YALE SCHOOL OF MANAGEMENT

Volkswagen – China Strategy

Course: International Strategy and Competition
Mgt 673

Instructor: Professor David Collis

Students: Huan Gao （International Relations）
Hsu-Ching Hsiao (International Development Economics)
Kay Kirsch (East Asian Studies)

Date of submission: May 10, 02

Volkswagen in China:
The First JV in Shanghai and Beyond

INTRODUCTION

In 1978, China opened its door to foreign businesses after almost 3 decades of closure to the outside world. In May, a Chinese delegation traveled to West Germany, visiting representatives of key industries such as VW officials with whom they discussed the possibility of an automotive project.

The Germans were among the first foreign automotive companies to enter China. As early as in 1982, VW exported completely knocked down kits to Shanghai where they were assembled by the Chinese workers. VW called this "trial production" and it provided VW with critical information and experience of how to structure any long-term engagement.

VW established a joint venture in Shanghai, the city's first in the automotive sector. Although this Shanghai Volkswagen Automotive Company Ltd. (hereafter referred to as SVW) had a number of problems which arose in the late 1980s, such as lack of funding for expansion, under-trained workers, foreign exchange problems, strict local content requirement, lack of reliable infrastructure for distribution etc., it did achieve success.

In the early 1990s, the SVW saw the plant was becoming technologically outdated. To upgrade it would require a lot of investment and efforts. But the environment as a result of the 1989 Tiananmen Square Event was still seen as risky. Other major Sino-foreign automotive joint ventures such as Beijing Jeep Corporation were all having big problems themselves.

VW decision in 1991 was not to exit China, but to expand it production facilities in Shanghai and set up another joint venture in the north of China. The new joint venture mainly manufactured Jetta, a model very similar to Santana, the main product of SVW. Both cars employed one decade old technology and competed against each other fiercely in the Chinese market.

VW DECISIONS CAN BE SUBDIVIDED INTO THE FOLLOWING:

- **Enter China and locate itself in Shanghai**
- **One-product strategy with second class technology**
- **Expand and upgrade its Shanghai production**
- **Found a new JV, FAW-VW, in the North of China**
- **Introduce a new model to FAW-VW**

MAJOR COMPETITORS IN THE LATE 1980S AND 1990S

Beijing Jeep Corporation

The Beijing Jeep Corporation (BJC), jointly established by American Motors Corporation (AMS) and Beijing Automotive Works in 1984, was the first Sino-foreign automotive joint venture in China. Jeep was considered a suitable model to China for its poor road conditions. AMS was anxious to become the first one and the contract was not well-devised. Many problems emerged after the operation started. Production started with the assembly of imported completely knocked-down kits of existing models since the Beijing plant was too out-of-date. AMS promised to develop a car specifically for China but later it realized that this would be too costly. One year later it attempted to switch to increasing local content only. All these constituted breach of the contract and annoyed the Chinese partner and authorities. Although the crisis was relieved after exhausting renegotiations, this left a bitter taste with the relationship of the partners.

Guangzhou Peugeot Automotive Corporation

In 1985, the French Peugeot formed the Guangzhou Peugeot Automotive Corporation (GPAC) with the major local player, Guangzhou Automotive Manufacturing plant (GAM). Guangzhou, located in the south of China, was a Special Economic Zone with especially favorable investment policies and much investment from the nearby Hong Kong. However Peugeot had to handle very underdeveloped industrial infrastructure in southern China, which historically had an agriculture tradition. GPAC was to manufacture a truck and four-door sedan by assembling imported vehicle kits. Peugeot agreed to export 1/3 of production but failed to keep this promise for fear of the poor local quality. Furthermore it was agreed that 90% and 98%, respectively, of the parts in the cars to be exported and sold domestically, would be localized. Although the Guangzhou government was very helpful in GPAC' foreign exchange issues, it posed a high localization tax, which caused financial difficulties to Peugeot. In the early 1990s, the joint venture also ran into big problems.

Panda Motors

In 1989, Panda Motors became China's largest wholly-foreign-owned enterprise. It was a part of an umbrella organization called the Virginia Business Enterprise (along with the German automobile parts manufacturer HWH Holding Group, a South Korean transmission maker and a US designer etc.). Its strategy was to export the entire production to Europe, India and South East Asia. The company was located in Huizhou, a city near Hong Kong, where shipping from the southern ports would be convenient. However, Panda Motors was plagued by the tardy process in finalizing a suitable car design. It ended up with a small passenger car of around $5000 in price. However, weak world economy seriously reduced export opportunities and Panda Motors approached the Chinese to amend the agreement, hoping that they could be allowed to sell so that they could sell 1/3 of the production locally.

Fiat

Fiat first commitment to China dated back to 1986, when IVECO, its commercial vehicle division, provided car manufacturing technology to China. In 1991 it had not established any JV and it was more interested in commercial vehicles rather than private passenger cars.

