Global Macro Chart of the Day

(#162): Comparing China's ascendancy in auto markets with Japan in the 1970s-1980s

Economics

Global

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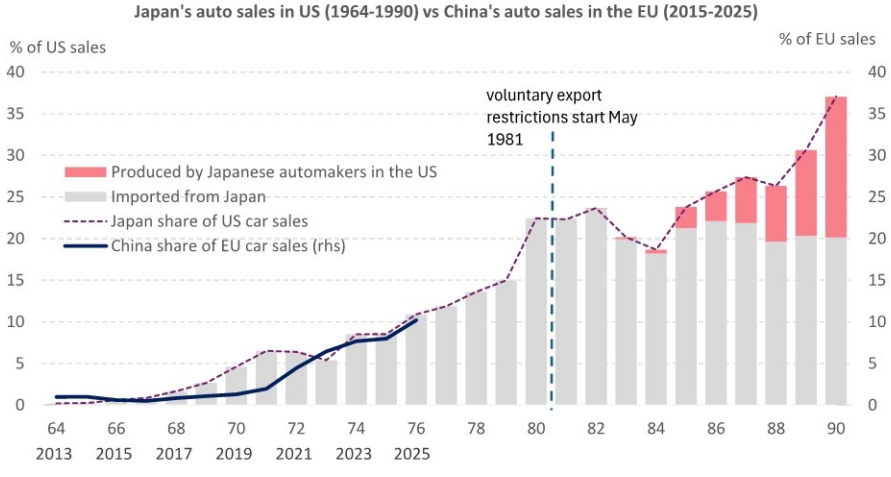
China is to EU as Japan was to US?

China's rise in the global auto industry has been extraordinary. China now accounts for roughly one-third of global vehicle production, up from 8% in the early 2000s, and despite absorbing more than 80% of that output domestically, its growing penetration of foreign markets increasingly echoes Japan's experience in the 1970s and 1980s. Japan's ascent was driven by rapid gains in productivity (3x that in the US in the 1970s), including just-in-time production, decentralized quality control, and highly concentrated manufacturing clusters, and a surge in demand for smaller, more fuel-efficient vehicles following the oil shocks of the 1970s.

The result was a rapid increase in market share. Japanese brands' share of US auto imports rose from 3% in 1964 to 64% by 1980, while their share of total US vehicle sales increased from 4½% in 1970 to 22% by 1980. Amid falling US production and employment, Washington and Tokyo negotiated voluntary export restraints (VERs) in 1981, which capped Japanese exports (initially 1.68mn cars, later rising to 2.3mn between 1985 and 1992) and were estimated to be equivalent to a 21% tariff. Japanese automakers responded by localizing production. Japanese FDI increased eightfold between 1982 and 1989, with roughly half directed to the US auto industry, ultimately allowing it to gain a further 15 percentage points of market share by 1990 (see chart).

China may now be to Europe what Japan was to America 50 years ago. Its share of EU car imports has climbed from less than 3% in 2015 to around 25% in 2025, while its share of total EU vehicle sales has risen from less than 1% to more than 10%. That places Chinese automakers roughly where Japanese firms stood in the US market in the mid-1970s. Europe has moved earlier to impose tariffs, specifically on Chinese battery electric vehicles, and Chinese firms may be starting to take a page from history and start to increasingly produce cars in the EU (e.g. BYD's facility in Hungary, Chinese brands taking stakes in European producers).

Figure 1: Auto Market Penetration: Japan (1970s-1980s) vs China now



Source: UBS, Eurostat, IMF, JAMA, USITC

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