

Global Automakers Unveil Cheap, Small Chinese Cars

Kelvin Chan, AP Business Writer

SHANGHAI (AP) — Some of the new Chinese cars unveiled at this week's Shanghai Auto Show are affordable for millions of buyers — a happy development for Beijing that might prove costly for the global automakers producing them.

General Motors Co. unveiled the 630 sedan, the first model from its new Baojun badge developed with Chinese joint venture partners. The four-door is based on an older GM car and will have a sticker price of 70,000 to 100,000 yuan (\$10,700 to \$15,300).

Honda Motor Co. displayed the plain, compact four-door S1 at the auto show, the first from its new Everus line which went on sale this week. Nissan Motor Co. showed off an unnamed car it plans to sell under the Venucia brand next year.

These so-called "indigenous" brands will only be sold in China and their prices are aimed at a segment of the market that is already crowded with cars from lesser known Chinese brands. They'll also be in competition with the foreign automakers' existing entry-level models.

Car makers say they are introducing the nameplates with their Chinese joint venture partners so they can tap growth from China's expanding middle class.

But industry watchers say it's a new tactic by China's government, which is unhappy with the failure of state-owned automakers to gain significant market share for Chinese brands since partnering with foreigners.

When global automakers first entered China a quarter century ago, they were required to operate in joint ventures that were aimed at helping local partners learn and grow. Foreign automakers were allowed to keep hold of their technology and other intellectual property in those original agreements. Both parties were happy to split fat profits, but the results have disappointed China's communist leaders because international brands such as Honda, Buick and Volkswagen now dominate with 70 percent of the market.

Manufacturing Chinese models is the "new cost of market access" for global automakers, said Mike Dunne, whose consultancy, Dunne & Co., specializes in Asia's auto markets.

"Beijing's not happy," so authorities drew up a new set of rules that would require car makers to share their technology if they want to expand in China, said Dunne, who is writing a book on the history of General Motors in China.

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Car makers won't admit it's happening because it would be "politically incorrect," he said. Doing so might risk the ire of Beijing.

Nissan has released few details about the car it plans to sell under the Venucia brand with partner Dongfeng Motor, including the price. The company plans to open 100 dealerships next year to sell the car.

Kimiyasu Nakamura, president of the Japanese automaker's Dongfeng joint venture, acknowledged the possibility that the new car would "cannibalize" sales of Nissan's entry-level Sunny.

GM denied it was strong-armed into launching Baojun, saying it decided to create the brand four years ago to sell cars in China's interior cities, where it sees great potential for growth.

"The Baojun 630 will address the growing demand across the country for affordable transportation," said GM China President Kevin Wale.

GM will make the Baojun, which translates as Treasure Horse, with joint venture partners Shanghai Automotive Industry Corp. and Wuling Automobile Co. Cars bearing the Baojun badge will be produced at its factory in Guangxi in China's southwest. They will be sold at about 300 dealers by the end of the year.

PSA Peugeot Citroen Chief Executive Philippe Varin said developing a third brand was "part of the deal" for its new joint venture with Chang'an Automobile Group, according to a report in the Financial Times in March. Peugeot would not comment on the report.

The French carmaker is waiting for final approval for the new operation, which will add production capacity for 200,000 vehicles and engines a year at a factory in the southern city of Shenzhen.

Volkswagen AG, Toyota Motor Co. and Hyundai Motor Co. are also considering launching China-only brands, said Dunne. Ford China CEO Joe Hinrichs, however, has ruled out the idea.

The willingness by the international auto companies to enter into the deals highlights how strongly they are focusing on China's auto market, which has been the world's biggest for two straight years. Vehicle sales surged by a third in 2010 over the year before to 18 million, including 13.7 million passenger cars. Sales in China are crucial to profits at global car companies, which are seeing slower sales growth in developed Western markets.

Baojun is part of GM's strategy to double China sales to 5 million vehicles by 2015. Nissan, which now earns the biggest share of its profit from China, is targeting 15 percent sales growth this year.

The new nameplates are aimed at drivers looking for cheap cars and are priced at less than \$12,000, a market estimated at 1.8 million vehicles, or about the same

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size as South Korea's auto market and twice as big as Thailand's. The segment is forecast to grow to 2.5 million by 2015.

"This is bad news" for automakers, said Klaus Paur, an analyst at Synovate Motoresearch. "These additional brands are competitors to Chinese brands but also competitors to international brands so overall nobody's eager to push in this direction."

Paur and Dunne say foreign makers will likely circumvent Beijing's requirements at least partly by using older technology in the new brands.

The Baojun 630 is based on GM's Optra platform, which is at least eight years old.

The Everus S1 is based on the old City and will sell for about \$10,700 at 470 Honda dealerships across China. The Japanese automaker is working with current joint venture partner Guangzhou Automobile Group to run the brand, also known by its Chinese name Li Nian, which means idea or theory.

But they will add further competition to a market that is already crowded with 84 brands. It comes at a time when sales growth in China's auto market is expected to cool to about 10 percent a year.

"Competition wars are about to become serious in China as vehicle market growth cools, and the fight for market share will intensify," said IHS Automotive analyst Paul Newton.

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