General Motors is Shanghaied - Case 1.9

The effects of government regulation on companies.

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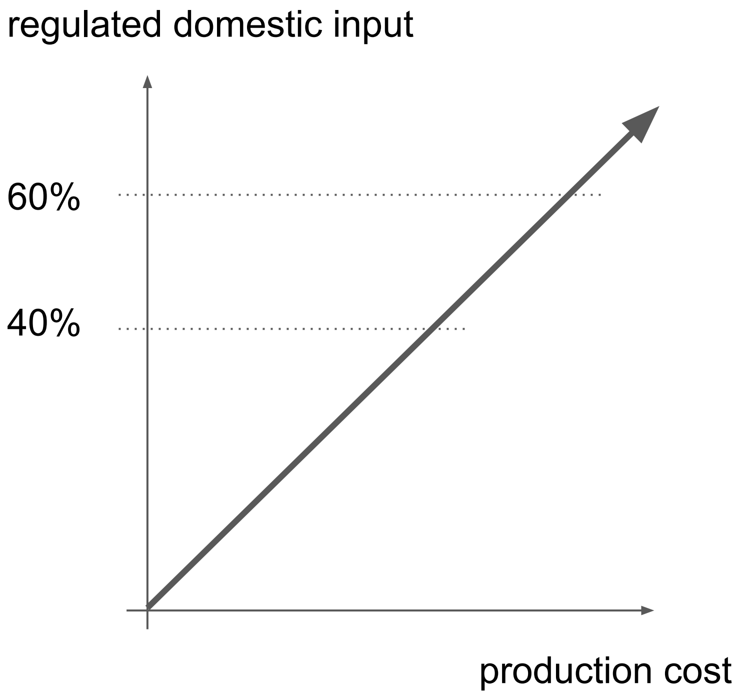
Summary/survey

- Shanghai General Motors (joint venture between General Motors and SAIC Motor) in 1990s. The joint venture had an investment of $1.5 Billion
- Ability to build highest-quality cars from Shanghai plants
- BUT the production cost is high due to government regulations
- Government regulations: dictation on production and input mix regulated
- Regulated input mix:
    - 1999: the localization rate is **40%** in terms of value
    - 2000: the localization rate is **60%** in terms of value
- Although GM shared important technology with Chinese partner, the constraints still precluded efficient production => high cost
- High cost makes Export difficult

Economic topics - definitions

- A **joint venture** (Coentreprise) is a business entity created by two or more parties, generally characterized by shared ownership, shared returns and risks, and shared governance.
- **Production** or **product costs** refer to the **costs** incurred by a business from **manufacturing** a **product** or providing a service.
- Factors of production, resources, or **inputs** are what is used in the production process to produce output-that is, finished goods and services
- **Input mix** = the ratio of different types of inputs/factors of production, in our example domestic input to imported.

Modeling/Equations:



- To calculate total **manufacturing cost** you add together three different **cost** categories:

  Total **manufacturing cost** = Direct materials + Direct labour + Manufacturing overheads.

- Direct materials/domestic components is correlated to the input mix
- Direct labour and Manufacturing overheads are not impacted by the government regulations in our case.