Executive Summary

China showed signs of continuing growth in 1991, despite the negative impact from the Tiananmen incident in 1989. China's investment regime and reform policy remained intact. Exiting this fast growing economy did not seem a realistic option.

The major strategic choices that all foreign automotive companies in China faced at that time were essentially the same: Transferring up-to-date technology or second class technology and whether to produce for the domestic Chinese market or to make China an export base. Volkswagen followed a multidomestic approach in their engagement in China. The organization allowed the country managers in China to enjoy a high level of autonomy. Production and marketing were organized in the way VW considered best for China.

VW decided to introduce only second class technology and was adamant not to export production from China, but to sell to the domestic Chinese market. This was the right decision! China's attractiveness primarily lies in the demand side of its domestic market. Its economic growth was unsurpassed by any other nation during the last decade, which fostered great demand for automobiles.

Most other foreign competitor, such as Panda, Peugeot, American Motors Corporation, attempted to export part if not all of its Chinese production. The underdeveloped industrial infrastructure, lack of specialized training of China's workforce and experienced management made this strategy however almost unfeasible.

Volkswagen was wise not to introduce overambitious plan that could not realistically be achieved. VW has understood the major differences in the customer base in China: China almost had no private car market. VW did successfully cater to the needs of emerging business and government demand. Both groups demanded reliable, reasonably priced vehicles rather than the most up-to-date technology innovations that could not be afforded.

However, VW mad three mistakes. It tried to generate hard currencies by a high percentage of component imports, thus creating conflict with its JV partner. It established a second joint venture, where it held a minority position, thus giving the Chinese partner the decision power and pitted itself against the first joint venture. And, finally, it allowed the second joint venture to produce a car almost identical to that of the first joint venture, thus creating bitter internal competition rather then cooperation between these two joint ventures.

GENERIC STRATEGY

VW's decision to enter the Chinese automobile market was driven by the firm belief that China would continue its impressive economic growth and become a profitable market standing on its own.

As a major European automobile manufacturer, VW had a presence around the world. In the late 1980s and 1990s, VW mainly pursued a multidomestic strategy, especially in view of its presence in China. China had great potential but was underdeveloped. Its business systems such as culture, distribution channels, logistics infrastructure, rules and regulations were rather different from those of the developed country markets. It had its own stand-alone attractiveness but other countries had limited dependence on it, at least in the short run. The skills and technology were transferred to and adjusted in China rather than developed indigenously. The savings through the economies of integration were not significant compared to the cost of coordination because of China's special situation.

VW GENERIC STRATEGY:

Business System Similarity	Economy of Scale: No	Economy of Scale: Yes
Different	VW Multidomestic	Transnational
Same	Export	Global

Note: In terms of sourcing: VW tends –like most international car manufacturers- to source globally, trying to move to a transnational approach overtime. In addition, VW's sourcing strategy in Shanghai was more of an export strategy.

WHICH PRODUCT

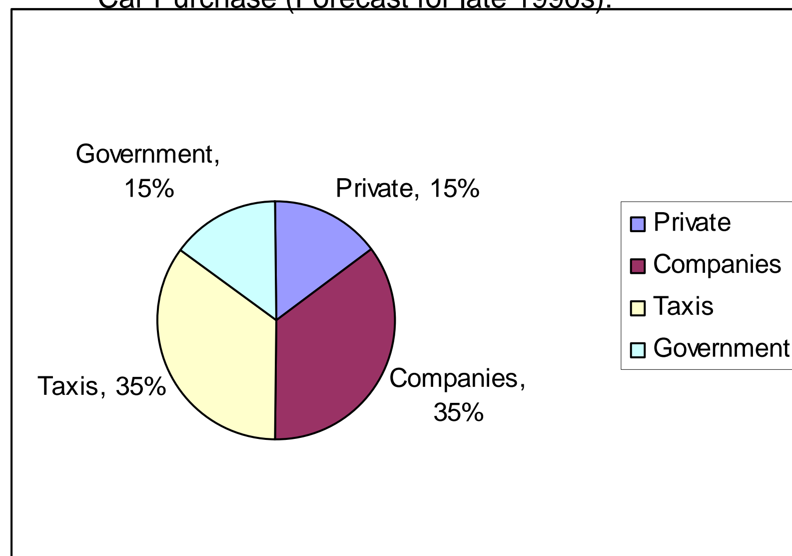
VW develops its products primarily for the developed markets, especially Europe and the US. When a product has saturated these markets, it is then introduced to a number of developing countries. The most well-known example is the Volkswagen Beetle whose production in Latin America went on until the 1980s, decades after its discontinuance in Europe and the US. VW's approach in China took the similar fashion. The Santana was first introduced to Europe in 1981 and VW decided that this reliable, conservative, middle-range passenger car suited the Chinese market and had it mass-produced in SVW in late 1980s and in the 1990s. As for Jetta, a car quite similar to Santana, it first appeared in 1979 and was rolled out in FAW-VW in the 1990s. We see a very clear product life-cycle here.

