Internationalization Strategies of the Chinese Automotive Industry: Challenges and a Plan for Going Global

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ABSTRACT

Over the past two decades, the open-door of the market supply in China has had a massive impact on the automotive market. This development contributes to the globalization of the automobile industry that involved the integration of the Chinese domestic market into the international markets.

Among many reasons, motivation to gain access to industrialized markets and to gain access to superior technology, management resources and knowledge are the most driving factors of the Chinese automotive industry for the internationalization and going abroad strategy of China’s automotive industry.

This study investigated whether different external globalization drivers and internal organization factors have differential effects on various dimensions of China’s automakers firms’ global strategy.

Most of the studies written about global strategies have implemented only either of the internal or the external drivers of the internationalization of the firms. The contribution of the paper introduces a more comprehensive model on the global expansion of a firm.

This paper concludes that China’s automotive industry has some competitive advantages such as low cost, while, facing a number of challenges that hinder the internationalization of Chinese automobile companies. It also shows that multiple factors play an important role in firms' internationalization global strategy plan. It is thus essential that the interaction among independent variables is considered in the determination of global expansion strategy.

This paper suggests that in comparative application of China’s economy of internationalization process to most of other industries in the emerging markets, they have similar development strategies and profiles due to the similar enterprise organizational mode and industrial environment. Therefore, most of the factors discussed in this paper can also apply to many industries in other emerging markets that are seeking for internationalization by creating a competitive global expansion strategy.
PREFACE

This thesis is submitted in partial fulfilment for the award of a Master of Science in International Business at Högskolan Väst (University West), Sweden. The topic was motivated by the rapid expansion of the China´s automotive industry as China became in the end of 2009 the world largest cars market, and the presence of the Chinese automobile firms has shown a more rapid global involvement.

Giorgetto Giugiaro, the famous Italian prestige car designer quoted that “It took Japan 40 years to become a great automotive nation. It took South Korea 20 years. I think it will take China as little as 10 to 15 years.” This research will analyze in depth the internal and external drivers that affect the internationalization of the automotive industry in China to give an insight to the Giugiaro´s quotation.
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1. INTRODUCTION

1.1 Background

The global increase of trade in our days opened the door to expand business between countries and motivated many companies to seek new opportunities for expansion overseas. The global interconnectedness helped companies from emerging economics to enlarge outside their domestic markets going to internationalization.

Extensive numbers of academic papers have been presented in explaining the internationalization phenomenon, but only few of them have elaborated the emerging markets strategies towards the internationalization. This study will demonstrate the global strategy of the Chinese automotive industry in process of internationalization.

No clear definition exists to what defines the Internationalization process (Fillis, 2001) gives a broad definition about the Internationalization process as explained; “Internationalization is a continuous process of choice between policies which differ maybe only marginally from the status quo. It is perhaps best conceptualizes in terms of the learning curve theory. Certain stimuli tempt a firm to shift to a higher export phase, the experience (or learning) that is gained then modifies the firm’s insights, prospects and indeed managerial capacity and competence.); and new stimuli then induce the firm to move to the next higher export stage, and so on” (Cunningham and Homse, 1982; cited by Ajdari, 2007; p. 3). Johanson and Vahlne, (1990, pp.22) consider that “the internationalization process are the result of a mixture of strategic thinking, strategic action, emergent developments, chance and necessity”.

Ghanatabadi (2005) Later Beamish et al. (1990) define internationalization as the process by which firms both enhance their awareness of the direct and indirect influences of international transactions on their future, and launch and manage transactions with other countries.

Over the past two decades, the open-door of the market supply in China has had a massive impact on the automotive market. This development contributes to the globalization of the automobile industry that involved the integration of the Chinese domestic market into the international markets.

Among many reasons, motivation to gain access to industrialized markets and to gain access to superior technology, management resources and knowledge may be are the most driving factors of the Chinese automotive industry for the internationalization and going abroad
strategy of China’s automotive industry (Ding & Pavlovich, 2009). However, the academic literature has begun to explore the emergence of firms from neo-power economics on the global market.

1.2 Outline

The empirical study I will use is based on one single market, as I want my study to look at industry and companies from an emerging market, an area in which academic investigations are still developing. I chose the automotive Chinese industry that recently this year became the world’s largest market for cars taking the lead from the United States. I will represent the background of the automotive industry in China to get an understanding of its internationalization process. I think a research on internationalization strategies of automakers Chinese firms brings insight into the booming Chinese automotive industry and its global vision.

In the next part I will explain the methodology I have used in my research. How I answered the research question and how I collected the data I needed to fit the theoretical model I applied. The concepts I used and their importance to answer the purpose, then moving to discuss the theoretical framework, followed by data presentation and analysis. The final part will be wrapping up this work in conclusion and recommendations for future researches about the subject.

1.3 Purpose:

The purpose of this paper is to analyze the internal organizational factors and the external globalization factors that affect the global strategy of the Chinese automobile companies.

Also this study is accomplished to define the challenges that face firms from emerging market as the example of China when internationalize in a global level.

- How do the internal organizational and external globalization factors with prevailing challenges affect the Chinese automotive industry in the process of going global?
- How can the Chinese automobile firms overcome the challenges faced to create a global strategy to internationalize in mature markets?
1.4 Delimitation

This research will mention the potential variables that lead to analyze the international expansion and internationalization for the Chinese automobile industry, and the driving forces for internationalization while limiting my analysis of the global strategy of the chosen industry. Governmental factors were not analyzed in this research, however it has been mentioned in several parts when analyzing other factors.

Two main restrictions for finding out how this research will be conducted: The limited amount of time available (9 weeks), and the difficulty to collect primary data interviews as there was no response to my emails when contacting some automobile Chinese companies.
2. THEORETICAL FRAMEWORK

2.1 Literature Review

In the literature, interest in global strategy and organization has been strong in the last two decades. Many perspectives have been proposed to examine the issue, and so many prescriptions for businesses facing global competition. On the one hand, these perspectives have enriched our understanding of the complexity of competing globally. On the other hand, the diversity of perspectives creates a great deal of ambiguity and confusion about how to compete worldwide, about the definition of a global strategy, about why a business chooses a global strategy, and about the implications of that choice. Without an integrated framework to incorporate these diverse perspectives, uncertainty and confusion are likely to persist, leading to contradicting theories and disappointing practical application of knowledge.

Levitt (1983) argues that advances in communication and transportation technologies and increased worldwide travel have homogenized world markets. Increasingly, consumers in different parts of the world tend to demand the same products and have the same preferences. In this new era, the strategic imperative for businesses competing globally is to achieve the economies of scale which the global market affords. Thus, multinational corporations are likely to disappear and be replaced by global corporations which sell standardized products the same way everywhere in the world. A major source of competitive advantage has become the ability to produce high-quality products at lowest cost, since global consumers will sacrifice their individual preferences for the high-quality but low-priced products. According to Levitt (1983), the optimum global strategy is to produce a single standardized product and sell it through a standardized marketing program.

