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Bumper Crop **As Barriers Fall In Auto Business, China Jumps In**

**Geely Aims to Be World Player,
 But Quality Woes Linger;
 Cars a New Commodity?**

'Copycat' Accusations Fly

By GORDON FAIRCLOUGH

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NINGBO, China -- The first cars to roll off the line at Geely Group's sprawling plant here six years ago were crudely built hatchbacks, powered by **Toyota Motor Corp.**-designed engines. Annual production was less than 5,000.

Today, Geely makes 180,000 cars a year, with models including sedans and a sports car. It has engineered its own six-cylinder engines and is selling cars not just in China, but in Latin America, the Middle East and Russia as well. Geely even signed a joint-venture deal recently to build London's iconic black taxicabs for sale in England.

ROAD AHEAD



¹ • **Eyes on the Road: Chinese SUV
 Maker Aims to Prove Itself²**
 10/30/06

• **GM Bets China Will Be Key Export**

Base³

"How to make cars is no longer a big secret," says Li Shufu, Geely's chairman. "The technologies are widely used and shared."

Major changes in how the world's biggest auto makers operate -- outsourcing everything from design to component manufacturing -- are making it easier for China to join the ranks of globally


competitive car producers in far less time than it took Japan and South Korea.

The result: In many ways, cars are becoming a commodity. And the manufacturing of vehicles is starting to shift to China, in much the same way that production of garments, televisions and computers did. The development is likely to pose a serious challenge to established car companies around the world.

"China is coming," says Michael Laske, head of Austrian engine-technology firm AVL List GmbH's China operations. "It's inevitable. The business is different today."

China is already the world's second-largest vehicle market, and it is growing fast. China's government is working to promote the growth of domestic auto manufacturers, including Mr. Li's Geely, whose cars

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will be on display this month at the Beijing Auto Show.



Li Shufu

Plenty of obstacles remain to China's becoming a true world player. China's domestic brands still often fall short of the quality and reliability standards expected in Western markets. And many in the industry say Chinese car companies don't yet have the skill and experience needed to run a global business that can distribute, market and repair vehicles in countries around the world.

"It's easy to build a car," says **Ford Motor** Co. Chairman Bill Ford Jr. "It's harder to build a brand."

Geely's Mr. Li, a 43-year-old engineer, wants to be China's Henry Ford, making affordable autos for the Chinese masses and exporting them around the world. The son of poor farmers, he has created an empire of auto plants in four cities, and expects to make two million cars annually by 2015.

Mr. Li also has built a university -- with a library modeled on the U.S. Capitol -- and a chain of technical schools that teach young Chinese how to make cars.

Geely buys fuel-injection systems from Robert Bosch GmbH of Germany. Interior parts come from a Chinese company that also supplies **Volkswagen** AG and **General Motors** Corp. Its steel plate comes from the same mill that sells to Ford, GM and Volkswagen. Dies and other manufacturing equipment come from a Taiwanese company.

Plenty of Advantages

Chinese auto companies already have plenty of other advantages. Many of them have learned a lot from joint ventures with the world's biggest car manufacturers -- from GM and Toyota to DaimlerChrysler AG and Volkswagen. (See [related article](#)⁴).

As big international manufacturers have moved to China, many of their main suppliers have followed them, and are now working for Chinese manufacturers too. The big car makers have also cultivated a host of suppliers and helped them get up to speed, something which has big spillover effects for local assemblers.



Upheaval in the global auto industry is also helping China. Chinese companies have managed to buy designs and equipment and hire talented executives from struggling competitors.

Shanghai Automotive Industry Corp., which has long-running joint ventures with GM and Volkswagen, bought blueprints for sedans from now-defunct MG Rover Group Ltd. of Britain and hired many of the company's engineers. It launched the first of its own Rover-based vehicles last month and plans to begin selling the cars abroad next year.

Western companies looking to cut costs are also looking to China. **DaimlerChrysler** is in talks with Chinese state-owned Chery Automobile Co. about a joint venture to produce compact

cars under Chrysler's Dodge brand name for sale globally. The negotiations are at an advanced stage, people familiar with the situation say. Fiat SpA of Italy recently announced plans to buy engines from Chery to power some of its cars.

U.S. private-equity investors are also betting on Chinese car makers. Capital Corp. of America has a deal with Hebei Zhongxing Automobile Co. to sell its pickup trucks and sport-utility vehicles in North America. A Capital Corp. unit, China America Cooperative Automotive Inc., or Chamco, is helping Hebei Zhongxing meet U.S. safety and environmental standards.

"We're outsourcing the manufacturing of cars," says Bill Pollack, executive vice president of Parsippany, N.J.-based Chamco. Building cars in China will help Chamco "have a significantly different cost structure from what's in place today" in the U.S., he says. Chamco pickups will be priced starting at \$13,250 and will arrive in the U.S. by late 2007 or early 2008, Mr. Pollack says.

A Chamco ad recruiting dealers that appeared in a recent issue of trade magazine Automotive News compares the arrival of the Chinese autos to the Japanese. "If you didn't move fast enough to get a Toyota or Honda dealership, here is the next opportunity of a lifetime," the ad says.

It will likely be years before Chinese cars arrive en masse in the U.S. market, but the country's car makers already are exporting to price-conscious customers in the developing world -- an area vital to the prospects of U.S. and European firms.

Mr. Li says the Chinese are determined to make a big splash. "Autos stand for a country's image, its power and its economy."

Woven into the carpet on the floor of Mr. Li's meeting room is a poem he wrote last year. It exhorts Geely's employees to be diligent. "The freezing wind is gone, Spring comes," the poem says. "We bury our heads to work." The poem ends by promising that, "After ten years' endeavor, Chinese cars will become powerful."

