German and Japanese Auto JVs in China: The Last Shall Enter First?

Eric Thun
Princeton University

12 October 2004
Auto JV Production Volumes, 1985 to 2003

Output in Cars

Source: Chinese Auto Industry Yearbook, various years; Automotive News (20
Shanghai VW Market Share

1996:  54%

2002:  26.8%

2003:  21%

2004 (January - August):  15.5%
The Argument

• All assembly operation in China must be 50/50 joint ventures with a Chinese SOE.
• Foreign firms have had widely varying ability to neutralize the influence of the Chinese partner.
• The ability to neutralize (and/or isolate) the influence of the Chinese partner becomes a key determinant of success.
3 Forms of JV Partnerships

- Developmental Partners (SVW)
- Equal Partners (SGM)
- Silent Partners (Guangzhou Honda)
Volkswagen and the Shanghai Auto Industry Corporation: Developmental Partners
Shanghai Municipal Government and Auto Sector, 1997

Municipal Ministries:
- A
- B
- C

Auto Industry Leading Small Group

Municipal Localization Office

Economic Commission

SAIC

Non-SAIC Auto Firms

SAIC Firms

Same Director
Development of Active Suppliers at Shanghai Volkswagen

Suppliers

Source: Shanghai Volkswagen
Shanghai Volkswagen Purchasing Volume by Province, 1997

Source: Shanghai Volkswagen
SAIC’s Auto Operations

SAIC Head Office

President

VW

GM

SAIC's Auto Operations

Component Firms

(JVs and wholly-owned)

Shanghai Volkswagen

50%

Shanghai Ek-Chor Motorcycle

Shanghai Tractor & Internal Comb.

Shanghai General Motors

50%

Head Office Administration:
Planning
Personnel
Finance
Sales
Quality
Technology
Auditing
e tc.
General Motors and the SAIC:
Equal Partners
Guangzhou Honda:

The Benefits of a Silent Partner
Location of Guangzhou Honda Suppliers (by value)
Guangzhou Municipal Government and Auto Sector (pre-1994)

- Guangzhou Mayor
  - Municipal Commissions:
    - Guangzhou Economic Commission
  - Municipal Bureaus:
    - Machinery & Electric Auto Office
      - Transportation Bureau
        - Auto Groups:
          - Junda Auto Group
          - Yangcheng Auto Group
          - Jinbaoma Auto Group
        - Auto Firms:
          - [List of auto firms]

Guangzhou Municipal Government and Auto Sector (pre-1994)