relevance of ideas and discourses, particularly nationalistic ideas and discourses, to the shaping of Chinese industrial policies, suggesting further research on the ideational aspect of Chinese industrial policies and industrial policies in general.

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### Appendix 1. List of Industrial Policy Program, 2004-2012

<b>Cross- Sectoral Programs</b>	2005: Adjustment of Industrial Structures	State Council
	2007: Acceleration of Services Sector Development	State Council
	2009: Industrial Technology Policy	MIIT
	2010: Acceleration of Strategic Emerging Industries' Development	State Council
	2011: Promotion of Strategic Emerging Industries included in 12th FYP	CCP CC; NPC
	2011: Industrial Restructuring and Upgrading (2011-2015)	State Council
<b>Sectoral Programs</b>	2004: Automobile Industry	NDRC
	2006: Machine-building Industry	State Council
	2009: "Revitalization Programs" for Nine Traditional Sectors	State Council
	2009: Information Technology Industry	State Council
	2009: Logistics Industry	State Council
	2009: Culture Industry	State Council
	2011: 12th FYP, Upgrading nine traditional industries (2009 programs)	CCP CC; State Council; NPC
	2011: 12th FYP, Fostering seven "Strategic Emerging Industries"	
	2011: total of 21 ministerial FYPs for sector-specific development	diverse ministries

<b>Priority Investment Catalogues</b>	2004/2007/2011: Catalogue on Priority High-Technology Industries	NDRC/MOST
	2005/2007: Catalogue on Priority Industries for Foreign Investors	NDRC
	2005/2011: Guidelines for Restructuring of Selected Industries	NDRC
	2007/2009/2011: Catalogue on Priority Import Technologies & Products	NDRC,MOC, MOF
	2008: Guidelines for Overseas Investments	NDRC
<b>Law</b>	2007: Anti-Monopoly Law	NPC

Source: Heilmann and Shih 2012