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China Ramps Up Auto Exports

More Car Makers Look Abroad for Sales as Domestic Capacity Begins to Outrun Demand

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BEIJING—China's auto factories are stepping up still-tiny exports as domestic growth slows, raising the stakes in global auto markets by heightening competition with local and foreign brands.

Chinese-made vehicles now being shipped abroad aren't yet a threat to developed markets in the U.S. and Europe, where Made in China cars would face stiff consumer scrutiny. But the low-cost cars are making inroads in fast-growing emerging markets such as Africa, Asia and Latin America.

Agence France-Presse/Getty Images

Workers at Chinese car maker's Chery Automobile plant in Wuhu, east China's Anhui province.

The move overseas has been led by domestic auto makers, which increasingly have Beijing's blessing to tap export markets. Zhejiang Geely Holdings Group Co. almost doubled its exports of sedans to 39,600 vehicles last year over 2010, accounting for 9% of its sales volume. Chery Automobile Co. and Great Wall Motors also are ramping up their exports.

Beijing Auto Show

Photos

Nelson Ching/Bloomberg News

Chinese exports of cars and trucks reached 849,500 vehicles last year, up 50% from 2010, according to the China Association of Automobile Manufacturers. Such exports are expected to grow at a similar annual pace over the next few years. Most of the export vehicles are priced well below $15,000, with some selling for as low as $6,000.

The drive for exports comes amid concern that China may face a production glut at home. Foreign auto makers and their joint venture partners are racing to add capacity in anticipation the market will grow to at least 30 million by decade's end, up from 18.5 million last year.

Chinese plants ran at 81% capacity last year, down from 88% a year earlier, and that trend is expected to continue, Morgan

Stanley analyst Adam Jonas said in a research note.

This year, the growth of China's auto market is expected to stay in the single digits like last year after a decade of double digit gains, even as expansions in production capacity have been announced recently, including by General Motors Co., Volkswagen AG, Ford Motor Co. and Japan's three largest brands.

Toyota Motor Corp.'s has "no plans" to export cars from China, said Dong Changzheng, executive vice president of Toyota Motor (China) Investment. But he said the government on Friday encouraged industry officials to consider exports at a conference sponsored by the China Association of Automobile Manufacturers.

ImagineChina

Honda recently began exporting Chinese-made Fits to Canada. Above, the subcompact at an auto show in Beijing in 2010.

Industry analysts said any capacity glut is likely to be felt most by Chinese brands, which only have about 30% of the country's market. Dogged by a reputation for low quality and poor customer service, China's auto makers increasingly have had to compete on price.

"The profitability on exports is better than for selling cars in the domestic market. So recently we've seen exports from China growing very quickly," said Boni Sa, a Shanghai-based manager for light vehicle forecasts at IHS Automotive.

Most developed markets aren't interested in the low-cost cars that Chinese companies offer. Many forgo creature comforts like air conditioning and power windows.

"The type of lower quality car that comes from China just isn't viable for North America or Europe unless it is a specialty vehicle filling a niche," said Rudy Schlais, a former senior GM executive who runs Shanghai consultancy ASL Automobile Science and Technology.

One example of a niche export is Honda Motor Co.'s Fit subcompact, which is being exported to Canada from a plant in Southern China that has exported the car to Europe for five years.

But Mr. Schlais notes Chinese passenger cars are easing into markets in Africa and Asia pioneered by the country's heavy truck makers. Buoyed by cheap labor and vast scale economies Chinese brands are quickly taking root in the world's fastest-growing countries.

China's Geely plans to sell one million cars overseas annually, about half of its total sales goal, by 2015. Its top car-export markets included the Ukraine, Russia, Saudi Arabia, Iraq, Chile and Sri Lanka.

The new competitors have become so successful that even some foreign auto makers recently pushed the Brazilian government to curb Chinese makers' entry into that country's market.

The heightened South American competition prompted GM this month to tap Chinese partner, Shanghai Automotive Industry Corp., to export some Chinese-made SAIC models to South America.

In China, foreign makers also are moving downscale, increasing competition for low-margin, entry-level cars that Chinese manufacturers dominate. In large part, that is because Beijing is pushing them to launch local brands with their joint venture partners to speed the transfer of technology.

Some foreign brands in China also are headed overseas to compete with Chinese and others' vehicles. GM, which makes cars in China under a local joint venture, more than tripled exports from China last year, to 48,000 vehicles.

Many of those vehicles landed in South America, where GM sells Chinese-made mini commercial vans and its Chevrolet Sail compact car in countries such as Colombia, Ecuador and Peru. It also exports some vehicles to Egypt and Libya.

"Where there is a gap and we have a product that adequately fits that need, we will export it," said Kevin Wale, GM's China chief.

GM in 2010 launched the low-budget brand Baojun with its China partner, Shanghai Automotive Industry Corp. and Nissan Motor Co. set up its Venucia brand with partner Dongfeng Motor Group in 2010.

On Monday, Ford Motor's Asia chief Joe Hinrichs said it is looking to bring a model to China that is smaller than its subcompact Fiesta model. He also said Ford is studying whether to launch a local brand with its partner, Chongqing Changan Automobile Co

The Chinese government is also showing signs of being more flexible when it comes to exports, especially to natural resource rich emerging economies where China runs trade deficits.

Ford is taking a different approach to dealing with competition from Chinese makers in Latin America. Mr. Hinrichs said it is driving down costs by using shared parts.

China's low cost advantage is lost once the cost of logistics, tariffs and other expenses are factored in. "It still makes sense to build the vehicles where we sell them," he said.