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Would Bankruptcy Stall GM's China Growth?

Despite the automaker's many woes, GM executives say it's business-as-usual in China. Some industry watchers aren't so certain

By Ian Rowley

Despite the auto giant's well-publicized problems at home, General Motors ([GM](#)) executives point hopefully to [China](#) as an example of a market where things are still going well. In March, [GM had its best ever month in China](#), selling 137,004 vehicles. For the first three months of 2009, sales were up almost 17% compared with the same period a year earlier, spurred by minivan sales at its [SAIC-GM-Wuling](#) joint venture. And with signs of the Chinese economy picking up as [the government's \\$586 billion stimulus package kicks in](#), [GM](#) expects to benefit as demand improves. "We think the market is going to be O.K. for the rest of the year," says Kevin Wale, president and managing director of GM China. "A lot of people are still aspiring to buy their first car in China."

At the Shanghai auto show, which closes on Apr. 28, other GM executives have been sounding upbeat about China, too. Like counterparts from other automakers, they have been making confident noises about the Chinese car market. While sales around the world sink, both Chinese and international carmakers agree that car sales in China will reach new heights in 2009. Indeed, in the first three months of the year, the country surpassed the U.S. as the world's biggest car market. At a press briefing last week, GM's Asia head, Nick Reilly, said the company planned to double sales in China to 2 million and launch 30 new or upgraded models in five years, consolidating its position as one of the leading foreign automakers in the Middle Kingdom. "We will continue to invest in new products for China, in new facilities, and the latest in technology," Reilly told reporters. "China remains a key market for GM." In another sign of confidence in its Chinese business, GM showed off at the Shanghai show a Buick minivan concept developed by the company's China-based engineers.

BANKRUPTCY SHADOW

Still, there's one big question threatening the rosy outlook from GM executives. What happens to the company's China operations if the automaker, now in the midst of difficult negotiations with bondholders who own \$28 billion in GM debt, [ends up declaring bankruptcy](#)? GM executives insist a bankruptcy would not affect the company's profitable China operations. "Generally, we will carry on doing our business as we're doing it today," says Wale. GM says its China business is financially self-sufficient and not reliant on Detroit for funding, while its partners have full confidence that the China business won't be hurt by a bankruptcy. "It is very important to understand that if there is a court-ordered restructuring, it is different than in some other countries," Wale says. "A company continues to trade and continues its business and can come out of it stronger than before."

And with the Chinese market one of the few bright spots in global autos, analysts say, a bankrupt GM would be expected to do everything it could to maintain its China ambitions. "Even if GM goes bankrupt, there will be someone taking it over," says Zhang Xin, auto industry analyst at [Guotai Junan Securities](#) in Shanghai. "From what it looks like right now, I don't expect anyone would choose to give up on China."

Still, for all of GM's confidence, some industry watchers warn that bankruptcy in the U.S. would have a larger impact on business in China than the company is letting on. One problem, says Ashvin Chotai, managing director of Intelligence Automotive Asia, an automotive consultancy, is that no one really knows how a bankruptcy in the U.S. would play locally. "As far as I know, there has never been a bankruptcy at one of the foreign partners, so this [would be] a test case," he says. GM's local operations in Asia may be self-funding, but bondholders might also question how separate

GM's China operations are from the parent. Despite its local partnerships, "GM China is not a standalone company; it still belongs to GM," Chotai says. "If I were a bondholder in GM, I would want some money out of China. The bondholders have funded a lot of the investment."

GM DAEWOO TROUBLES

GM's local joint-venture partners will certainly be watching events closely. In China, foreign automakers are required to have joint-venture agreements with local carmakers if they want to build and sell cars in China. In return, the foreign firms hand over knowhow and technology to partners. GM has a 50-50 partnership with [Shanghai Automotive Industry Corp.](#), which makes and sells Chevrolets, Buicks, and Cadillacs in China, and a one-third stake in SAIC-GM-Wuling. In the event of a GM bankruptcy, analysts say, the Chinese partners would want to know how a court-ordered restructuring would impact the flow of new models.

An additional complication could come from South Korea. The country is home to [GM Daewoo Auto & Technology](#), which engineers popular China-made GM cars such as the Buick Excelle. Like its parent, GM's Korean subsidiary is facing financial difficulties; GM Daewoo exhausted credit lines in February and has asked the government-run [Korea Development Bank](#) and other creditors to provide fresh loans. However, its future is unlikely to be resolved before GM's.



Asked if it's seeking assurances from GM, a spokesperson at SAIC didn't reply to e-mailed questions. But GM's Wale says that his confidence is shared by SAIC and other GM stakeholders. "We talk to our partners, the government, and employees," he says. "Obviously, people will ask questions, but they understand that the U.S. government is supporting General Motors through this process."

Then, of course, there are the customers. While GM's 2009 sales so far are impressive, there are some important caveats. Sales are surging at SAIC-GM-Wuling but SAIC, rather than GM, has a controlling 51% stake in that venture. Out of GM's total March sales of 137,000, Wuling sold 90,950 commercial minivans and trucks, up 38% from a year earlier. GM's non-Wuling sales grew more slowly, rising 4.5%, to 46,220. In passenger cars, critics say [GM is losing ground to Japanese rivals](#) Toyota ([TM](#)) and Honda ([HMC](#)). And with China's auto buyers increasingly savvy, the negative publicity surrounding bankruptcy proceedings is unlikely to increase traffic at dealerships.

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