There was mainly only one product for SVW (and one for FAW-VW). Whether this was sensible and coherent with VW's generic strategy can be understood after an analysis of the fundamental differences between the customer bases in China and in VW's other developed country markets.

Different Customer Base

In China, a large proportion of cars were bought by the government and (state-owned) companies for business uses. Besides, taxi companies were accounting for the biggest share of the rising demand. In 1991, there were still little private car purchases in China. Even forecasts for the mid and late 1990 predicted that only 15% of all cars would be held in private ownership. This is one of the major differences from other markets.

Car Purchase (Forecast for late 1990s):



Income Disparities in Relation with the Car Price

In 1991, the average annual income per capita income in China's most prosperous metropolis, Shanghai, was $ 900, and in most provinces, between $120 and $ 340, which rendered private car purchases virtually impossible. It would even cost a manager of a major Chinese bank in Beijing, over twenty years of savings to buy a Santana car. Although a more prosperous Chinese middle class was just emerging, the huge gap between income and the price of a car would still not make private purchase percentage increase to over 15 percent in the next decade.

As such, there was not sufficient market for the large variety of vehicles (from sporty line to family or high performance) that are offered in Europe and the US.

Price and Model

Demand from companies and taxi business was predicted to increase to 70%. VW's medium-sized passenger car like Santana ideally served this market segment. The Santana provided enough room and comfort to be used for taxi services. As if out of coincidence, the Santana's price of RMB 140,000 or $ 37,600 was identical to (and not exceeding) the upper limit that the majority of government officials of certain ranks were entitled to spend on cars, according to a government rule. This high price implied that Santana had higher quality and more prestige than the cheaper domestic cars so Santana went very popular with the government officials.

In contrast, the AMS JV chose to produce Jeep Cherokee. AMS claimed that the jeep suited the rugged terrain and poor road conditions in China and even suited the taxi business, too. However, its high chassis and rough appearance made it hardly a desirable choice for such service. It was true that general road conditions in China were not good, but it was mainly the case outside the urban areas. The bulk of the Jeep Cherokee were still marketed in cities like Beijing, a place as flat as pancake. As a result, its prospect of appealing to taxi companies and government officials was limited.

As such, this one product approach and the product choice aimed at the government bodies, corporations and taxi businesses were consistent with VW's generic multidomestic strategy.

Technology: Second-Class Only

Given the product choice for the Chinese markets, VW's was adamant from the very beginning that it would not transfer of first-class technology to China.

Suppose VW did provide up-to-date technology, would it benefit VW or China? We must take into account that a higher technology level would probably mean a higher price of the product. Santana was already priced close to $ 40.000, the upper limit of the of the government officials' budget. An even higher price could have excluded that target group entirely. Besides, the taxi companies were also unwilling to pay a much higher price for the most up-to-date cars for taxi service while less fancy cars would suffice. Second, the technical level of the workforce in China lagged way behind that of all the Asian Tigers. With a level of technology even more complex, the specialized training required would have taken years to achieve.

Therefore, for the early 1990s, VW's decision to stay with a technically older model was advisable. Rather than introducing the latest models, VW continued to upgrade and modify the Santana model as had done in Europe. Thus the main production facilities could be used for a longer period.

However, VW must be aware that it can not push the limit too far. For the immediate future, such a one model-modification strategy could work. But for a longer term, it might not. The talks on the accession to GATT and then WTO were started in 1985, and an entry into the organization was realistically speaking possible anywhere between 2 and 20 years hence. The entry would ultimately result in the breakdown of China's high tariffs barriers and foreign automobile companies could start selling a variety of products at much more competitive prices. If by that time, VW was still selling revisions of its old model, it could quickly lose its market share. This would fundamentally impact on VW investments in China.

Export-Oriented Strategy: NO!

VW was also opposed to exporting cars manufactured in China, fearing it would harm VW quality reputation. VW made it clear to the Chinese from the very beginning and it managed to gain their understanding: China's attractiveness rested with its immense market potential and economic growth, which was mainly on the demand side. It was true that China had relatively cheap labor and abundance of workers. However, the technical level of the workforce lagged way behind that of all the Asian Tigers. China only had out-dated production facilities and its leadership missed out on 30 years of management science. Therefore the export-oriented strategy would make little sense. Unfortunately, Panda Motors made this very mistake. It could not feasibly export to Europe, where quality requirements were high. It could not possibly export to India and other Asian countries, where tariffs were high as a means to protect their local manufacturers. Consequently, a breach of export clause in the contract was simply inevitable.

