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## **INTERNATIONAL BUSINESS; Enter the Chinese Dragon, Now Bearing Minicars**

By CHRIS BUCKLEY

Correction Appended

After a year in which dozens of Chinese corporations went global with their plans, the Chery Automobile Company has joined them with an ambitious gamble to become the first Chinese automaker to sell cars in the United States.

The company announced this week that beginning in 2007 it would export 250,000 cars to the United States in partnership with Visionary Vehicles, an auto import and distribution company based in New York. Visionary Vehicles said the Chery cars would be 30 percent cheaper than comparable models sold in the United States and would offer a 10-year warranty.

The plan's scope, and the company's own peculiarities, give the undertaking a faintly quixotic hue. For starters, there is the company's whimsical name, made up of two Chinese characters that suggest astonishing good fortune; its hometown amid the rice paddies of Anhui Province in eastern China, one of the country's poorest areas; and its American partner, Malcolm Bricklin, perhaps best known for his attempt to sell the clunky Yugo to American buyers.

In 2002, he planned to bring a new line of Serbian-made cars to the United States and sell 60,000 a year. He said recently that he moved on to China because of concerns about quality issues at the Serbian plant.

There is also Chery's history of generously drawing inspiration from other carmakers' designs. General Motors is suing Chery, claiming that Chery's QQ is a clone of its Chevrolet Spark, a minicar sold in China. Volkswagen has in the past complained that Chery poached parts of VW models.

But the hardest part of the plan may be the production scale envisioned. With sales of about 80,000 vehicles last year, Chery is China's eighth-largest automaker, standing deep in the shadows of major multinational competitors like Volkswagen and G.M. To even produce the number of exports planned to the United States, Chery would have to nearly triple current output, though it says has the capacity to do so.

While analysts are skeptical of Chery's immediate prospects in the United States, many of them describe it and other Chinese manufacturers as ambitious and dogged players focused on the long term.

"They might be trying to run before they can walk," said Michael Dunne, the president of Auto Resources Asia, "but don't underestimate the Chinese resolve to compete." Auto Resources Asia advises carmakers investing in Asia.

Mr. Bricklin, chief executive of Visionary Vehicles, said his company would initially sell five models of Chery cars, including a small sedan, a sport coupe and an S.U.V., through 250 dealerships across the United States. He said he hoped to sell a million Chery cars a year in the United States after five years.

If Chery's ambitious move succeeds, it would be a breakthrough for a company best known for the QQ, a minicar with a \$4,000 cost that appeals to China's budget-conscious consumers and is the backbone of Chery's revenue. The QQ will not be sold in the United States, owing to the G.M. litigation, analysts say.

But Chery has a track record of unlikely breakthroughs. The company was founded in 1997 in Wuhu, a small port city on the Yangtse in the heavily agricultural Anhui Province, far from carmaking hubs like Shanghai. It is state-owned, and controlled by the Wuhu local government. Chery officials declined to be interviewed for this story.

Many investors and competitors were initially doubtful that Chery would survive, said Mr. Dunne, who has visited its headquarters in Wuhu. "They quietly got it done and surprised the market," he said.

Mr. Dunne recalled that when he visited Chery's plant he was surprised by its advanced building and equipment. Chery has developed Japanese-inspired production management to ensure quality and has used top international consultants to design its newest cars, he said.

But those expensive investments must be recouped, and looking abroad is partly a survival strategy. As car sales in China slowed from breakneck growth of 80 percent in 2003 to about 20 percent last year, the country's 37 carmakers have been cutting prices, and competition is fierce. Chinese carmakers that have invested heavily in expensive technology are looking abroad to outrun even cheaper Chinese competitors.

"Now the party's over and they're starting to think, 'Let's make our way in the international market,'" Mr. Dunne said, referring to Chinese carmakers.

Those pressures are acute for Chery. It sold about 40,000 QQ's last year. But its higher-end cars, the A15 Qiyun and Son of East models released last year, failed to catch on. Other Chinese

companies, like Great Wall Motors and the Geely Holding Group, are also developing plans to export in large numbers, analysts said.

But more than purely commercial calculations may be driving Chery, whose main export markets so far are the Middle East, Africa and Southeast Asia. Chery and its rivals are also spurred by the cachet and brand recognition that come with exporting to the United States -- even if it is to the low end of the market.

"They feel they haven't arrived until they have successful export markets," said Ashvin Chotai, director of Asian auto research for Global Insight, a market analysis company in London. "It's this prestige thing. If they're successful abroad, they're a serious player."

Chery will face a barrage of doubts from prospective dealers and purchasers as it prepares to enter the United States. Chery will also have to meet more stringent safety and emissions requirements than in China, will face questions about reliability and after-sales service, and probably be subject to a counteroffensive from Korean and Japanese competitors keen to protect their share of the economy car market.

Chery also risks the fate of Hyundai, which had steep losses in the United States when it sold its lower-priced cars there in the 1980's.

"You can get it wrong and go too early," Mr. Chotai said. "In a sense, it's a little bit na?."

To succeed, though, Chery and other Chinese manufacturers must evolve from being mimickers of other company's cars to innovators, Mr. Chotai said. To do that, Chery will have to have a steady stream of new models and innovations to control costs and attract new buyers. It has established a research and development center and hired engineers from big American carmakers in that effort.

Whether it succeeds will also depend ultimately on its performance in China, which will remain its greatest source of revenue and a testing ground for new cars.

"China's a cutthroat market now," Mr. Chotai said. "If Chery comes out in a good financial position, its prospects will be good, but that depends also on new products."

In the United States, the challenges are different. But like Japanese and Korean car companies before them, Chinese automakers are likely to one day be serious competitors in America, analysts say.

"If you look at long-term trends, I would say that it's only a matter of time before China-made cars crack the U.S. market," said James Sun, head of the greater China automotive practice of A.T. Kearney in Shanghai.

Photos: About 80,000 vehicles rolled off the assembly lines last year at Chery Automobile in Wuhu, China. (Photo by Adrian Bradshaw/Imaginechina); Malcolm Bricklin, who once dealt in Yugos, is bringing Chinese cars to the United States. (Photo by Robin Buckson/Detroit News, via Associated Press)

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