Hout et al. (1982) disagree, however, arguing that an effective global strategy requires not a single approach, such as product standardization, but a bag of many tricks such as exploiting economies of scale through global volume, taking a pre-emptive position through quick and large capital investments, and managing interdependencies to achieve synergy across different activities.

In contrast to Levitt’s single standardized product, a broad product portfolio is recommended by Hamel and Prahalad (1985). They believe a global strategy requires several product varieties, so that investments in technologies, brand names and distribution channels can be
shared. The global strategic imperative is to seek cross-subsidization across product lines and markets, world brand domination, and strong worldwide distribution systems. They think that in this case the firm can defend itself and attack rivals by leveraging proprietary technology through their distribution channels.

Porter (1986) believes in interdependency among country markets and argues that a global strategy has two basic dimensions, which are configuration of value-adding activities and coordination of the activities across markets. He maintains that the strategic imperative in global markets is to concentrate value-added activities to exploit factor cost differentials and extend competitive advantages by coordinating interdependencies among markets. In contrast, Quelch and Hoff (1986) emphasize the importance of being responsive to local market conditions. They view the strategic imperative as the efficient global use of good marketing ideas rather than standardization, and an organization structure which encourages transfer of information.

Other researchers contend that globalizing and localizing forces work together to transform many industries, and success depends on whether a business can achieve global efficiency and national flexibility simultaneously. They use the term “transnational capability” to describe the ability to manage across national boundaries, retaining local flexibility while achieving global integration (Bartlett and Ghoshal, 1988).

Many other researchers have written on topics related to global strategy, but only a limited number of conclusions have been reached. These have been summarized in the four postulates advanced by Collis (1991). First, a global strategy is required whenever there are important interdependencies among a business’s competitive position in different countries. The acid test is whether a business is better off in one country by virtue of its position in another (Collis, 1991). Second, the sources of these interdependencies can be identified, including scale economies (Levitt, 1983), accumulated international experience (Douglas and Craig, 1989), possession of global brand name (Levitt, 1983; Ohmae, 1985) and learning curve effect (Porter, 1985). Third, the critical issues that a global strategy must address include the configuration and co-ordination of the business’s worldwide activities (Porter, 1986). Fourth, the organization structure should be aligned with and derived from the global strategy (Chandler, 1962).
Some researchers also think, that even though the topic of globalization is widely discussed and there are a lot of surveys done about it, the current literature, unfortunately, only offers limited insight into what a global strategy means, why a business unit adopts a global strategy, and what performance implications a global strategy has. Confusing findings exist in the literature, which discourage application of the knowledge in practice. In addition, the literature lacks a unified theoretical foundation on which prescriptions can be made for effective competition in global industries. That is why after reviewing various perspectives and theoretical bases on formulating global strategy they present and integrated conceptual framework of global strategy that provides a more complete explanation of global strategy (Zou and Cavusgil, 1996).

Other opinions posits that globalization goes together with internationalization concept and the core question is whether the firm should internationalize its activities along a variety of dimensions including where it sells its products or services, where it produces these products or services, where it outsources key inputs and where it obtains the know-how or technology to produce these products or services (Lessard, 2003).

In the early international strategy literature of the 1960s and 70s the emphasis was on entry strategies whether a firm should enter a market by exporting, either through an independent distributor or its own network, or through direct foreign direct investment. The motive for expansion, by and large, was taken to be to tap additional markets in order to exploit firm-specific capabilities developed in the home market (Vernon, 1966).

Regardless of the motive - to enter new markets, to gain scale economies, to arbitrage cost differences, or to access and/or develop new technology, the key questions are: Does internationalization represent a sustainable competitive strategy and, if so, how should a firm internationalize? The answer will depend on their industry, their positioning within the industry, the competitive position of their home base, also in an industry that is quite global in nature due to market similarities, scale economies, or comparative advantage, internationalization will be an imperative unless the firm can identify a business model that differs from the norm. On the other hand, if an industry is primarily domestic in character, internationalization is probably a trap, again unless the firm has some very unique advantages that it can exploit through internationalization.
Regarding why firms internationalize, Bartlett and Ghoshal (1989) identify three “leverage points” that can be gained through different types of internationalization. These are efficiency resulting from performing specific activities at the right scale in the right place, market access or customer responsiveness that often requires localization of some production or service dimensions, and learning/knowledge leverage as illustrated in Appendix 1.

A key element of Bartlett and Ghoshal’s argument is that different organizational forms are particularly well adapted to one or another of these dimensions of performance, but that addressing all three is extremely difficult. The traditional European multinational, they argue, was extremely good at responding to varying needs, while the Japanese firm of the 1980s did extremely well in terms of efficiency.

Porter (1987) provides a useful two dimensional frameworks (Appendix 2) in which he categorizes internationalization as involving configuration – where and at what scale are primary activities conducted, and coordination - to what extent and how are activities coordinated, knowledge shared, etc. (Appendix 3) presents a 4-dimensional diagram that incorporates both coordination and configuration, but with more explicit underlying dimensions (Lessard D, 2003):

- Market spread refers to the geographic scope of the firm's sales, ranging from local, through regional or continental, to global
- Configuration of core activities refers to the geographic focus of key activities, whether they are locally-focused, continentally-focused, or globally-focused. Being globally-focused does not necessarily imply that they are located away from the home base, merely that they are done in the right place (in terms of direct, transportation and coordination costs) and at the right scale
- Connectedness refers both to coordination in the traditional sense and to the sharing and joint development of know-how
- Localization refers to the degree to responsiveness to and/or surroundedness in various local environments. It involves much more than just tailoring products to the market.
2.1.1 Industrial Organization theory (IO)

Coming back to the global strategy it is needed to mention that according to Zou and Cavusgil (1996) the literature regarding global strategy is mainly dominated by the industrial organization (IO) perspective (Bartlett and Ghoshal, 1991). While the IO approach has enriched understanding of the external market and industry forces which drive globalization, it generally has neglected a business’s idiosyncratic internal characteristics (Bartlett and Ghoshal, 1991). It means that business performance is not solely determined by global strategy and that internal organizational characteristics also play an important role. As a result, domination by the IO perspective can lead to incomplete explanation of global strategy and performance.

In the IO-based model, competitive advantage is viewed as a position of superior performance that a business attains through offering undifferentiated products at low prices or offering differentiated products for which customers are willing to pay a price premium (see Porter, 1980). Strategy is conceived as a firm’s deliberate response to the industry or market imperatives, while competitive advantage can be sustained by business strategy, such as erecting barriers to entry; seeking the benefits of economies of scale, experience or learning curve effects, product differentiation, and capital investments; and raising buyer switching costs (Porter, 1980).

2.1.2 Resource-based theory

Some researchers have embraced a newly-emerging theoretical perspective, the resource-based view of strategy, to study global strategy and performance (Bartlett and Ghoshal, 1991; Collis, 1991). In contrast to the IO-based theory, the resource-based theory views internal organizational factors as the determinants of strategy and performance. Zou and Cavusgil (1996) had attempt to bridge the two theoretical perspectives.