A Good By-Effect

VW's position on technology and export caused some frown from some Chinese officials; however, as it turned out, the impact was not entirely to VW's disadvantage. AMS promised to develop a unique model for the Chinese market, but backed out when the costs seemed to be mounting in the late 1980s. Peugeot broke its promise to export 1/3 of its production. Panda Motors promised to export its entire production, but before a single car left the conveyer-belts, it was trying to renegotiate and sell at least 1/3 of the cars domestically. As a result, the Chinese officials became more suspicious of the foreign partners. Meanwhile, VW did not make promises that it could not keep and this coherent approach actually helped VW establish a reputation of utmost sincerity which would help generate government support in the following years. In fact, VW was the only company with a clean record.

WHERE TO COMPETE?

Why China

In the 1980s, the economic growth of the world's most populous nation was nothing short of astounding. Therefore, VW saw it as a market with great potential. It was a market of significant stand-alone attractiveness. It cannot be denied that the country risks were still rather high, especially at the beginning of its opening and reform. China still remained highly regulated. First mover advantages in terms of distribution, reputation among Chinese customers, government support and experience were substantial.

Mode of Entry

In 1985, joint venture was the only feasible way for VW to have a substantial presence in the Chinese market, given the regulations on foreign direct investment and automobile industry. Besides, VW had no prior experience in China, whose culture and environment were so different from those of others. It was a good idea to utilize its Chinese partners' knowledge, connections and distribution channels as a way to familiarize itself. Of course, joint venture meant more commitment, more efforts, more time and more risk. The coordination and control of a joint venture was always an issue.

Sequential Timing of Entry and Commitment in Expansion

a) 1989 Incident: Exit or Not

The international community was temporarily shocked by the Tiananmen Square incident in 1989. Some foreign companies were pulling out. But VW did not exit. One reason was that it had already had a large amount of investment in China; to pull out hastily was also very costly. After all, VW was the most successful foreign car manufacturer in China and a “model” joint venture. If even VW was leaving China, the bitterness left with the Chinese government would be intense. Furthermore, from a purely non-political perspective, exiting was almost like giving up its entire market share to its foreign competitors as long as there was still anyone else out there. To make a comeback after an exit now would certainly be very difficult.

China grew at an average rate of 9%, becoming the fastest growing economy in the past decade. FDI inflows to China multiplied by the factor 5 between 1984 and 1990, reaching $ 3.481 billion in 1990, a figure only surpassed by Singapore in Asia. In fact, in spite of the significant political implications the 1989 incident might have, China’s economic and investment policies remained intact. Foreign capital continued to flow into China after a short halt. China continued to grow. In order not to miss out on China’s stand-alone attractiveness, VW also needed to continue its engagement in China.

b) Expansion: Demand and Government Support

The supply of China’s domestic automobile industry could not keep up with the rising demand for cars that went along with the economic growth. Though China had over 100 different car manufacturers, many of them only produced a few hundred cars a year. Most facilities were out-dated and the product quality lagged behind international standards. The only four major foreign competitors present in China all had big problems themselves. On the other hand, Santana’s sales were very impressive; demand exceeding supply at any time.

The Shanghai Municipal government had granted VW preferential tax treatment and supported its sales in the Shanghai region through protectionist measures against other foreign infested JVs. Furthermore, Shanghai Municipal Government also facilitated arrangements that Shanghai taxi companies would almost exclusive purchase the Santana cars.

Strong demand and government support offset a lot of country risk for VW. Therefore, instead of exit, it expanded its production in Shanghai, around which most of the appropriate sub-contractors and suppliers were located. VW started with production of 3,356 Santana cars in 1985 and leapt to 35, 000 in 1991. Still, production could not satisfy the demand from taxi companies in China’s major cities, private businesses and the government.

WHERE TO LOCATE?

Plant Location:

Shanghai is located in the center of China’s burgeoning coastline. Most multinational companies had their headquarters in Shanghai. Shanghai’s GDP growth, per capita income and the demand for cars were the highest in China. Besides, Shanghai also had industrial base suitable for car manufacturing. The transportation from Shanghai was relatively developed. The regions nearby were also relatively well-off. Therefore, Shanghai was an ideal plant location.

However, in the late 1980s and early 1990s, the market was still largely fragmented in terms of geography and the Chinese government did not allow foreign companies to establish their own distribution network. Santana benefited a lot from Shanghai Municipal Government’s favor but

this regional protectionist measure would not be able to help it anywhere else. That was one reason why Santana had far better sales record in Shanghai and the nearby regions.

Therefore, another joint venture in another region of China would be advisable in order to satisfy the growing demand and gain a second stronghold against its major international competitors. China's southern coastal cities, especially the Special Economic Zones seemed attractive for a second JV, however, the poor industrial infrastructure there made this location less desirable. On the hand, Changchun, a city in the northeast, with a heavy industry base, close enough to Beijing (China's second biggest car market) seemed a reasonable choice. This location meant easier access to the market with local manufacturing facilities.

