

## Annotated Table of Contents

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This chapter begins with a brief case study on Chery, China's largest independent automaker. This case study illustrates many of the points to be made in the book including the critical role of local government in helping an enterprise get launched and also how following the central government's policy can elicit favor from the central government – even for an enterprise to which it shows initial hostility. This chapter also addresses the research questions being asked and contains a summary of the arguments to be made.

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This chapter tells the whole story of how the auto industry operates, introduces the major players, explains their goals and objectives, and describes the tools at their disposal for achieving their aims. I then set the model in motion to describe relationships among the players and how they strategize to get what they want.

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This chapter traces China's auto industry policy from post-Mao times to the present, explains what was and is important to the central government and how the other players have responded to central government policy. It is intended to document what the central government wants and to assess how successful it has been in getting it. The remaining chapters assess how successfully (or not) the central government has achieved its objectives.

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This chapter describes how four key Chinese-foreign joint ventures were formed, and in the case of two of them, how and why they failed. The key insight of this chapter is the fact that China's SOE automakers, while making a ton of money by selling the foreign brands of their partners, are highly disincentivized to devote significant efforts to development of Chinese brands – thus setting up a key conflict between the central government and the SOEs. This chapter also explains how and why the efforts to gain technology transfer have evolved over time. It also sets up the inherent conflict between local and central government over how SOEs are to be managed. There are also details here about why GM sold 1% of its JV to Shanghai Auto in 2009 that have not previously been revealed. This revelation is a very strong indication of how China is measuring the success of its auto industry and why focusing on this measure (size) prevents it from succeeding elsewhere (innovation).

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This chapter tells several stories of how these independent (and mostly private) manufacturers had to, with the help of local government, get their start under the radar so as not to draw the attention of the central government. The fascinating point here is that the central government ultimately had to acquiesce to their presence because of a contradiction between central government industrial policy and Communist Party regime stability. There are also stories here of how entrepreneurs both properly and improperly managed their government relationships and how those who didn't get it right paid a very high price. Finally, we see how the most successful of these entrepreneurs have been essentially co-opted by the Party while the central government offers them token financial support that keeps their businesses alive while preventing them from becoming a threat to the SOEs.

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Chapter Six focuses on the most enduring of all central government objectives for its auto industry: consolidation. These case studies demonstrate that, contrary to received wisdom, the central government **has not** lost all of its industrial power to the local governments. The central government can, when it wishes, exercise its authority to bring about consolidation. But, in looking at the cases where the central government chooses not to intervene, once again, we see the contradictory nature of the central government's goals. Essentially, this contradiction has led to a bifurcated industry with a handful of increasingly large competitors at the top of the industry and a mass of inefficient, uncompetitive players at the bottom that act as a sort of welfare system. Interestingly, this may not be such a bad setup – as long as China can continue to afford its inefficiency. In other words, maybe inefficiency isn't as costly as instability.

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This chapter completely debunks the notion that China is following in the footsteps of Japan and Korea in its development path. Each of the subsections is an aspect in which the three countries are compared. The most striking conclusion here (which shouldn't be surprising to people who know Japan and Korea well) is that China's continued insistence on state dominance in this industry is the main factor that determines why China's auto sector is nowhere nearly as competitive as are those of Japan and Korea. (I include this chapter for the benefit of China specialists who may not be as familiar with Japan's and Korea's development paths.)

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This chapter summarizes the key points of the previous chapters and then speculates as to what this may mean going forward. I focus particularly on the incentive conflicts of local governments and SOEs, the future role of private enterprise, whether China can nurture innovation, and the future prospects of foreign players in China's market.

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