The IO-based theory of strategy is best captured in the “principle of co-alignment” (or contingency or consistency), which states that the “fit” between a business’s strategy and its environment has significant implications for performance (Venkatraman and Prescott, 1990). The general requirement of co-alignment between environment and strategy is understood implicitly rather than explicitly in the literature, however, because it is a direct corollary of the
dominant SCP (Structure Conduct Performance) paradigm (Scherer and Ross, 1990; Venkatraman and Prescott, 1990).

IO-based theories are under increasing challenge from both market reality, the emerging resource-based view of strategy and competitive advantage. Empirical evidence repeatedly suggests that industry structure is not the sole determinant of competitive strategy and performance. The search for other factors led a group identified as the “resource-based theorists” to conclude that differential endowment of strategic resources among firms is the ultimate determinant of strategy and performance.

The term “resource” is used in a very broad sense by the theorists. Following Daft (1983), Barney (1991) defined internal organizational resources as all assets, capabilities, organizational processes, business attributes, information, knowledge, and so forth, controlled by a firm and enabling it to conceive of and implement strategies which improve its efficiency and effectiveness. He further classifies the numerous possible internal organizational resources into three categories: physical capital, human capital, and organizational capital.

According to Barney (1991), the resource-based theory is grounded on two fundamental assumptions in analyzing sources of competitive advantage and business strategy. First, firms within an industry or a strategic group may be heterogeneous with respect to the strategic resources they control. Second, since these resources may not be perfectly mobile across firms, heterogeneity can be long lasting. In the resource-based models, competitive advantage is said to reside in the inherent heterogeneity of the immobile strategic resources which business controls. Strategy is viewed as a firm’s conscious move to capitalize on its idiosyncratic endowment of strategic resources (Barney, 1991).

Unlike the IO-based theory, which argues that competitive advantage can be sustained by the firm’s conduct in response to industry structure, the resource-based theory contends that product distinctiveness or low cost are tied directly to distinctiveness in the inputs (resources) used to make the product (Conner, 1991).
2.2 Conceptual Framework

Two main theoretical frameworks are developed by scholars to structure the global strategy of firms' internationalization. The first one is the organizing framework created by Ghoshal (1987) and the second which will be the model I will rely on in this study is Yip (1989) integrated conceptual framework of global strategy. The framework was created by S. Zou and Cavusgil (1996).

The first conceptual model by Ghoshal (1987) is organized into three broad categories. The firm must achieve efficiency in its current activities; it must manage the risks that it assumes in carrying out those activities; and it must develop internal learning capabilities so as to be able to innovate and adapt to future changes. Competitive advantage is developed by taking strategic actions that optimize the firm's achievement of these differences as well defining their goals. As it illustrate in the following Table 1.

Table 1. Global strategy: an organizing framework

<table>
<thead>
<tr>
<th>Strategic objectives</th>
<th>Sources of competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National differences</td>
</tr>
<tr>
<td>Achieving efficiency in current operations</td>
<td>Benefiting from differences in factor costs—wages and cost of capital</td>
</tr>
<tr>
<td>Managing risks</td>
<td>Managing different kinds of risks arising from market or policy-induced changes in comparative advantages of different countries</td>
</tr>
<tr>
<td>Innovation, learning and adaptation</td>
<td>Learning from societal differences in organizational and managerial processes and systems</td>
</tr>
</tbody>
</table>

Source Table 1: Ghoshal, 1978, pp 4

The firm has three sets of tools for developing such competitive advantage. It can make use of the differences in input and output markets among the many countries in which it operates. It can benefit from scale economies in its different activities. It can also use economies of scope that may be available because of the diversity of its activities and organization. The strategic task of managing globally is to use all three sources of competitive advantage to optimize
efficiency, risk and learning simultaneously in a world-wide business. The key to a successful global strategy here is to manage the interactions between these different goals and means as it’s explained by Ghoshal (1987) organizing framework. The strategies addressed here can give the firm a better view of their internal resources, as well to consider the comparative competitors of strengths and weaknesses of both that help the firm in its internationalization process.

The second theoretical framework and the principle model in this research is the “Integrated framework of global strategy” incorporated by S. Zou and Cavusgil (1996). In their research they incorporated the Industrial Organization-based theory IO and the resource-based theory discussed earlier in the literature review and integrated these two theories together and added one more dimension to the existing five dimensions of global strategy proposed by Yip (1989), to integrate the diverse perspectives of global strategy they also incorporated Porter’s (1986) coordination dimension of value-adding activities, such as R&D, manufacturing, and marketing, which is a fundamental requirement to achieve a complete integration of the diverse perspectives of global strategy (Collis, 1991) in addition to all five dimensions discussed by Yip (1989). Yip integrates some diverse perspectives of global strategy shown in Figure 1 (Zou and Cavusgil, 1996) An integrated conceptual framework of global strategy.

Source Figure 1: Zou and Cavusgil, 1996 integrated by Yip 1989, pp 52
The conceptual relation in this framework is that; Global strategy is an organization’s response to the external industry globalization drivers. And internal organizational factors constrain an organization’s ability to conceive global strategy and its ability to implement the chosen strategy.

The framework also suggests that both external globalization forces and internal organization factors must be considered in developing theories or formulating an effective strategy for competing globally. It also propose that implementation of a global strategy not only affects the financial dimension of a business’s performance in the global market, but also helps improve the business’s strategic position in global competition, makes it important that clear performance goals be developed before conceiving and implementing a global strategy (Zou and Cavusgil, 1996).
3. METHODOLOGY

Introduction

The methodology that will be employed for my thesis project is an abductive approach and my focus will be based on qualitative research within the context of a single case study. I will collect mostly secondary data to represent the global strategy process of internationalization in the automotive industry in emerging markets giving examples of China.

3.1 Abductive approach

The Abductive research strategy is used by Interpretivism to produce scientific accounts of social life by illustrating on the concepts and meanings used by social actors and the activities in which they engage. It is the task of the social scientist to discover and describe this world from an 'insider' view and not impose an 'outsider' view. Abduction is a developing strategy with continuing debate applied when attempting to find how best to move from lay accounts of everyday life, to technical, scientific or expert descriptions of that social life (Blaikie, 1993).

The abductive approach generally starts with empirical observations particularly the inductive model, in order to develop a proposition and construct the theory framework (Denzin, 1978). According to the findings of Dubois and Gadde (2002, PP.555), this approach refers to constant “back and forth” movements done by the researcher to go from one kind of research to another one.

My analysis are connected to this approach in sense that I will go between the empirical data and the theories, to make a progress relying on the conceptual framework that I will follow to analyze the data collection, and going back to discuss the same factor when I observe the need to make development, and also to make connection to other factors in the research.