Then in 1991, the joint venture First Automobile Works-Volkswagen Automotive Company, Ltd. was created the next year. The VW website have it now that "The Volkswagen Group uses this joint venture (FAW-VW) to strengthen the Group's position in China, so as to assure its market leadership in the long term and to build up a low-cost production facility in Asia", although how this FAW-VW, or more generally, VW in china, was integrated in the Asia was not quite clear at that time. This might be just an afterthought.

Sourcing: Export Strategy in Question

Like most international automobile corporations, VW had an enormous interest in perfecting their global sourcing network, taking advantage of the huge economy of scale. VW sources its car components from a large variety of suppliers from multiple countries. However, in China, VW followed a more opportunistic approach: Trying to generate hard currency through a high level of imports from VW in Germany.

The Germans argued that the component quality of the local suppliers was too low therefore imports were necessary. Traditional suppliers of such components as carburetors, cylinders and chassis were unfamiliar with the VW's standards. They were only willing to adapt to these standards once they were given large enough orders. VW, on the other hand, argued that they would only give such orders if the suppliers could comply with VW's high quality standards and internal production norms. This turned into a vicious circle.

VW did have an incentive to generate a steady flow of hard currencies into its own pockets. Only when the government's local content requirement was raised did VW source more of its parts in China. As such, VW was following an export strategy in this aspect. This offered high returns in the short run, but it posed a threat to VW in the long run. By the time most trade barrier comes down with China's WTO accession possibility, if VW still does not have a good local sourcing network but keeps importing, , it will not have a cost advantage over its foreign competitors who can then freely export their cars to China. As such VW should actively develop a network of reliable local suppliers so that it can remain highly competitive once China opens its door further.

Initial Outsourcing Strategy:

Multidomestic	Transnational
Export	Global

- Prefer to import components from Germany, rather than find good suitable local suppliers and integrate China into the global sourcing network.
- This is inconsistent with VW's generic strategy, but an opportunistic approach to generate hard currency.

HOW TO ORGANIZE

Two Joint Ventures in China:
Coordination Problem as a Result of Ownership Structure, Control and Contract

VW was on the whole successful in China. However, it had a 'strategic blunder' overshadowing the otherwise sensible decision to expand its presence in China with the second joint venture. The root of the problem was the ownership structure and related control as well as contract. In 1992, FAW-VW was established in Changchun, a city in the North of China.

SVW had an ownership structure as follows:

German 50%: VW AG had 50% of the shares.
Chinese 50%:
Shanghai Automotive Industry (Group) Corporation (SAIC) 25%,
Bank of China's Shanghai Trust and Consultancy Corporation 15%
China National Automotive Industry Corporation 10%.

FAW-VW had an ownership structure is as follows:
German 40%:
VW AG held 30 %
Audi held 10%, (Audi is an independent subsidiary of VW AG)
Chinese 60%: FAW held 60%

The control of both company generally corresponded to their ownership structures. Half of the **SVW** Board was Chinese and the other half German. The general manager was Chinese and vice general manager German. At **FAW-VW**, 3 of the 5-member top management committee were Chinese and 2 were German.

As mentioned earlier, China's market was rather fragmented in the late 1980s and early 1990s. To have two joint ventures in China was a good decision to strengthen VW's position. VW was interested in using FAW-VW as another manufacture base to sell products in the northern part of China where Shanghai Santana could not have good distribution channels. VW was also interested in manufacturing cars like Audi to reap the profits of the higher market segmentation and that was why Audi was brought in. In addition, they thought the FAW partner could handle the bureaucratic matters just as the Shanghai partner did.

However, in the level of implementation, coordination turned out to be a major difficulty. VW's Chinese partners were both backed up by local governments, who had their own regional interests and priorities. FAW-VW and SVW saw each other as competitor rather an ally, especially from the Chinese perspective. Furthermore, VW had minority position in FAW-VW and its Shanghai partner had nothing to do with FAW-VW at all. This would cause some displeasure to the Shanghai partner, too. This intrinsic conflict could not be easily solved. Whereas VW had relatively large power over strategy and decision making in SVW, it had minority share and less control in FAW-VW. VW would provide technology and the FAW partner had more say in determining the strategy.

FAW-VW started with the assembly of Jetta with CKD method and then mass production followed. Jetta was very similar to Santana in price, quality, appearance and usage. It was

assumed that Jetta would mainly be sold in the north of China since the market was fragmented. However, as market became more integrated and competitive, VW saw things getting out of their control. The similarity of Jetta and Santana was the source of the danger when FAW-VW and SWV began to fight over turfs. For instance, the FAW Chinese decided to crack Beijing (closer to Changchun than Shanghai) and this could seriously jeopardize SVW's market share there. As a result, price war broke out in various locations as time went on with a more liberal market condition. VW could hardly stop FAW-VW from doing this since it had minority control

Although China's market was fragmented with regional protectionism, VW should not assume that such situation would last forever. In making its strategy, it was good that it took advantage of this characteristic but it should have been more visionary and flexible to allow changes of situation. In mutually closed markets Jetta and Santana could coexist side by side friendly. In a more integral market, the competition will become much fiercer. VW was still lucky that both Santana and Jetta still turned out rather successful, although perhaps not optimally. Some competition can be good but it should not exceed a healthy limit. VW should have recognized that its partners were governments whose concerns and priorities were often somewhat different from those of a company. When the governments' regional protectionism got involved, things became even more complicated. It should have tried harder to manage these potential risks in the structure and organization of the joint ventures. Being able to control one joint venture while unable to control the other allows the possibility of internal conflict if they have somewhat conflicting interests. If the control matter was impossible given the laws or government regulations, still, VW could have devised a contract and mechanism in which the incentives of the two joint ventures could be better-aligned and products more artfully positioned. Of course, a good contract needs equally good implementation, too.

