Volkswagen opens plant in Chinese province of Xinjiang

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In early September, the German Volkswagen automaker opened a new plant in Urumqi, capital of Xinjiang province in northwestern China. It is the first auto factory ever to be established in the region, which is dominated by steppes and a desert climate.

Thousands of VW's mid-range model—"New Santana"—will be produced at the plant and sold on the Chinese market in the near future. Since the plant is still awaiting completion of its stamping and painting shops, some parts will still need to be delivered from Shanghai—nearly 4,000 km away—before the factory is fully functional.

Volkswagen is currently building a total of seven new car plants in China to be operational by 2015. Four of them will assemble finished cars. China is the most important market for many western carmakers, whose prospects in Europe and America have sharply declined in the wake of the economic crisis and austerity measures in the European Union.

Earlier this week, Volkswagen announced that 6.7 percent fewer autos have been sold in the European market since the beginning of the year, compared to same period last year. In South America, sales fell by 14.6 percent and in the US by 1.3 percent, while they rose by 18.4 percent in China.

VW chief financial officer Hans Dieter Pötsch explained the company's strategy in statements to the *B ö rsen-Zeitung* stock market daily. Because auto sales in Western Europe have dropped to a level not seen since 1993, Pötsch says, "belts will have to be tightened when it comes to [production] costs". This can only mean that employees of the largest European car manufacturer now face imminent layoffs and a sharp deterioration in working conditions.

European and American carmakers are trying to compensate for their losses in Europe and other markets by focusing production on China. Fiat and Chrysler are apparently close to an agreement with Chinese manufacturer Guangzhou Automobile to produce all-terrain vehicles [jeeps] in China.

Volkswagen is challenging General Motors for the sales lead in China. Each currently holds over 20 percent of market share. The ten largest auto manufacturers want to increase production from a total of 18 million cars in 2012 to 35 million in 2015. A toughening of the already brutal struggle for market domination is looming in China.

The increase in production of new cars flooding China in recent years has led to a falloff of demand in the coastal cities of the so-called "wealth belt". The rapid expansion of production by 2015 will significantly worsen this situation.

Another thorn in the side of the auto companies concerns wage levels, which are higher in the coastal areas than in the provinces of central and western China. The minimum wages, set by local administrations in China, are based on the varying standards of living. The monthly minimum wages in many parts of the Xinjiang province lie between 1160 and 1320 yuan (€142-162 or US$189-215), well below the level of 1,620 yuan (€198 or US$263) in Shanghai.

Searching for cheaper labour and markets that are not yet exhausted, VW and other brand-name auto manufacturers in China are increasingly moving into areas accustomed to lower standards of living and lower wages.

In this respect, VW's plans are in line with the policy of the Communist Party of China (CPC), which has long encouraged Western industrial groups to respond to the slogan "Go West!" and invest more in the west of the country. Transportation and logistics costs, for example, are already covered by the local governments.

Friction between the Uyghur and Han Chinese communities in Xinjiang province has emerged in recent years. The vast majority of the Uyghur, a Turkic people, live in abject poverty, with almost 300,000 Uyghurs dwelling in the impoverished districts of the provincial capital, Urumqi, which has a population of over 2 million.

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The CCP deliberately promotes anti-Uyghurs discrimination to divert social tensions, presenting the ethnic minority as an angry mob assailing the Han.

VW is expected to hire many Uyghur workers at the new VW plant. However, this has nothing to do with the "development work", pledged by a VW supposedly to help the integration of Uyghur workers. On the contrary, the poverty of the Uyghurs will be used to reduce the wages and conditions of the rest of the workforce.

Pointing to the signs of slowing economic development, industry analysts like Bill Russo, director of the Beijing Synergistics consultancy firm and a former Chrysler manager, warned of "high levels of excess capacity" and "considerable pressure on profit margins" in the Chinese auto industry.

The International Monetary Fund predicts that the Chinese economy will grow by only 7.75 percent this year, the lowest forecast since 1990. It expects a similar growth rate next year. This is less than the traditional benchmark of 8 percent, which the Chinese government considers necessary to keep unemployment under control. Consultants from the McKinsey & Co. expect that China's average annual growth rate will not exceed 8 percent until 2020. The growth rate averaged 24 percent from 2005 to 2011.

Concerns about VW's reliance on the Chinese market are mounting in Germany. Ignoring these signs, CFO Pötsch said, "China is an important market for us and we are doing very well". Ferdinand Dudenhöffer of the University of Duisburg-Essen sees the matter differently, pointing out the extreme risk of carmakers relying on China for expansion. Volkswagen already sells 40 percent of its cars in China; this is expected to increase to 50 percent by 2020. As Dudenhöffer acknowledged, "If China coughs, VW gets pneumonia".