General motors in china: swot analysis

Finance, Financial Analysis

This section presents the SWOT analysis of the situation withrespectto GM's present position in China which would be helpful in selection the best possible alternative among the four options that are available to GM as mentioned in the section above. Strengths GM is already a well known brand in China both in terms of being an automobile manufacturer as well as a successful foreign venture company. This means that the government would need to be careful and watchful as regards the GM's decisions because other companies also would be taking the example of GM's experiences to decide whether or not to invest in China.

This benefit is increased by the fact that Asia has many other countries in the nearby region with similar operatingenvironmentas China. Countries in South Asia have the common factors like high population density, and stable socio-economic and political conditions unlike the countries in Africa and South America which also have high population densities. The labor available in the countries is cheap and there is not a lot of language barrier because of the popularity of English as a business language.

While Chinese automobile policy has made strict guidelines for the operations of existing foreign companies in the automobile sector, the policy for new-entrants is even more stringent. This means that GM in China would not face too much of external competition from small and medium sized foreign based automobile manufacturers or from the companies having too much of capital and clout which are not yet operating in the automobile industry. GM's operation in China has been very beneficial because of the head start it has had over other companies and this could be beneficial yet again.

The company's currency exchange policy in its present stage can be viewed an advantage if it remains as it is because of the tariff advantage which GM has enjoyed over other foreign based competitors. The country is still a place for the ready availability of cheap labor which has always been one of the reasons attracting the foreign companies for setting up their ventures in China. Weakness The growing change in the business environment is mostly a source of unease for GM.

The main reason for this is the many salient points introduced by the new motor vehicles policy introduced by the Chinese government. The major blow is the necessity for foreign companies who have a significant investment in the country to share theirtechnologywith the local people. Chinese people are very notorious in copying and duplicating the existing technology. This has been a constant source of worry for many of the companies that have their R&D units and significant investments in China.

The government might be liberal regarding the R&D policies, but the socialculturewhich does not see the contracts as a binding is a real hindrance for the R&D in any country. Another major disadvantage is the pressure put by the Chinese government on the foreign automobile manufacturers with Chinese ventures to set up completely localized production ventures by increasing the tariffs on both the storage of vehicles as well as the import of parts by the countries.

China has not changed its stance on the percentage of foreign ownership in the automobile sector which remains at 50 percent regardless of its agreement with WTO. China has also maintained the pre-existing barriers on the number of joint ventures per vehicles segment which means more

domestic players can operate in the market because of less competition from foreign manufacturers. Finally China's unrelenting policy on increasing the foreign ownership more than 50 percent and the back up exemption by the WTO is a disadvantage to the companies who are limited by their present stake in the automobile ventures.

Opportunities GM in China has lot of opportunities available for growth both in China and the neighboring countries. One of the major advantages is the said motor policy which inhibits the entry of new foreign automobile manufacturers in the country as well as other high-capital non-automobile based ventures who might be thinking to expand in this market. A high input capital barrier of 241 million USD makes it difficult for small and mid sized foreign automobile investors who might consider China as an attractive option to grow their ventures.

The prohibition of the manufacturing licenses to non-automotive enterprises means that the domestic automobile companies cannot be lured by high-capital ventures wishing to enter the Chinese automobile industry. Hence, the existing companies in China cannot diversify on the attractive automobile sector which gives GM a further advantage. While there are certain entry and operational barriers in the domestic market, China is still a lucrative option for using the production facilities for export option.

Honda is already ventured into this market, and GM could also venture out into this area given that the present world sees a dearth of production facilities. In addition to the growth opportunities in China, GM can also look into the neighboring countries for expansion. For instance India has a population which is almost equal to China, has abundant cheap labor, softer

government policies, and a more receptive socio-economic condition. A further advantage is also the fact the technical IPR is more protected in India than China who are very notorious for copying and duplicating the technologies.

Threats China's ever changing and suddenly shifting policies have always been a threat to company operating in the country. In addition to this the country also turns a blind eye to the issues of IP, trademark and copyright infringement complains. This is evident in the situation given in thecase studyfaced by Toyota. This encourages the domestic manufacturers to copy the technologies of their foreign counterparts and sell them with similar identifications that border on trademark infringement laws.

This also affects the operation of joint ventures in the industry where the new companies would be just as much worried to put in newer technologies for risk a technology copy. GM itself has been at the receiving end of some such issues. The company's currency policy has benefited GM till now. However, its parent country United States as well as many European countries, are not happy with present currency exchange value. They might serious put pressure on China to appreciate the value of the currency which might in turn increase the existing inflation rate leading to a possibility of economicdepression.

China'spollutionlevels and a marked lack in the number of highways also prove to be a future threat to the companies operating in the domestic market. This is because the government would soon need to address the issue of serious pollution which is inevitable seeing the international concern over the issue. Also the lack in the number of highways would have a direct

impact on the possibility of increase in automobile market because of government's obvious blind-eye to the situation.