3.2 Implementation of Yip’s integrated model

I will use qualitative methods in my research work that will be based on the theoretical framework, integrated by Yip (1989), and, was originally structured by Zou and Cavusgil (1996). The framework is also strongly connected to the literature review. As I previously
mentioned the concept of the theoretical model demonstrates the connection between global strategy and internal organizational factors together with external industry global factors. Due to the fact that the framework suggests considering both factors in developing theories it gives an effective understanding for internationalization strategies the Chinese automobile industry is going through when competing both locally and in global markets.

According to Doole & Lowe (1997) global strategy does not mean one approach for every company. Different industries have different global needs, and a company’s competitive position and internal and external resources also influence its global strategy. When I study the factors affecting strategy, I will make a distinction between the impact of the external industry environment and internal variables, such as firm resources. The analysis therefore, should make a contribution to knowledge of the overseas operations of Chinese automakers firms through analyzing the forces of the environment versus industry firm capabilities. Since my research is structured to apply the observation of the on-going internationalization activities of the automotive industry in China. Several steps I will follow as explained below:

Resource Figure 2: Own integrated theoretical framework of Yip’s model
First step, the empirical data will be analyzed to ascertain whether the internal environmental drivers along with the external ones mentioned and global strategy by Yip exist within the Chinese automotive industry.

With empirical data about my case study, I seek to test Yip’s assertion of the importance of external and internal environmental factors and its components. Based on the data collected from the aforementioned resources Chinese automotive industry is analyzed within these factors and the attempt is made to come to the certain conclusion and recommendations that could be possible to apply outcome one other industries in emerging countries.

Second step, is to analyze the data in comparison to the theoretical framework and see how and which component of the framework’s dimensions fit the case study and how the conclusions and recommendation could be applied on the industry of different emerging markets.

Third step will analyze the global strategy of the Chinese automotive industry also relying on Zou and Cagusvil conceptual framework integrated by Yip. When the findings of the data analysis identified that the global strategy of China’s car industry does not apply to Yip’s model, then new components were added to the methodology: I have structured a plan for global expansion strategy that can be followed by the Chinese automobile firms. The plan chose what I believe are the most important factors of Yip’s integrated model. The plan identified three factors as the most vital strategies for the Chinese global expansion. First, where to go; second, where to locate value-added activities; and third strategy is integrated competitive moves.

These strategies were not analyzed but the plan I structured used them as strategies to create a global expansion of the Chinese automotive industry. The strategies are positively related to the analysis of the internal and external drivers.

My choice of the Chinese automotive industry is based because China is being one of the rapid emerging markets in the world with competitive advantages such factors like cheap labor cost, the choice is also related to the fact of many similarities the emerging markets share in common either in market advantages, motives and the challenges that can make the Chinese automotive industry a good case study to see the impact on other industries in different emerging countries.
3.3 Data Collection

I will analyze some business journals, specialized magazines, internet newspapers and collect articles published in the last few years up to date related to the internationalization of firms from emerging countries focusing on the global strategies in order to understand the definitions given by different authors. I will give recommendations when it is needed in a way that can be useful for coming researches.

Primary data could not be collected as the Chinese automobile company I have contacted did not answer my emails to set interview nor answered the questionnaires I have sent to them.

List of some journals and newspapers used to collect the data:

**China daily** - is an English-language newspaper that comes out of China and an important official mouthpiece of the Chinese government. China Daily was established on June 1st, 1981 and comes out in Beijing with a circulation of 300,000 copies. The newspaper is printed in Beijing, Shanghai, Guangzhou, Hong Kong and New York.

**China car Times** - Founded in 2006 and has grown dramatically through the years, it serves over one million page views per month. It is considered the largest English language resource for the Chinese Car industry and strives to bring fresh content to a global audience on a daily basis.

**The Strategic Management Journal (SMJ)** - Is an academic journal that publishes research articles relating to strategic management and strategic planning. It launched in 1980, published in 13 issues per year and it is rated as one of the top publications in the management area.

**China Hourly** - Is a Chinese online newspaper that provides initial references for business dealings in China, such as marketing research, search service. China hourly, offers insight on Chinese business environment, the opportunities and the challenges and market entry strategy decision.
3.4 Criteria

Validity, reliability and creditability are among the most important measurements of criteria. The validity of this research is that most of the factors analyzed can for a certain degree be applied in other industries in China and for a less degree in other industries in emerging countries.

The credibility of this study is based on a fact that can be considered as real interpretation. I am using theories argued among researchers as tools to make the analyzed data more creditable academically and empirically.

The reliability of the paper is that other researchers who want to make the same research about the internationalization of China’s automotive industry, in case if they will start from the same point I started, they will get the same results as I got. I use only one model and integrated both of the theories and the empirical data to analyze the model.
4. DATA ANALYSIS

Introduction

The purpose of this Chapter is to report findings and analyze the data in order to answer the research questions. The analysis is based on the academic publications, review of the related literature along with the observations and the conceptual framework provided in Chapter 3.

In this chapter, I will present an overview of the Chinese automotive industry and the motives for the internationalization of the Chinese automakers. Afterwards, I will analyze the internal organizational factors that affect the automotive industry in China, and then I will move to the analysis of the external industry factors that affect the Chinese automobile companies on international level. In the last part of the Chapter I will examine the relationship between the internal organizational factors and external industry factors, and finish with analyzing the way they create global strategy operations.

4.1 Overview of the Chinese automotive industry situation

After China’s accession into the World Trade Organization in 2001, the Chinese automotive industry began to boom amazingly faster than ever. Since 2003, China’s automobile market has more than doubled in size from 4.56 million units to 9.67 million units in 2008. In 2009, China becomes the world number one automotive seller exceeding the US in automotive sales by increasing sales of 6.1 million units versus 4.8 million cars sold in the U.S. market (Peng et al, 2009).

While the huge boost of selling cars in the domestic market is evident, the level of China's auto export is still very low, lower than the international export market, evidencing that the international competitiveness of the automotive industry in China is not enough. In proportion of exports automobile products, China has not yet reached 2 percent of world exports, which is less than 6 percent of domestic car sales and only occupies 4 percent of national exports. China started slowly in the export of automobile products, with the expansion of markets and reduction of export products, equipped with a good performance and value for money, which has that faster export growth in short. It has provided a convenient and solid base for further growth of China exports of Automobiles. Data indicates that the cars will be the most promising products in the export in China (Ding, Pavlovich, 2009).
4.2. Motivations for internationalization of Chinese firms

There are a number of reasons to explain why Chinese firms are “going global”. Some of the reasons are similar to those driving Western Multi-National Companies to invest overseas, but Chinese firms still have some unique features (Child & Rodrigues, 2005). The first motivation is to secure markets abroad and to gain access to industrialized country markets. The second motivation is to gain access to superior technology, management knowledge and brands. The most recent case is Chinese firm Geely Automobile, which acquired the international branding for Volvo cars. Volvo cars business had been relatively unprofitable for many years, but for Geely, it was a good opportunity to leverage off the Volvo brand and gain the needed technology. The third motivation is to secure long-term supplies of management resources (such as managerial style, managerial experience, and training). While cost reduction is one of the major motives for Multi-National Companies from developed countries, firms from the developing countries are less driven by cost considerations (because those developing countries are rich in cheap labor resources). Lastly, the impact of harsh domestic competition conditions forces Chinese companies to look for opportunities abroad. The restriction facing Chinese companies in domestic market along with the increasing competition leads the Chinese Automakers to export their products that causes raise in country’s export of automobiles (Ding, Pavlovich, 2009).