Mr. Li was born on a farm in rural China in 1963 and grew up amid the upheaval of the Cultural Revolution. He alternated years in school with work in the fields, depending on the state of his family's precarious finances. When he finished middle school at age 17 in 1980, he used his graduation gift of 100 yuan, worth about \$12 today, to buy a camera.

Launching a Career

The camera launched his career as an entrepreneur. He used it to take pictures of villagers for a fee. In time, he opened a studio and raised enough money to go into a totally new line of business: stripping precious metals out of discarded appliances and machinery. That led to an enterprise making refrigerator parts.

Then, in June 1989, the Chinese military cracked down on pro-democracy protestors in Tiananmen Square. "We felt very insecure," Mr. Li says now. It wasn't clear whether the government's market-friendly policies were going to be rolled back, he says. "For the sake of safety, I gave up everything."

He turned over his factory and his savings to the local government. Mr. Li finally went back into business a few years later. He started a company making building supplies. In the early 1990s, he decided his real ambition was to build cars. "Chinese people were starting to have money. Families would be able to afford cars," he says.

But the Chinese government -- which at the time barred private companies from the auto business -- wouldn't give him a license. So Mr. Li made motorcycles. But he also built a pilot automobile plant, and he and his engineers began experimenting with car production.

Mr. Li and his cohorts bought a series of cars then available in China and started dissecting them to learn how they were built. Then they started trying to assemble their own. They finished the first prototypes for their own cars in 1998, based -- loosely, Geely says -- on competitors' models. Geely finally got government approval to sell cars in 2001.

Some plants made cars based on a Toyota model that was being produced by a state-owned company and sold under the name Xiali, according to industry analysts. Toyota sued Geely in 2002 for trademark infringement and unfair competition, saying that the company implied in ads that some of the parts were made by Toyota.

The court ruled in favor of Geely in 2003. A Geely spokesman, Zhang Xiaodong, says the early Geely Haoqing model was developed by "learning and imitating" the design of the Xiali.

Critics of Geely say that another of the company's early models bore a striking resemblance to a small car made by PSA Peugeot Citroën. Mr. Zhang, the Geely spokesman, denies that the company copied a PSA Peugeot Citroën car. But he says that Geely did buy parts from suppliers that made components for both the Xiali and PSA Peugeot Citroën vehicles. Many suppliers were based in the same province, Zhejiang, where Mr. Li was born and where some of Geely's factories are located.

As Geely's engineers became more sophisticated, they started work on a series of other models. The company contracted with local and foreign design firms, and Mr. Li began to hire engineers from other companies.

In 2005, Geely launched the CK-1, a compact sedan designed by the former design arm of **Daewoo Motor** Corp. of South Korea. It has since sold nearly 100,000 of the cars. Two more models, including a midsize sedan, have been introduced this year, and others are being developed to launch in 2007.

The company now makes its own engines and transmissions, examples of which sit on plinths in the lobby of Geely's headquarters in Hangzhou, about 110 miles south of Shanghai. Interiors are fancier, too. Some have leather seats and DVD players. On a dais sits a Jinggang sedan, dubbed the "King Kong." "Some people say the rear end looks like a Cadillac," one employee, taking a visitor on a tour, says with pride.

Shim Bong Sup, a veteran engineer with Daewoo, joined Geely in 2004, charged with improving its engineering and vehicle-development skills. His main focus has been to force engineers and designers to focus first and foremost on improving quality.

When Mr. Shim first arrived at Geely, he says the company was having serious problems with its interiors, which were too easily deformed in high temperatures because parts weren't made to exacting-enough specifications. That problem and others have been resolved, he says.

"In design and development, there is still room for improvement," says Mr. Shim. But he adds that manufacturing is improving quickly.

At the Geely factory in Ningbo, car bodies move along the assembly line in yellow cages suspended from a cableway in the ceiling. Robots do the most critical work: welding chassis and bodies. But workers do

much more of the assembly by hand than in Western auto factories.

Assembly-line workers in Geely's plants tend to be in their early to mid-20s. And they are paid an average of about \$150 a month -- roughly 80 cents an hour. To insure quality, workers use small stamps to imprint their names in a book attached to each car as it passes their station on the line.

'It's Our Turn'

"First it was Japan, then Korea. Now it's our turn. We're ready," says Liu Lei, 24, dressed in Geely's blue factory uniform. "We are learning from our mistakes. We have a lot of confidence."

Geely has exported more than 20,000 cars to 42 countries, mostly in the developing world. "This is our first step. We want to sell the cars, test them out and get some experience," says Jie Zhao, head of international operations.

Soon, the company plans to start selling in richer Asian countries and in Eastern Europe. "In the last step, we will go into Western European countries, as well as the U.S.," Mr. Jie says. Mr. Jie refuses to give a timeline for exports to America, saying it is hard to predict how quickly the company will be able to get ready.

In an effort to gain experience for entering the U.S. market, Geely started selling some cars in Puerto Rico this year. The company said it couldn't provide sales figures.

For Mr. Li, China's emergence as an automotive powerhouse is an unavoidable result of the flow of economic history. "Globalization is changing the world distribution of industries. Industry here is developing from the simple to the sophisticated," says Mr. Li. "China will become a base for car production."

Ford Motor's Mr. Ford agrees that auto business and other manufacturing industries in the U.S. are going to be affected by the growing sophistication of Chinese companies. Ford, along with Japanese partner Mazda Motor Corp. and ChangAn Automobile Group of China, has one assembly plant operating in Chongqing and is finishing construction on two additional factories -- one for cars, the other for engines, in Nanjing. This is happening as Ford is cutting thousands of jobs in the U.S.

"Americans don't get it. They don't understand what's going to happen," Mr. Ford says.

--Helena Yu contributed to this article.

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