Strategies and Factors Affecting China’s Auto Industry Investment in Iran After Lifting the Sanctions

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Abstract. In recent years, the presence of Chinese vehicles in the streets of Iran has become more remarkable. Although, the Chinese automotive products are more elegant than Iranian ones, their quality is still criticized by Iranian consumers. However, due to the absence of major automobile manufacturers in past, the Chinese have used the opportunity of Iran’s sanctions and have taken the Iranian market. After lifting the economic sanctions on Iran, the government first attempted to negotiate with European automobile manufacturers to invest and import products to Iran. This is a difficult situation for Chinese automotive manufacturing companies which considered Iran as one of the largest automobile markets. Now, the questions are: what will be the situation of Chinese automotive manufacturing companies in Iran after lifting the sanctions? What factors will guarantee the continued presence of Chinese automobile manufacturers in post-sanctions era, compare to other competitors? Due to the presence of Chinese automobile manufacturers in Iran before lifting the sanctions, now with the lifting of sanctions and return to a normal situation, what changes are needed for Chinese automobile manufacturers? What do Iranians expect in the new situation after the lifting of sanctions? The authors by a descriptive-analytical method try to explain the situation of Chinese Automobile manufacturers companies in Iran and believe that now the Chinese must improve the quality of their goods.

Introduction

After three rounds of nuclear talks on July 14, 2015, the Iran’s automobile industry began its day with the nuclear deal news which the country’s second largest industry after oil was long awaited for it. After lifting the sanctions, the Iranian government first attempted to negotiate with European automobile manufacturers to invest and import. This is a tough situation for Chinese automotive manufacturing companies which considered Iran as one of the largest automobile markets. Chinese companies were the only automotive manufacturing companies that during the period of sanctions not only left Iran, but also expanded their day-by-day activities and also supplied many brands and models as assembled or imported into Iran. Chery automobile manufacturing company is one of the few automotive manufacturing companies that by investing in Iran founded a Joint venture company to produce its products under the brand MVM.

Like any country that is under sanctions and has certain trading partners, and does not have high potential for the use and benefit from other partners in the region and the world, but with the lifting of sanctions, and the possibility of exchanges with others, the opportunity is provided now for Iran. Iran can choose and ask its citizens demands from companies and countries that are willing to invest, therefore, in recent months, the negotiations with the companies and automotive manufacturers, as well as other sectors has increased and now Iran has conducted consultations with companies from Korea, Germany and France. Hence, China and its automobiles companies have to increase the quality of their products in order to maintain the existing market and increase its presence in it, and it must reach to a level that justifies the use of them and their preference on Iran’s automobiles and productions of foreigners.

According to Chinese customs statistics, exports of Chinese cars in 2014 than the year before have reduced by 2.8 percent (897 thousand cars). But the total value of exports has increased 4.6
percent. 87.5 percent of China’s total exports cars to developing countries have been in Asia, Africa and Latin America. Iran in 2014 with an increase of 113.8 percent on imports from China has passed Algeria and ranked as first position to import the Chinese cars. The most important export markets for Chinese cars are developing countries such as Algeria, Brazil, Chile, Egypt, Iraq, Iran, the Philippines, Russia, Saudi Arabia and South Africa. In these countries, the Chinese cars, including Geely, Greatwall Wall and Chery, had sales equal to half of peers vehicles produced by the world’s top automotive manufacturing companies; vehicles which have a good appearance and are cheap but don’t have a high level of safety and quality. At present, cars made in China can be divided into three categories, “having Chinese design”, “copied from foreign vehicles” and “having foreign design”. First group, the automobiles designed in China mainly don’t get an acceptable score in appearance and in terms of quality, and as much as their body is designed without any emotional, they are also weak technically. The second category, copied from foreign automobiles, though they have a beautiful appearance but nothing to say in quality as the first. Only in the third category, automobiles with foreign design, the Chinese have been able to gain credit for themselves.

Chinese cars with the most quality which are produced in Iran don’t have Chinese design in body and engine. In fact, China has not copied to design these cars and there is not much creativity for designing them, but the car’s design is ordered by China to the largest international automotive design companies and has asked for help from foreign partners in the design and making the engines, gearboxes and other key components of them. [1]

Despite the incredible advance of the automotive industry in recent years, there are still large gaps between China’s automotive industry and international level. The industry must be strengthened in developing new products and production of spare parts. The automotive industry is still trapped in the swamp of “Dispersion, Irregularities and Shoddy”. The industry is very much dependent on foreign brands and still conditions related to use a car need the major reforms.