4.3. Internal organizational factors

In the internal organizational factors section, I will analyze the most important internal factors that affect the automotive industry in China, and then I will move to analyze the external industry factors that affect the Chinese automobile companies on an international level, such as market and managerial orientation, organizational capabilities of the firms and the international experience of the Chinese automakers.

4.3.1. Market orientation

According to Uncles (2000) market orientation is mainly about the processes and activities that are interconnected with creating and satisfying the customers through continual assessment of their needs and wants. It should be in a way that there is a demonstrable and measurable impact on business performance. Market orientation is for this reason a
component of the overall business strategy, which is seen to contribute positively to business performance.

**Analysis of market orientation**

The classic picture of the Chinese automotive industry is manufacturing cheap cars with low invested costs producing cars to the markets with lack of technology and safety features. The cars export mainly to the mainland of China, regional countries, and many third world markets, but never to the developed countries in Western Europe and the United States. The new directives of the mobilization of the international automotive industry and the new policies of the central governments to support overseas exports has opened the eyes of the Chinese automakers to acknowledge the necessity to identify the segments of market orientation.

The increased car sales and the new international recognition of the privately-owned company Geely has led to a plan to be employed by the end of 2010 by splitting the company into three segments: a world brand, a luxury brand, and a taxi brand. Geely’s greatest local competitor, Cherry has also undergone a branding rearrangement. This segment rearrangement is set to take Geely into orienting the market for the next years (China Car Times, 2009).

A figure from 2005 says that on average 1000 Chinese people own 24 vehicles, which could be compared to the global average that was 120 vehicles per 1000 people. A steady growth might though have the positive implication that will give the Chinese government time to develop better circumstances for the industry (Ding, Pavlovich, 2009).

**4.3.2. Managerial orientation and organizational culture**

One of the key determinants of export performance is management’s export orientation and commitment. High management commitment allows a firm to aggressively go after the export market opportunities and follow effective export marketing strategies that improve export performance (Cavusgil and Zou's, 1994).

**Analysis of Managerial orientation and organizational culture**

Innovation is on the top of managers minds as the only key to survive and grow in an increasingly competitive world. However, many Chinese manufacturers still compete on low-
cost labor and aggressive pricing, rather than on innovation features, branded products and services with higher profit margins.

For Chinese car exporters, the majority of the product’s value is captured by their customers, foreign companies with strong research and development (R&D) departments, brands and deep relationship with the end consumers, often leaving Chinese manufacturers with low profit margins well below the average. The increasing number of Chinese companies are developing the technologies and management capabilities to improve their global competitiveness, others view global partnerships and foreign acquisitions as a more attractive, viable alternative as the example of Geely (Ban et al, 2005).

Chinese automakers are deficient in the managerial skills needed to develop the organization culture and make the Chinese automotive industry to compete in a global level. But this fact does not apply on all automakers in China, Geely Group, for example, has entered a new phase in its demand for talents after the successful strategic turn. The release of new products, the completion of new production bases, launch of many new businesses, development of new brands and the accelerating acquisition and globalization strategies are the main reasons to drive the demand for more high quality and innovative talents, when the conventional way of people recruitment is outdated. Finding, introducing and training talents in a flexible way become one of the key objectives of the company’s current operation and management (Geely, 2010).

Technical innovation requires better ideas in attracting talents. To communicate the company’s employment information and culture on motor shows is Geely’s invention, which had already achieved good results that gave this emerging company more respect among the rival in China and also internationally. Li Shufu, Chairman of Geely said in one interview that Geely strategy’s success or failure depends on how innovative they are in HR management. This actually shows the close attention and enthusiasm of Geely’s senior management on the innovation of talent development (Geely, 2010).

According to my findings Geely is also acting bravely trying to find out an innovative way to teach high quality talents. It has its own technical school, university and graduate school, through which a talent development system has been formed to tailor to the company’s needs. Geely’s enjoys the favorable conditions for innovative talent development by integrating the
education industry with its strong manufacturing capacity. Geely will launch the 1000 Geely Recognized Graduates Training Plan in 2010, through which Geely will work with Zhejiang Automotive Engineering Institute, Geely University, Sanya Institute and the well-known institutions of both home and abroad in order to recruit candidates for specific purposes and offer tailored programs based on the learning of how to use idea to focus on operating and management problems. All these aforementioned plans along with the first-class experts being introduced to truly develop high quality talents and form the talent pool (Geely, 2010).

Chinese firms have rapidly stepped up from the exports of vehicles to the developing world, and have begun assembly operations from Malaysia to Iran and to Russia. Chinese firms have become net exporters of cars. They have purchased controlling shares in South Korean auto makers (SUVs), and have begun acquiring engineering and design capabilities in Europe and North America.

Independent Chinese assemblers such as Chery and Geely, in particular, have started the exports of small cars and commercial vehicles to Western Europe, and have announced bold plans to sell hundreds of thousands of units in Europe and North America within the next five years. Industry observers remain doubtful about the exact timing, but increasingly incline toward the view that Chinese firms will succeed in exporting large numbers of vehicles in the foreseeable future (Nobel, 2006).

4.3.3. Organizational capabilities

Ulrich and Lake (1990) defined the organizational capability as the business’s ability to establish internal structures and process that influence its members to create organization specific competencies and so, to enable the business to adapt the business in order to match the changing customer and strategic needs.

Organizational capability helps firms to identify their strategic goals needed for successful competitiveness in any market. Firms that adapted high organizational capability are better competent in implementing their strategies.

Analysis of organizational capabilities

Shanghai Automotive, First Auto worked in China and other Chinese automotive companies with foreign-dominated joint ventures have begun to turn their attention to developing brands and intellectual property independent of their foreign partners. That happened while breaking
into the lower parts of the market, being between pressure from the government and from unknown domestic firms. (Noble, Ravenhill, and Doner 2005).

I found out that local firms, Geely and Great Wall, though still small, have constructed development centers with hundreds of engineers, and Geely asserts to invest over 10 percent of revenues in R&D, an unexpected figure for a automobile company at the same time engaged in a massive expansion of production capacity (average R&D spending in the Chinese auto industry, including both assemblers and parts suppliers, was 1.4 percent of revenues in 2004. (Zhongguo Qiche Gongye Nianjian, 2005).

According to a survey by A.T. Kearney, in 2002 American suppliers averaged 2.5 percent, European suppliers 3.5 percent, and Asian suppliers 4 percent (Michigan Craintech, July 21, 2003). Chery claims to have 1,600 R&D workers (Toyota’s American branch has only 1,100), including 54 “sea turtles” (staff who have returned from study and/or work experience abroad) and 51 PhDs (Qirui presentation at innovation conference sponsored by Zhongguo Qiye Lianhehui [Cec-ceda], April 26, 2006).

