China to relax foreign ownership limits on cars, other industries (Update)

April 17 2018, by Albee Zhang, Ryan Mcmorrow

China said it will lift restrictions on foreign ownership in the auto sector by 2022

China announced Tuesday a timeline to open up its manufacturing sector including scrapping ownership limits for foreign automakers,

shipbuilders and aircraft firms—addressing a contentious issue in its trade dispute with the United States.

The liberalisation meets a longtime demand of the US and other countries seeking better access for their companies in the world's biggest car market and one of the largest markets for air travel.

China currently restricts foreign auto firms to a maximum 50 percent ownership of joint ventures with local companies.

The country will this year end shareholding limits for new energy vehicle firms such as those that produce electric cars, according to the National Development and Reform Commission (NDRC).

The move will be followed by commercial vehicles in 2020 and passenger cars in 2022, when it will also abolish restrictions limiting foreign automakers to two joint-venture partners, the NDRC said in a statement.

"After a five-year transition period, the auto sector will lift all restrictions," it said.

Auto analysts said the new rules will have the most immediate benefit for electric car makers, especially those with a less established presence in China.

A boon for Tesla

One car company likely to gain is electric car giant Tesla led by entrepreneur Elon Musk, who this year had asked US President Donald Trump for help on the market access issue, alluding to the troubles his firm has faced producing in China.

"It has instant impact for firms like Tesla," said Li Yanwei, an analyst with the China Automobile Dealers Association Expert Committee.

"China is the world's biggest electric car market so it has a great deal of attraction to any auto company. The demand for electric cars is very small in other countries," he said.

"Auto companies can now keep their secrets and they can earn higher profits," Li said.

Under the current setup, foreign carmakers must transfer proprietary technology to the joint venture companies they set up—the issue of forced technology transfer has been a top concern for the Trump administration.

"China's full opening of the manufacturing industry is a clear indication of our opposition to trade and investment protectionism, and shows our clear support to widening and deepening the development of economic globalisation," the NDRC said in the announcement.

"Through the full liberalisation of the manufacturing industry, we will support Chinese and foreign companies in achieving common development on a level playing field," the NDRC said.

It said it hoped the liberalisations would encourage greater exchanges of capital, technology, management and personnel of Chinese and foreign firms.

Volkswagen "welcomes any opening and liberalisation of the Chinese market" a spokesman said.

"We will carefully analyse if these changes open the door to new options for the Volkswagen group and its brands," the spokesman added.

President Xi Jinping announced the plans for the auto industry last week without giving any timeline.

Xi's announcement was among a series of measures seen as potential concessions to Trump in the face of a potential trade war, including a pledge to lower car tariffs this year.

Washington wary

Still, after Xi struck the conciliatory note in his speech, Trump showed no indication he would back down from imposing the threatened tariffs on $150 billion worth of Chinese goods, and Beijing said it was ready to hit back in kind.

Officials in Washington say they have grown wary of China's endless promises that often result in little action. The NDRC announcement could allay those complaints by giving specific dates for completion of the reforms.

The NDRC said the shipbuilding industry would this year scrap foreign ownership restrictions on firms designing, making and repairing vessels.

The NDRC will also lift restrictions on foreign ownership of aircraft manufacturing firms this year, including those that make large-body commercial airliners, regional jets, helicopters, drones and blimps.

The commission said it would also release a new negative list for foreign investment in the first six months of the year, to "substantially relax foreign investment access". A negative list includes all the industries with foreign investment restrictions.

The new list will include the already announced opening of the financial services and auto sectors, and expand to include further opening for the

energy, resources, infrastructure, transportation, and other sectors, the NDRC announcement said.

But in another move that could exacerbate tensions, China decided Tuesday to slap provisional anti-dumping duties on imports of US sorghum, saying its domestic industry has suffered from "substantial damage".