



# Bloomberg Hyperdrive



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Berlin

Welcome to the Hyperdrive daily briefing on what's reshaping the auto world. You can read today's newsletter column on the web [here](#). If you're not already subscribed, [sign up](#).

## News Briefs

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- Porsche's profit [soars](#); VW [pares back](#) sales forecast.
- France and Germany [hatch plans](#) to protect their carmakers.
- Toyota hands car-buyers [just one key](#) to conserve chips.

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## Germany Struggles to Reckon With Its Reliance

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German carmakers long ago went all in on China, building dozens of factories [with local partners](#) they were forced to share technology with. The risks seemingly were outweighed by an unprecedented expansion of what's become the world's largest car market.

For years, these bets paid off. Surging demand from a burgeoning middle class and the nouveau riche bolstered Volkswagen, Mercedes-Benz and BMW's revenues and profits. All three now sell more vehicles in China than any other market. The idea Beijing would ever pull the rug out from under international companies was brushed aside as fear-mongering.

One might think Russia's abrupt cut-off of the gas Germany [relied on](#) before Moscow's invasion of Ukraine would lead to some soul-searching about China dependence in Wolfsburg, Stuttgart and Munich. If there has, it's not coming across from CEOs Oliver Blume, Ola Kallenius and Oliver Zipse.



Oliver Blume at the Frankfurt Stock Exchange. *Photographer: Alex Kraus/Bloomberg*

Next week, VW's Blume [will join a delegation](#) led by Chancellor Olaf Scholz on their first trip to Beijing since the two ascended to their respective roles. Whereas Scholz used his initial speech as Germany's leader at the United Nations last month to [denounce](#) China's human rights record, including the treatment of Uyghurs in Xinjiang, VW has carefully limited its comments about the region to what goes on inside the factory it shares with state-run manufacturer SAIC. In [a letter](#) to the World Uyghur Congress, Blume reiterated that VW doesn't mistreat any workers, that its presence in the region has a positive effect on the community and that it will stay put in Xinjiang.



Ola Kallenius at an event preceding the 2019 Shanghai auto show. *Photographer: Qilai Shen/Bloomberg*

Blume's counterpart Ola Kallenius, meanwhile, has suggested the west's hands will be tied if Beijing were to try to seize Taiwan. "If one thinks that the Chinese economy could be unbundled from the European or the American, it is a total illusion," he said in an [interview](#) with Die Welt last month. "It would have dramatic consequences for the world economy that would in no way be comparable to those of the Ukraine war."

BMW CEO Oliver Zipse last week even went so far as to defend China's market policies and compare them favorably to how President Joe Biden is changing the playing field in the US. The 50-50 joint ventures that Beijing required foreign carmakers to set up in China were "fair for everyone," Zipse said in an interview near BMW's plant in Spartanburg, South Carolina. He warned that the Biden administration's climate law designed to wean the US off battery materials sourced from China could provoke retaliatory steps and set off a "[dangerous](#)" game of trade barriers.



Oliver Zipse at the 2019 Frankfurt motor show. *Photographer: Krisztian Bocsi/Bloomberg*

It would be unreasonable of these companies to make any rash, pre-emptive moves before any further escalation of geopolitical tensions. But after having had to turn their energy-sourcing strategies on a dime and contemplate writing off big investments in Russia this year, Germany's automakers are crossing their fingers that they're not forced to make much tougher choices about their far more consequential business presence in the People's Republic.

President Xi Jinping's **consolidation of power** has only worsened worries that extend far beyond the auto industry. Chinese stocks have had their **worst showing ever** following a Communist Party Congress, after this year's gathering dashed hopes for more market-friendly policies.

Within the car sector, there's concern that international carmakers' dominance of the combustion-engine age won't carry over to the electric era. Domestic automakers accounted for almost 80% of EV sales through the first seven months of the year, according to China's Passenger Car Association. VW has been having the **toughest time** coping with what's become a particularly more competitive mass market.



“What we see from VW at the moment is more firefighting mode than innovation leadership on the Chinese market,” said Patrick Hummel, an analyst at UBS. “Volkswagen’s position in the Chinese market is structurally at risk.”

To be sure, the Germans aren’t alone. Tesla’s reliance on China has mushroomed since the company opened a factory outside Shanghai in early 2020. Earlier this month, CEO Elon Musk told the Financial Times that Taiwan should agree to become a special administrative zone of China to resolve tensions with Beijing, a [proposal](#) that angered Taipei and [raised eyebrows](#) in Washington. Democratic Senator Mark Warner said he’s frustrated that companies including Tesla seem to reckon China is so big, they’ve got to “turn a [blind eye](#)” to abuses.

There is another way. Stellantis CEO Carlos Tavares last week suggested he’s ready to [cease making cars](#) in China. The producer of Peugeot and Citroën cars may implement an “asset-light” strategy for those brands, repeating a phrase he used earlier in the year when announcing plans to [withdraw from](#) the company’s Jeep-making venture.

Stellantis’ pullback has been made easier by the fact it wasn’t doing so well there in the first place. VW has [much more to lose](#), as it operates over 40 vehicle and component factories along with partners in China. When asked Friday about his upcoming trip, Blume said it’s important that Berlin and Beijing get in touch after the party congress to exchange ideas and positions and plan further cooperation.

BMW is doing just that, [shifting production](#) of electric Mini hatchbacks to China from the UK and assembling an SUV model there through its partnership with Great Wall Motor. At Mercedes, well over half of the ultra-luxury — and ultra-profitable — Maybach vehicles the company sells go to customers in China, supporting its push [further upmarket](#).

“The Germans can’t bite the hand of the one that feeds them,” said Matthias Schmidt, a Berlin-based auto analyst. “For Mr. Tavares, it’s a different story — he is likely saying what a lot of other automotive executives are thinking.” — *With assistance from Monica Raymont, William Wilkes and Gabrielle Coppola*



## Before You Go



Elon Musk *Source: Bloomberg Daybreak*

Elon Musk plans to [assume the role of chief executive officer](#) at Twitter after completing his \$44 billion acquisition, taking the helm of the social media giant on top of leading Tesla and SpaceX. He may eventually cede the role in the longer term, a person familiar with the matter told Bloomberg. On Thursday, Musk [had Tesla engineers](#) meet with Twitter product leaders and assess the social media company's code.

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