Besides, if VW wanted to use FAW-VW to manufacture higher-level cars such as Audi, it should make sure that the (projected) demand for such a car was worthwhile for the investment. If it wanted FAW-VW to manufacture cars of the same level of Santana, i.e. merely to increase its production capacity, to make things simpler, it could just produce Santana. But again, when VW was negotiating the contract with Shanghai, they already made it clear that Santana was to be produced in Shanghai exclusively. Then this was the problem of the SVW contract which lacked sufficient flexibility but it was just a critical condition that the Shanghai partner required. Therefore, VW did face a dilemma.

The lessons learned include: the ownership structure, control of the company as well as the making of a good contract for joint ventures are really important as they greatly influence the implementation of the long-term strategy.

In one aspect, VW managed to avoid tension by paying wages significantly higher to the Chinese than most competitors. The issue of exorbitant expatriate salaries in comparison (as often perceived from the Chinese side) never became an issue. VW continued this high wage policy in 1991. Peter Topp, supply manager for the SVW commented:"For all practical purposes… the cost of labor in China is nothing."

CONCLUSION

VW's long-term strategy to ***continue its engagement in China, expand its production*** and ***employ secondary technology*** for its joint ventures was **THE RIGHT DECISION,** considering the fundamental idiosyncrasies in the automobile market in China. It clear position in not to *manufacture high-technology vehicles* and *not to follow an export strategy for its cars manufactured in China* helped it avoid the mistakes that its foreign joint venture competitors committed.

VW's approaches were generally coherent with its generic multidomestic strategy. However, some strategic choices do not deserve praise, but criticism. **VW's mistakes were:**

- Import of components to generate hard currencies
  VW should have tried more actively to improve its sourcing network in China and incorporate it within its global sourcing system. Generating hard currency generated short term benefits, but to enhance price competitiveness as preparation for China's WTO entry is much more important as a part of VW's long term strategic planning.

- VW's minority position in FAW-VW.
  The goals of the Chinese partner in the two joint ventures were conflicting with their heavy reliance on local protectionism to promote sales. They would ultimately act as competitors but not allies. VW would be in a better-off if it could control both companies with better contract and implementation mechanism.

- Introduction of the Jetta Model
  This car model manufactured in its FAW-VW became a competitor to Santana with almost identical positioning. In a changed market condition with more integration, the control issues result in undesirable internal competition. VW could have been better-off in introducing the same model or a model aimed at a different customer group.

WHAT HAPPENED LATER

VW
VW's performance after 1991 was very impressive. Its annual production crossed the 100,000 mark in 1993. In the mid-1990s, SVW was the largest Sino-foreign joint venture in China. With its full capacity of 300,000 vehicles in 1997, it contributed up to 17 percent of the municipal output, and captured 52 percent of the sedan market in China. Both SVW and FAW-VW continued to upgrade their exist products and also introduced new products such as Passat and Audi. In contrast, the growth of Beijing Jeep and Guangzhou Peugeot was rather humble.

In 2001 VW announced that it was time to fundamentally change the product strategy in China: VW is currently studying a new model to be developed and then sold both in China and the overseas market, and may choose China as the base for export production. VW intends to introduce the most advanced manufacture techniques and technologies to China, incorporate the two ventures as well as accessory systems into its global orbit of purchase, product R&D and marketing. VW is trying to establish a strong platform in China for future production.

During the 1980s and 1990s, VW did not consciously promote the brand of its cars, partly because of the immaturity of the market didn't make it impetrative to do so. Now that the Chinese market is much more mature and many VW's strong competitors such as GM and Honda are all present in China, VW is promoting an integral brand— the VOLKSWAGEN brand. Santana, Santana 2000, Passat, Polo, Bora, Jetta, Jetta King, Audi, Golf, New Beetle, Lupo— the various cars produced by SVW, FAW-VW and even the German VW, are presented as a members of the VW family. They project an image with more harmony.

These recent changes demonstrate that VW is trying to shift from its former multidomestic strategy towards the transnational approach.

