The New Market Opportunity

In 1994, anxious to show off the benefits of a Communist regime, the government of China invited leading auto manufacturers from around the world to submit plans for a car designed to meet the needs of its massive population.[1] A wave of rising affluence had suddenly created a large middle class of Chinese families with enough money to buy and maintain a private automobile. China was now eager to enter joint ventures with foreign companies to construct and operate automobile manufacturing plants inside China. The plants would not only manufacture cars to supply China's new internal market, but could also make cars that could be exported for sale abroad and would be sure to generate thousands of new jobs. The Chinese government specified that the new car had to be priced at less than $5000, be small enough to suit families with a single child (couples in China are prohibited from having more than one child), rugged enough to endure the poorly maintained roads that crisscrossed the nation, generate a minimum of pollution, be composed of parts that were predominantly made within China, and be manufactured through joint-venture agreements between Chinese and foreign companies. Experts anticipated that the plants manufacturing the new cars would use a minimum of automation and would instead rely on labor-intensive technologies that could capitalize on China's cheap labor. China saw the development of a new auto industry as a key step in its drive to industrialize its economy.

The Chinese market was an irresistible opportunity for General Motors, Ford, and Chrysler, as well as for the leading Japanese, European, and Korean automobile companies. With a population of 1.2 billion people, and almost double-digit annual economic growth rates, China estimated that in the next forty years between 200 and 300 million of the new vehicles would be purchased by Chinese citizens. Already cars had become a symbol of affluence for China's new rising middle class, and a craze for cars had led more than 30 million Chinese to take driving lessons in spite of the fact that the nation had only 10 million vehicles, most of them government-owned trucks.

Environmentalists, however, were opposed to the auto manufacturers' eager rush to respond to the call of the Chinese government. The world market for energy, particularly oil, they pointed out, was based in part on the fact that China, with its large population, was using relatively low levels of energy. In 1994 the per-person consumption of oil in China was only one sixth of Japan's and only a quarter of Taiwan's. If China were to reach even the modest per person consumption level of South Korea, China would be consuming twice the amount of oil the United States currently uses. At the present time the United States consumes one fourth of the world's total annual oil supplies, about half of which it must import from foreign countries.

Critics pointed out that if China were to eventually have as many cars on the road per person as Germany does, the world would contain twice as many cars as it currently does. No matter how "pollution free" the new car design was, the cumulative environmental effects of that many more automobiles in the world would be formidable. Even clean cars would have to generate large amounts of carbon dioxide as they burned fuel, thus significantly worsening the greenhouse effect. Engineers pointed out that it would be difficult, if not impossible, to build a clean car for under $5000. Catalytic converters, which diminished pollution, alone cost over $200 per car to manufacture. In addition, China's oil refineries were designed to produce only gasoline with high levels of lead. Upgrading all its refineries so they could make low-lead gasoline would require an investment China seemed unwilling to make.

Some of the car companies were considering submitting plans for an electric car since China had immense coal reserves which it could burn to produce electricity. This would diminish the need for China to rely on oil which it would have to import. However, China did not have sufficient coal burning electric plants, nor an electrical power distribution system that could provide adequate electrical power to a large number of vehicles. Building such an electrical power system also would require a huge investment that the Chinese government did not seem particularly interested in making. Moreover, since coal is a fossil fuel, switching from an oil-based auto to a coal-based electric auto would still result in adding substantial quantities of carbon dioxide to the atmosphere.

Many government officials were also worried by the political implications of having China become a major consumer of oil. If China were to increase its oil consumption, it would have to import all its oil from the same countries that other nations relied on, which would create large political, economic, and military risks. While the United States imported some of its oil from Venezuela and Mexico, most of its imports came from the Middle East, an oil source that China would also have to turn to. Rising demand for Middle East oil would push oil prices sharply upward, which would send major shocks reverberating through the economies of the United States and those of other nations that relied heavily on oil. State Department officials worried that China would begin to trade weapons for oil with Iran or Iraq, heightening the risks of major military confrontations in the region. If China were to become a major trading partner with Iran or Iraq this would also create closer ties between these two major power centers of the non-Western world, a possibility that was also laden with risk. China might, of course, also turn to tapping the large reserves of oil that were thought to be lying under Taiwan and other areas neighboring its coast. However, this would bring it into competition with Japan, South Korea, Thailand, Singapore, Taiwan, the Philippines, and other nations that were already drawing on these sources to supply their own booming economies. Many of these nations, anticipating heightened tensions, were already pouring money into their military forces, particularly their navies. In short, because world supplies of oil were limited, increasing demand seemed likely to increase the potential for conflict.

QUESTIONS

1. In your judgment, is it wrong, from an ethical point of view, for the auto companies to submit plans for an automobile to China? Explain your answer.

2. Of the various approaches to environmental ethics outlined in this chapter, which approach sheds most light on the ethical issues raised by this case? Explain your answer.

3. Should the government of the United States intervene in any way in the negotiations between US auto companies and the Chinese government? Explain.

NOTE

1. All information for this case is drawn from the following sources: "Is China's 'People's Car' Good or Bad?" San Jose Mercury News, 1 December 1996, pp. 1E, 5E; John W. Wright, ed., The Universal Almanac, 1996, (Kansas City: Andrews and McMeel, 1996)