The self-regulating auto companies have developed an area of new models and engines, initially with significant help from European design boutiques and engineering consultancies such as Pininfarina and AVL, but increasingly on their own (Meiri Jingji Xinwen, January 11, 2006).

4.3.4. International experience

Firm's export marketing activities and its success in exporting are related to the quality, attitudes and characteristics of its managers. The international experience of the company seems to have a positive effect on export sales, profits, expansion, and performance. It has been found out that a firm's exporting knowledge has a positive effect on export performance and on the degree of internationalization (Madsen, 1989).

Analysis of international experience

Through empirical application of the aforementioned theory, we can observe that since some Chinese automakers such as Chery, Great Wall and Geely have taken the lead within the China’s automobile industry, to appoint mangers with international experience in leading automobile firms, these three companies have significantly increased their production and
market share. For instance, in the first ten months of 2006, 5.8 million cars were sold in China and increase of 26% over the same period in the year before 2004. Chinese carmakers captured 27% of the market, while they exported only 75,000 vehicles in 2006 to over 100 countries, but, still none of these countries are in the developed markets in the US and West Europe.

This rapid pace of development has begun to test the limits of the industry’s skills depth as I mentioned only few automobile companies have a level of international experience.

According to China Automobile Customer Satisfaction Index 2005, the number of faults per 100 cars, made in China, rose from 246 in 2005 to 338. Four out of five cars now experience a problem in the first six months of ownership. But with average trade prices falling significantly on an annual basis, manufacturers are racing to reduce costs, not increase the quality. Powerful competition is also forcing them to accelerate development cycles. Manufacturers recognize that this means they are being forced to use lower-quality materials and spend less time on testing, and many cases have been reported complaining the lower quality of the Chinese cars in the exported countries. So reliability is likely to decline further (NUTEK, 2007).

Yip (1989), sighted in the literature, that the international experience is one of the important internal factors for any organization. The problems analyzed here have already postponed Chinese automobile manufacturers’ plans of increasing the export sales in the mature world. Instead, the Chinese cars exported today, mostly go to Africa, south-east Asia and the Middle East, where expectations are lower and price matters more. The limited-sight of identifying the real needs of international mature markets which is about emphasizing the higher-quality and safety features is due to the weakness of international experience for most of the manufacturing companies in the automotive industry in China. Regardless of some improvements of international experience of some private owned companies who try to establish their own how-knowledge experience.

### 4.4. External industry globalization drivers

The high growth rate in China’s economy and the increasing purchasing power of the wealthy social groups have attracted the major automakers in China not only to expand their internal market share but also drove them to search for international expansion in the industry. China’s
development in the automobile industry became a part of the drive towards internationalization into the global marketplace and several driving forces stood behind the globalization of the industry such as market competition, technological change, and environmental regulations. In this section I am going to analyze these factors.

4.4.1. Market factors

Market factors in the global strategy mean balancing the customer needs by creating opportunities, to market standardized products, and, giving individual attention to global customers, where firms buy centrally for decentralized use. Some firms buy on a global, or maybe regional, basis to reach Global channels, or even Middlemen where the company purchases low in one country and sells high in another country. The global market can be reached also by transferable marketing, using some marketing elements, like brand names and advertising that require some adaptation on local level (Yip 1989).

Analysis of market factors

The global industry has come a long way in the last decade, to guarantee the quality of cars manufactured through extensive testing before the start of the production process. But when we analyze the market factors posited by Yip (1989) we can observe that Chinese automobile companies still see great gap in many of their automotive products and processes, when compared to first-rate products and processes that they did not arrive yet to decentralization of their activities on a global level, but they could use productively the middlemen channel where they have low manufacturing products in China, in order to sell it higher in other undeveloped markets. However, there are still gaps in the Chinese automotive industry that particularly stand as challenges and blocking the Chinese vehicles to enter the full-grown markets and to compete in the global markets.

The three biggest gaps cited are in design capability of mechanisms, production management capabilities, and business management skills and experience. Chinese companies in general not have enough the experience in combining the necessary skills (designing, developing, testing/validating, building, marketing, and distributing) to provide vehicles that meet international standards, especially in terms of quality.
The gaps in technology, production knowledge, management skills and experience flows into issues with product quality, and, many companies come across big quality gaps with their Chinese suppliers. Quality problems encountered range from not knowing how to meet a customer’s deadlines to insufficient testing of raw materials. Many foreign companies persist, that international quality standards must be maintained, and as a result, many foreign companies introduce harsh, centralized approaches, which are not welcomed by Chinese companies (Ban, Belzowski, Gumbrich and Zhao, 2005).

For the domestic Chinese manufacturers and suppliers, improving quality is vital. Though there is some local governmental support for their companies, none amount of support will protect them from international competitors that has better quality vehicles in the global markets.

4.4.2. Cost factors

Yip (1989) illustrated the cost factors as one of important external industry globalization drivers in his theoretical framework. The economy of scale at a given location can be increased by involvement in multiple markets, combined with standardized products or concentration of activities. Learning and practice can speed up the growth of reaming. Differences in country costs and skills also affects where firm can concentrate certain activities. A product development cost is another factor that is cheaper to develop a few global products than many national products (Yip, 1989).

Cost strategy is one of the most fundamental factors in global strategy for automakers. It is different from the traditional way of cost reduction, which is set on the target market concentrated on the cost of product strategy, competitive cost core, by using unique technology, raw material purchasing channels or characteristics of economies of scale in the same industry against the competitors to gain significant market share.

**Analysis of cost factors**

When analyzing the Chinese automotive industry, taking Chery automobile as an example of cost strategy through market research, Chery has succeeded in concentrating certain activities, to make differences in country costs, which would help the firm to set an international cost
strategy. Chery identifies product features according to consumers needs, and then sets up the product’s target cost. Only in the last process to reach the goal of cost reduction amounts, company can enter the actual manufacturing stage, or have to squeeze through the multi-loop target to lower the cost. The cost strategy decreases the cost of traditional production site from the position of the transfer to the product planning, concept, design, business chain downstream to the source. The design is to create products in the drawings; the drawing took place on the actual product cost virtual simulation that can greatly diminish the cost of developing new products.

Cost policy can apply to some private-owned automakers in China but when we look in depth to the cost strategy of Chin’s automakers as an industry, globalizing the cost strategy, it is still far of reach because of several challenges. One of the most important of them is achieving economies of scale which I will discuss in the next part.

4.4.2.1 Capacity to achieve economies of scale

China's auto output in the design of companies is to arrive to the most favorable size in automobile assembly line production, but generally fails to achieve economies of scale point of real production. The end of 2002, China has established a variety of vehicles with an annual output of 3 million of which annual output of 1.2 million are for cars, capacity, but in 2002 only producing 2.06 million vehicles, accounting for 68.6% of capacity, output of 600,000 cars, representing 50% of capacity, auto companies produced far not saturated.