The Factors Which Guarantee the Continued Presence of Chinese Cars in Post-Sanctions Era

Among the factors that affect the continued presence of Chinese automotive manufacturers in Iran, we can refer to the following factors:

1. Chinese automotive manufacturers need to price their cars according to the quality of them. In addition to that reasonable price of Chinese cars compared with foreign cars at the time of sanctions led to Chinese had the first rank to export the cars to Iran. Continuation of this process makes that, the middle class who do not have the purchasing power of foreign cars, and tend to buy foreign cars, still have the possibility of having such vehicles.

2. Technology transfer tailored to the needs of the country: despite the fact that Iran is considered as a car manufacturer, but the production of low quality cars has made it away from global competition. Given that, during the period of sanctions, only China has carried out transactions with Iran in this field, and this has led to gain Iran’s trust, the country though transferring the required technology to Iran can stabilize a part of its presence in Iran.

3. If there is competition for technology transfer, China has reduced the price of the transfer and by prioritizing technologies and accelerating the transfer of technology to Iran, can achieve greater success than other competitors.

4. One way to establish the presence of Chinese automotive manufacturers in Iran is joint venture in the Iranian automotive companies, and participation on the part of the manufacturing of Iran’s cars or having joint production with Iran.

5. Chinese automotive manufacturers still are able to help new companies in Iran and a new brand can be created by Chinese investment and they can supply their products under this brand.

6. Another was is the implementation of absorption, reform and modernization of imported technology along with planning and management.

7. On the other hand, Chinese automotive manufacturers, with the expansion of automotive research centers in Iran, can be effective in the field of technology transfer and absorption and reform.
8. One way to attract foreign investment in Iran’s automobile industry is that domestic automotive manufacturers have retained its central sites, and leave the rest to foreign production lines; if, Chinese automotive manufacturers could adopt the policies related to absorption of these production lines, they can stabilize their position in the market. [2]

9. Chinese have a short history in gasoline-powered vehicles but have great progress, and in the field of electric vehicles are heavily in research and development. Chinese form one of the Chances of this market in the future. This is the background for the future of Iran when it predicts that, by until the end of the sixth development plan want to produce three million cars, if it is going to produce 3 million gasoline cars related to eighties technology, it is better that to think about producing electric vehicles. As a result, with the significant progress of Chinese automotive manufacturers in this context, can reserve a right place for itself. [3]

10. Over time, the Chinese have modified their products, so that, initially focused on the appearance of their products, and then to the content (quality), and perhaps this process was done with good speed. Because, the Chinese are familiar with today’s technology, Iran could ask for help from China in the field of product design. [4]

**Conclusion**

After lifting the sanctions, Iran’s automotive industry seeks to establish mobility and partnerships with well-known international companies to participate anew in Iran so that according to available space in the country new horizons will be filled in the production of high quality vehicles. Iranian automotive manufactures, who faced numerous challenges in recent years due to the sanctions, hope that will return to their old partners, and in the meantime, consumers no longer consider imported or assembled Chinese cars as the cars which have the highest rank. Excessive imports of Chinese low-quality cars and assembly of some of them in the country have tried to become Iranian auto industry to a mere assembler industry, with the lifting of sanctions, now is not a threat to our country.

Chinese cars are sole more expensive than Iranian cars, while have lower quality than domestic vehicles. Now, there is no fit between price and quality of Chinese cars in the Iran market compared with the price and quality of domestically produced cars, and every day a new car is added to locally produced ones. Some researchers believe that this process encourages Iranian to cooperate with foreign automobile companies which can lead to the variety of vehicles produced in Iran. It seems that Chinese cars have achieved a large share of car production at the private sector factories, and the rest of the Chinese cars are yet fully entered to provide the assembly arrangements for them.

Iran Standard & Quality Inspection Company, long ago, released the result of its survey of customer satisfaction with the quality of the cars supplied to the market in the second half of last year. All Statistics indicated that the quality of domestic cars is reduced, and even numbers of Chinese cars have gained the last ranks, and on the other hand, some vehicles which have produced with very low ratio, are still leaders. Auto experts believe that some Chinese cars marketed in the country have shorter history in the Iranian market, and due to the new appearance, achieve more satisfaction than domestic vehicles which are produced in the country for many years. Therefore, most clients do not pay attention to issues of quality, including quality rankings published about the quality of vehicles, and most of them judge based on appearance.

Some experts believe that, Chinese offered the products to Iran at the time of the sanction that they weren’t high quality, and now that countries with superior technology are ready to enter the Iran industry, Chinese must upgrade the quality of their programs to maintain the position. The new situations after the sanctions will be difficult for the Chinese. Majid Reza Hariri, vice president of the Chamber of Commerce believes that, in general, Iran and China’s relationship has always been good while China is as the world’s second largest economy. After the sanction, new opportunities will be provided for cooperation, and this advantage of opportunities than during the sanctions formed the competition. This means that the Chinese companies must compete with European and also with other Chinese companies themselves.
References