Beijing Jeep Corporation

American Motors Corp was acquired by Daimler Chrysler for $800 million in 1987. The takeover of AMC also put the Jeep brand into Chrysler's ownership. The Beijing Jeep Corporation was continuously troubled by issues of currency exchange and bad communication between the foreign and Chinese side. However, it made a recovery in the early 90s and achieved significant success again after strong government backing in the mid-90s. Especially in 1995, both their sales and revenue were very high. After that however, the Jeep lost significant market share with a plummeting sales record, from 26,000 vehicles in 1996 to just more than 9,000 in 1999. The company was in the red over 1998 and 1999, losing more than US$9 million in 1999.

Guangzhou Peugeot Automotive Corporation

In 1997, Peugeot terminated its car production at the GPAC, which was bogged down in financial losses and operational difficulties. The plant was taken over by Honda, which rapidly transformed its performance. Peugeot's second effort in China will be integrated with Dongfeng Citroen Automobile Co, Citroen's operation in Wuhan. By adding Peugeot models to the product mix, Wuhan will lift its line-up to six cars by 2004, according to Peugeot chief executive Jean-Martin Folz. (At present, the plant is focused on building the Citroen ZX Fukang and the Citroen Picasso compact MPV). Folz also said the venture would turn out 150,000 Peugeot and Citroen vehicles in 2004, almost doubling the 80,000 target laid out for that year just nine months ago.

Panda Motors

The most striking feature of the Panda motors is the speed with which the venture was able to handle the Chinese bureaucracy. But its failure to find and implement a feasible model as well as market it made it impossible to go on. In 1992, Panda was essentially dead.

Later Comers

General Motors

The world's biggest automobile manufacturer, General Motors, entered China after 1991 and invested some US$ 2,000m to set up three vehicle joint ventures and one solely-funded accessory sales center, including Shanghai GM, Shenyang Gold Cup GM, and Liuzhou Wuling

Motor Co., Ltd. under negotiation. GM has planned to turn Shanghai GM into its production base in Asia. GM boasts the largest alliance in Asia and claims 49 percent shares of Isuzu, 20 percent of Suzuki and 20 percent of Fujiheavy. While Isuzu has its subsidiaries in Jiangxi and Chongqing, the two enterprises mainly focused on light truck production. Isuzu also joined in capital with the Guangzhou Auto to make buses.

Ford

Compared with its opponents, Ford apparently falls behind in its market development in China. Currently Ford only has one Mazda corporation in Asia and, after giving up the idea of purchasing Daewoo, it will adopt a slow but steady Asian investment plan without any one-off big deals. For Ford, its current investment and cooperation in China are far from enough for such a huge market and the project with Chang An testifies to its recognition of China's vast potential in small cars.

Toyota

Japan's biggest auto corporation, Toyota finally, in the first half of 2001, hammered out its vehicle production plan--to roll off automobiles in Tianjin, 2002, a schedule lagging far behind their European and American counterparts. Toyota Motor Company replaced Daihatsu Motor Company, a member of the Toyota Group, as the partner of Tianjin Xiali Automotive Co Ltd, a Chinese firm. Vehicle production is scheduled to begin in 2002. Toyota started late, but tries to progress fast, forming 21 joint or cooperative ventures in China until to date.

Nissan

As Japan's second biggest auto group, Nissan is quite slow in market expansion in China. It joined hands with Zhengzhou Light Vehicle Factory in 1994 to make Pickups, but output remained low. Nissan has entered into partnership with Renault to map out a "revival plan", in which investment in China for sedan manufacture is a key link, with specific models and investment partners under consideration

Fiat

In June 1999 -- Fiat started producing passenger cars in China. The position of Fiat-Group in the commercial sector is much stronger. In 1999 Fiat Group is involved in nine Chinese joint ventures. The total amount of Fiat´s investments into china comes to US$630 million. Until 1999 Fiat Group has only concentrated its activities in China on the commercial car sector. Fiat took over 50% share of Nanya Auto Co. Ltd. This is Fiat's first step to penetrate the Chinese passenger car market. Compared to Volkswagen or Citroen, Fiat at present is still in its initial stage. Nevertheless it is imperative for Fiat to strengthen its private car business in China to play a major role in the globalizing automotive industry.

Bibliography

Books:

Association of Chinese Automobile Industry, China Automotive Industry Yearbook (1983-2000), Beijing, Machinery Industry Press

Benewick R., Donald S. The State Of China Atlas, London, Penguin Group

Chan D., Chan R., Grobowski J. et at, (2002) Guide to China and the WTO, Hong Kong, Baker and McKenzie

Child, J., Lu Y. (1996) Management Issues in China, New York, Routledge

China Automotive Technology and Research Center (1989) Automotive Industry of China, Jilin, Jilin Science and Technology Press

China Statistical Publishing House (1997) China Statistical Yearbook 1992 Beijing, China Statistical Publishing House

Harris S. (1997) The WTO and APEC: What Role for China?, Canberra, Australia-Japan Research Centre

Hartwitt E. (1995) China's Automobile Industry –Policies, Problems and Prospects, New York, An East Gate Book

Mann J. (1997) Beijing Jeep, New York, Westview Press, A Division of Harper Collins Publisher, Inc.