The automobile industry is the considerable economies of scale industries, the greatest impact on production costs or production volume, if the scale is the actual output of output growth or the production design to the work program, the product price reduction is expected (Docstoc.com, accessed May, 2010).

Keeping on to the analysis of cost factor, it confirms that the capacity to attain economy of scale is one of the challenges for automakers companies in China, even the low cost manufacturing is one of the main advantages for them to internationalize globally.
4.4.3. Competitive factors

Competitive drivers for the industry, according to Yip framework, are entirely in the area of competitor selection, including interdependence of countries that can be created through global strategy. Usually through, sharing of activities, that will create cost reward in all countries dependent on them, and Globalize competitors that may be necessary to matching individual competitor moves such as, entering markets and introducing products. Changes of competitors also well considered as competitive driver as the industry globalization factors change over time, and so the fitting global strategy will change (Yip, 1989).

Analysis of competitive factors

Applying this theory to the situation of China’s automotive industry, we can observe the fast growth of exports during many years, which shows that cars in China, in particular, called on the international market, obviously have a comparative advantage since they have no direct competition with the famous group of the world automobile companies. The competition comes mainly from concern instruments, found a number of deep-seated problems and the establishment of export vehicles from China is stable. For example, the low level of competition is primarily based on the consistent price, irrespective of quality, pre-sales, after service and marketing of the manufacturing network, in addition, the brand and loans are also lacking, companies are weaknesses in strategic planning for export, market orders, and even some of them have rather than buying it as a process, the harshness of short-term behavior (China hourly 2009).

Increasingly broad range of export controls should experience a challenge on how to build the foundation for re-export and conversion of exporting firms in order to attain steady growth in exports of automobiles.

Competition in international industry full of rivals such as the automotive industry is a huge challenge to Chinese automakers. Here I talk about the internationalization strategy of Chery Automobile Ltd. Chery is a young and dynamic private company. It is one of the largest independent Chinese auto manufacturer and one of the fastest growing automakers in the world. Its internationalization strategy is characterized by late starting-up, fast growing-up and sharp entering into international market.
The company has been very successful in acquiring advanced technology and establishing entrepreneurial culture. Chery’s internationalization path advanced without the government encouragement and government financial support. Therefore, Chery is able to serve as a good example of young generation of Chinese firms that develop rapidly technologically. The general tendency in the case studies of Chinese companies successfully internationalizing to advanced competition in Western economies is to focus on political motivation and incentives. For instance, the internationalization strategies of Geely, although it is a private-owned company but it was politically supported by the Chinese government to acquire Volvo cars, and a number of other firms successfully operating abroad are directly controlled by the Chinese government (entailing not only political but financial support too). Therefore these companies preferred to engage in the acquisition.

As for Chery, there is still a chance to internationalize for Chinese private companies (not able to get easy access to capital). And this opportunity is realized through the active use of strategic alliances to get more experience for a better competition (Zhang& Filippov, 2009). The following Figure 2 illustrates the total vehicle production in China:

![Total Vehicle Production in China, 1973-2008](source: YU Hong & YANG Mu, 2010)

### 4.4.4 Technology factors

The development of technology is the function of product innovation in the automotive business where leading-edge innovation can be clearly seen in this competitive industry. China’s automotive market is still very young, and in many cases the domestic producers of cars that are sold in China are also in the early stage of their development (Peng et al, 2009).
Analysis of technology factors

Chinese auto industry lacks the high technology needed to change the negative image of the Chinese cars in many of the international markets that become one of the main barriers for a stronger competition of Chinese cars manufactures in the foreign markets. Chinese automakers have realized the need for acquiring technology and some brilliant examples have arisen recently. A recent example of the acquisition of new technology is the private-owned company Geely Holdings that have acquired Volvo cars earlier this year. Volvo is one of the world leading safety cars which is famous of using an integrated high-technology in environmental friendly cars. Last year 2009, Geely also acquired Drivetrain Systems International (DSI) the Australian World’s second largest gearbox manufacturer and automatic transmission supplier. Geely has appointed former DSI chief executive to a similar role with the new DSI. Plant manager also stayed in the job after the acquisition to keep the efficiency of the company. The acquisition of an automatic transmission plant is a major step forward for Geely, as about 80 percent of all vehicles sold in China are automatic (chinacartimes, 2009).

Shanghai Automotive Industry Corporation (SAIC) – the government-owned carmaker is another example, company that currently builds cars for Volkswagen and General Motors in separate joint ventures. SAIC bought SsangYong, a South Korean maker of sports utility vehicles. In 2004, it purchased a number of intellectual property rights from the bankrupt MG Rover. Former MG Rover researchers are helping with the engineering changes to adapt the car to China. At SAIC’s request, a British subcontractor hired many of the former Rover researchers for working on SAIC projects. Those examples of acquired technology can help the Chinese automakers to transfer the needed technology to strengthen their local market and then to go globally with a strong technological competition (Ban, Belzowski, Gumbrich and Zhao, 2005).

4.4.5. Environmental factors

Environmental aspects can be among the factors that help to add innovation to the internationalization process but also can be barriers of the development of the auto industry.
Analysis of environmental factors

When analyzing the importance of the environment factors cited in the literature to the empirical data, China have some of the worst polluted cities in the world. Beijing, Shanghai, Xi’an and Guangzhou are listed among the Top 10 cities with the most air pollution (Peng et al, 2009). Those cities are the driver manufacturing of the Chinese economy, and the hug growth of the automotive market has increase the pollution. Addition to this, China imports two-thirds of its needed oil and the boost of the Chinese economy has an impressive impact on global energy prices.

In a realize to the international criticism and to answer the demand of environment-friendly cars, China’s government has begun working aggressively towards finding solutions to this problem which just gives a more bad impression of the exported Chinese vehicles. One of the solutions is the set plan to support the development of what China calls “New Energy Vehicles” (NEVs), where several ministries and institutions are working together to promote the use of NEVs initially targeting 13 of the most polluted cities targeting the deployment of 60,000 energy saving vehicles in China by 2012, the plan supports for the development of energy-saving technology to be used in government transportation, including buses and hygiene vehicles.

Also, major cities have taken the lead, and by this year 2010 China plans to apply nationwide Euro-IV standards, the most severe currently available -the European Union has adopt the draft “Euro V” standards in 2008. China has eliminated lead from automobile fuel. But the problem is reducing sulfur from gasoline, where China in particular lags (Huizenga, 2004). At any rate, sulfur in Chinese fuel will not affect exports. Already the new cars coming out of China are relatively cleaner than before, and by this year 2010 Chinese cars expected to be close to world levels in this issue (Noble, 2006).

4.5. Global Strategy Plan

Introduction of the plan to overcome the challenges

When applying the theoretical framework I relied on in this research with the empirical data analysis, I have defined that the internal environmental factors and the external industry
drivers analyzed earlier in this chapter do not apply on the original theoretical model integrated in this research that creates a global expansion strategy for the automotive industry in China, due to the reason that Chinese automobile firms still in early stages of going global and they partly fit in every segment of both the internal and the external factors analyzed in this research. I did not follow the theoretical model conceptualized by Cavusgil & Zou and integrated by Yip. I will instead establish a global strategy plan the Chinese automotive firms can track related on the challenges and the advantages that emerged when analyzing the internal and external drivers of internationalization of China’s automotive industry defined in this thesis.

