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Car Makers Gauge Shift In China's Auto Policy

By SHARON TERLEP

Global auto makers are scrambling to size up the impact of China's decision to stop encouraging growth among foreign companies, a move that appears to give domestic car companies greater protection from outside rivals.



Getty Images

A mechanic works on a Buick at a General Motors dealership in Shanghai on Dec. 6.

China last week said it would no longer promote investments from foreign auto makers through policies such as preferential tax treatment and streamlined approval processes. The shift comes as global auto makers including [General Motors Co.](#), [Volkswagen AG](#) and [Honda Motor Co.](#) are counting on China to deliver growth and profits.

Foreign auto makers doing business in China could face steeper future costs and become increasingly reliant on their Chinese partners as a result of the cutoff in future aid, analysts say. China's efforts to steer support toward its domestic auto industry could mean tougher competitors down the road.

The move by China, "is not consistent with its goals of developing a strong, diversified, and innovative economy," said Nkenge Harmon, a spokeswoman for the U.S. Trade Representative's office.

"Ultimately, the investors in an economy are best placed to make decisions about where and when to invest based solely on commercial considerations."

A spokeswoman at the National Development and Reform Commission, China's top economic planning body, said officials weren't available to comment on Thursday. Chinese officials have said in state-run media that existing joint ventures won't be impacted, though future plans could be.

Big Investments

Car makers have plans for new or expanded factories in China

Brilliance-BMW — Will build BMW X1 in Liaoning province

Ford-Mazda — Adding new factory in Chongqing

Guangzhou Automobile Group-Fiat — New plant in Changsha this year

SAIC-GM — Building 400,000 vehicle plant in Shenyang by 2014

Shanghai VW — New plant opening in Zhejiang in 2013

WSJ compilation

The move by the NDRC, which comes among additional steps China is taking to rein in gains by foreign companies and strengthen its domestic companies, will be felt in coming years by companies doing business there and those still hoping to break in to the market, analysts say.

"Nobody understands what the impact will be three, four or five years out," said John Hoffecker,

managing director at consulting firm AlixPartners. "These rules will certainly make it harder for companies than it was in 2008."

In formal statements last week, major auto makers played down the impact on their businesses in China. But behind the scenes, companies are sizing up the potential longer-term fallout from China's move, and the central government's broader shift toward greater control over the industry, while fretting over potential cost increases and stronger competition from local players, according to several people familiar with the companies.

"Foreign auto makers will no longer enjoy the kind of special treatment that state-owned enterprises will continue to receive," said Michael Dunne, president of consultants Dunne & Co. "The Chinese are not going to do anything abrupt or hasty but they will gradually assert more authority."

Actions by China reverberate through the global industry as its market has become of centerpiece of companies' global growth plans. China has surpassed the U.S. to become the largest auto market in the world and a major profit center for global auto makers.

General Motors's joint ventures sold more vehicles in China last year than in the U.S. and the car maker has ambitious growth plans there. CEO [Dan Akerson](#) said recently he is working to shift more production to China, particularly of its Cadillac luxury brand, and wants to build two to four new plants there by 2015.

GM hopes to leverage its relationship with state-controlled [SAIC Motor](#) Corp. The possibility that the government will increase the cost of doing business in the country is a major risk and one that GM is preparing for, Mr. Akerson said in a recent interview. Last month, China raised tariffs on foreign luxury brands, including Cadillac. GM already had plans under way to build more Cadillacs locally.

Mr. Dunne, of Dunne & Co., said GM's SAIC ties may be an advantage, but the company but isn't free of risk. "GM is reliant on and counting on SAIC for protection. Whether it gets it will ultimately be up to SAIC," he said.

Volkswagen, China's second-largest foreign player, has earmarked some €14 billion (\$17.9 billion) to invest in new Chinese plants and products between 2012 and 2016 and said it doesn't expect to change those plans. Many of those investments will be in developing alternative-energy technologies, such as locally produced electric cars—an area where the Chinese government still aims to encourage big foreign investment, the company said.

[Ford Motor](#) Co. has big expansion plans in China as it races to catch up to GM and China's other major foreign players. Ford is concerned that the moves would mean an increase in duties on machinery and tooling, though the auto maker doesn't see a major financial impact in that regard, a Ford official said, asking not to be named. The Dearborn, Mich., auto maker believes its current and future investments in the country are safe, in part because it is investing in Western China, which will receive different treatment than the rest of the country under China's plan, the official said.

Germany's [BMW](#) has been expanding capacity at its Shenyang factory, where it makes its 3- and 5-series. It has recently begun exporting some of the long-wheelbase 5-series made in China to other emerging markets. It is also wrapping up construction of a second plant, where it will begin producing a small SUV this year.

Meantime, a number of global auto makers are trying to break into China, including France's Renault SA, Japan's [Fuji Heavy Industries](#) Ltd. and India's Tata Motors among them but could find those plans further hampered.

China already had been controlling the approval of new finished auto projects more rigorously in the past two years in order to curb overcapacity.

An unnamed government official quoted in the state-run Xinhua news agency said this week: "We aim to guide foreign investment into projects with better market prospects and higher returns."

A Fuji Heavy Industries spokesman said "there is no change" by the maker of Subaru cars to produce in China, though it hasn't heard yet from the Chinese government on its request to build a plant there.

Ralf Speth, CEO of Jaguar Land Rover, which is owned by Indian conglomerate Tata Group, said the move was hardly a surprise. "There must be a certain natural end" to the policy, he added.

—Yoshio Takahashi in Tokyo, Vanessa Fuhrmans, Paul Beckett in New Delhi and Michael Ramsey in Detroit contributed to this article.

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