Building Competitive Advantage in China

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Exports by form of ownership, 2003

% of Total

Average per enterprise, 2002
US$ ‘000

Source: Dragonomics Ltd.
Hybridization of Japanese Production Networks

- Japanese firms shift to the south and east
- Push: Competitive pressure to lower costs
- Pull: Presence of highly qualified SMEs
Shanghai Municipal Government and Auto Sector until mid-1990s

- Shanghai Mayor
- Auto Industry Leading Small Group
- Municipal Ministries: A, B, C
- Economic Commission
- Municipal Localization Office
- SAIC
  - Same Director
- Non-SAIC Auto Firms
- SAIC Firms
Percentage of Components Sourced within Home Municipality in 1997 (by value)

Source: Firm Interviews
Shanghai Volkswagen Purchasing
Volume by Province, 1997

Source: Shanghai Volkswagen
Percentage of Components Sourced from Shanghai in 2003 (by value)
Output of Automotive Parts by Region in 2003 (in Million RMB)

Note: Production of FAW and Dongfeng firms from all regions is counted under the location of their head offices (Jilin and Hubei, respectively). This is not a complete list; also in the top ten are Shandong (10,900), Chongqing (8,300), Liaoning (8,000), and Hunan (6,200).
Conflicting Priorities

• China’s desire to cultivate the growth of Chinese firms with independent technologies.

• Multinational auto firm’s desire to rationalize supplier relationships, raise quality, and cut costs.
Emergence of Indigenous Firms

- Chinese firms that were created in late-1990s: Chery, Geely, Great Wall.
- Utilize cheap local supply firms for simple components.
- Lean heavily on global suppliers for design and development.
- Poach talented engineers from JVs.