Nolan P. (2001) China and the Global Economy –National Champions, Industry Policy and the Big Revolution, palgrave

Panitchpakdi S., Clifford M. (2002) China and the WTO, New York, John Wiley and Sons (Asia) Pte Ltd

Stuttard, J. B. (2000) The New Silk Road: Secrets of Business Success in China, New York, John Wiley & Sons, Inc.

United Nations (1992) World Investment Report, New York, United Nations Publications

Xu L. (ed.), Fang J (ed.), Fan Z. (ed.) et al (1991) State Statistical Bureau of the People's Republic of China China Statistical Yearbook 1991, Beijing, China Statistical Information and Consultancy Centre

Internet:

Autoasia (2002) PSA wants to resurrect Peugeot brand in China [Internet] 2001, available from: <http://www.auto-asia.com/viewcontent.asp?pk=6467> Accessed April 27th, 2002

Automotive Digest (2002) [Internet], available from: <http://www.automotivedigest.com/view_arch_list.asp?mod=global> Accessed April 27th, 2002

Automotive News Group (2002) PSA: We have hot products: technology [Internet] 2000, available from: <http://www.autonews.com/news.cms?newsId=376> Accessed April 27th, 2002

Autoweek Online (2002) [Internet], available from: <http://www.autoweek.com> Accessed April 27th, 2002

Auto.com (2002) Volkswagen Overhauls branding,management [Internet] 2001, available from: <http://www.auto.com/industry/pm6072_20011123.htm> Accessed April 27th, 2002

The China Business Review (2002) China's accession to the WTO serves the common interests of China, the United States, and the World [Internet] 1999, available from: <http://www.chinabusinessreview.com/0001/zemin.html> Accessed April 27th, 2002

The China Business Review (2002) Letter from the President of the US-China Business Council [Internet] 2001, available from: <http://www.chinabusinessreview.com/0001/letter.html> Accessed April 29th, 2002

China Ministry of Foreign Trade and Economic Corporation (2001) [Internet] 2001, available from: < http://www.moftec.gov.cn/moftec/main.html > Accessed April 27th, 2002

China Online (2002) FDI comes in and starts [Internet] 2001, available from: <http://www.chinaonline,com> Accessed April 29th, 2002

International Monetary Funds (2002) IMF Working Paper China's Provincial Growth Dynamics [Internet] 2001, available from: <http://www.imf.org> Accessed April 27th, 2002

Just-auto.com (2002) Volkswagen Introduce New Model to China [Internet] 2002, available from: <http://www.just-auto.com/news> Accessed April 27th, 2002

Far Eastern Economic Review (2002) China &the WTO: On second thought [Internet] 2001, available from: <http://www.feer.com/1999/9904-22/p64trade.html> Accessed May2nd, 2002

FAW-VW (2002) [Internet] 2002, available from: <http://www.faw-volkswagen.com/index.jsp> Accessed May 8th, 2002

Hong Kong Trade Development Council (2002) [Internet] 2002, available from: <http://www.tdctrade.com/> Accessed May 17th, 2001

Hoover's online (2002) Shanghai Volkswagen Automotive Company [Internet] 2002, available from: <http://www.hoovers.com/co/capsule/6/0,2163,57086,00.html> Accessed May 2nd, 2002

People's Daily (2002) World Automobile Giants' China Strategies in 21 Century [Internet] 2002, available from: <http://english.peopledaily.com.cn> Accessed May 2nd, 2002

Qiche.com.cn (2002) Lu Lingkui on Chinese Sedan Market [Internet] 2001, available from: <http://www.qiche.com.cn/files/200106/04049.html> Accessed May 7th, 2002

Sina.com (2002) VW's Road in China [Internet] 2001, available from: <http://auto.sina.com.cn/news/8824.shtml> Accessed May 6th, 2002

Shanghai Volkswagen (2002) [Internet] 2002, available from: <http://www.shanghaivolkswagen.com> Accessed May 7th, 2002

Sina.com (2002) Conflict in Car Models [Internet] 2001, available from: <http://auto.sina.com.cn/news/8819.shtml> Accessed May 6th, 2002

Volkswagen AG (2002) [Internet] 2002, available from: <http://www.volkswagen-ag.de/english/defaultIE.html> Accessed May 6th, 2002

Volkswagen Asia-Pacific (2002) [Internet] 2002, available from: <http://www.vwasia.com/start/index.html> Accessed May 6th, 2002

Volkswagen China (2002) [Internet] 2002, available from: <http://www.volkswagen.com.cn> Accessed May 2nd, 2002

World Bank (2002) The Third Asia Development Forum -Asia's Future Economy [Internet] 2002, available from: <http://www.worldbank.org/html/extdr/offrep/eap/eapprem/> Accessed May 2nd, 2002