I excluded some aspects such as - the product standardization and uniform market program—of being examined, because as I mentioned, in the finding of analysis I observed that the globalization of the Chinese automotive industry is still in early internationalization process where I could not find any case of complete circle of global strategy for any of the Chinese automakers companies. So, the global strategy plan will focus on aspects such as global market participation and concentration of value-adding activities and integrated competitive moves that can be adapted for more effective global expansion of the Chinese automotive industry.

4.5.1 Global market participation

Yip (1989) posited that in a global strategy, countries need to be selected for their potential contribution to globalization benefits. This may mean entering a market that is unattractive in its own right but has global strategic significance, such as the home market of global competitor or it may mean building share in a limited number of key markets rather than undertaking more widespread coverage.

Strategies for global market participation

Analyzing the China’s market participation in South America, one of the overseas market expansions of China’s automobile in the first nine months of 2008, the rise of cars exported to Chile achieved 15 percent over the same period of the before, reaching 21,000 units. But this number states only 7 percent of the total sales in the country. Meanwhile, Peru provides a potential market. The sale of Chinese cars is only made up of 5 percent of the total in the Peruvian market.
For China, the establishment of free trade agreement with Chile and Peru will prompt the development of bilateral trade, especially under the circumstance of global financial crisis. Being the early export destinations of China’s automobile in South America and enjoying fast economic growth and relative political stability, Chile and Peru will definitely be the base and foothold for Chinese cars exported and market participation to South America in the future (auto-international, 2008).

Playing a big role in global markets, particularly in participating in countries that have a significant share of worldwide volume, or, where changes in technology or consumer perception are most effective plans to start the global strategy. Market participation bring benefits such as the ability to manage countries as one portfolio, including being able to exploit differences in position along the product life cycle (Yip, 1989).

The empirical data of the theoretical model of this research found that China’s automotive industry cannot be considered as fully global market participator, as the Chinese cars are not permitted to export to the mature markets in the western world. However, global market participating strategy can be set, so the China’s automakers can follow to increase their overseas market participation.

Surprisingly, many Chinese companies, that had begun to expand overseas without first asking the basic questions of whether or not they need to expand globally and, if so, whether they are truly ready. Companies with the best prospects of succeeding in global markets are those, expanding from a position of strength, rather than weakness. While foreign markets may appear attractive to Chinese companies struggling with low profit margins, they will undoubtedly face new and even greater management challenges as they expand overseas (Hyun, 1993).

Global demand for automobiles is often associated as the most fundamental industry driver. Yet, it frequently affected by the public debate with issues of reorganization, production, or new technology. The industry force Global Car Demand captures the current demand conditions for the emerging market in China, thus Chinese automakers firms should implement strategies at national, regional and global patterns. For example, the implications for regional strategy can be built through the predicted growth patterns of Chinese automobile
demand versus the global markets seem to force producers into adopting extended regional mindsets of corporate strategy.

If, the company’s objectives are exemplified by continued growth in unit volumes in the medium- to long-term, then the world’s most populous regional markets, such as Indonesia and India, become predictable strategic targets. The benefits here are recognized at the cutting edge of the product group by participating in the one or two major countries that lead development, and then they can move to the next globalization level. Furthermore, genuine differences in consumer demand patterns for the basic functional dimensions of a car appear to persist across regions (Schlie&Yip, 2000). For example, consumers in emerging countries are likely to continue their present demand for multi-purpose-vehicles serving both passenger and goods transport. With buyer needs differing by region, the obvious solution would be to equally design, build and sell regional automobiles, another benefit is learning from each participated country. Such a regional strategy would exchange the standardized called one-size-fits-all global car with one that displays sufficient local identity within homogenized demand clusters for the Chinese car manufacturing globally. This strategy can help the Chinese automobile firms to get benefits of larger volume over which to payback development efforts and investments in fixed assets. This strategy would help also to manage the countries as one portfolio.

4.5.2 Concentration of value-added activities

Porter (1986) when presenting his dimensions of global strategy argues that firms with geographical concentrated value-added activities and a high international coordination among these activities analyze a simple global strategy to concentrate in many activities as possible in one county.

Strategies for concentration of value-added activities

Relative to the global players in the auto supplier industry, Chinese automakers suffer the low product quality and low technology capabilities and geographical diversification, these activities are broadly limited to low value added manufacturing, Chinese firms need to adapt a
higher value added activities like design and system integration that can be reached through concentrated configuration of activities.

The strategies China’s automobile firms can adopt here, is instead of repeating every activity in each country, concentration of activities in just a few countries can be a more effective global strategy. For example R&D research can be settled in just one country, manufacturing and commercial development in two or three countries, automotive firms can centralize manufacturing in China and worldwide assembly operations in a few other countries befitting the lower wage rates and higher skills employees.

Regional centers can be the place for main marketing programs development, while customer service and selling take place in every country in the network. The benefits include gaining economies of scale and controlling the particular skills or strengths of some countries.

4.5.3 Integrated competitive moves

Yip (1996) argues that “integrated competitive moves means playing of global rather than country by country chess game gives more options in attack and defense, and that willingness to cross-subsidies among country business expand competitive advantage”.

Strategies for Integrated competitive moves

Instead of making competitive decisions in a country without regard to what is happening in other countries, a global competitor can take an integrated approach instead of making competitive decisions in a country without regard to what is happening in other countries. Chinese automakers firms can start re-attacking strategy of the Western markets with competitive advantage.

Rather than waiting for global automobile companies to come to the Chinese market to set a joint-venture agreements, Geely, the Chinese private-owned manufacturer, is working on developing its future plan of competition in the western automotive through holding a strong position in the big market in Europe when it acquired Volvo cars. Geely expects to generate a large share of its sales and profits as being the first Chinese mover to European mature
markets. Acquiring the needed technology and also the international experience may move the company to a global stage. Taking a global perspective, Geely maybe ought to bring a shake to the whole automotive firms that will make the automotive industry in China view the whole world-not just one country as its competitive arena but to integrate competitiveness across countries.

Another benefit of integrating competitive strategy is the ability of a company to cross-subsidies. This involves utilizing cash generated in a profitable, high-market-share country to invest aggressively in a strategically important but low-market-share country. The purpose is to optimize results worldwide.

Summary
This chapter concentrated on considering the motivation of the global strategy of Chinese automobile companies by examining most important internal factors and external industry drivers that affect the Chinese automotive industry, relying on the affect of these factors, a global plan have been set to the path of the Chinese automotive firms to follow in their internationalization towards going global.

The first section analyzed in depth the internal environmental factors of the Chinese cars industry, findings examined that business company position and resources are crucial for the automotive industry as any other industries not only in China but in worldwide activities. A global strategy may be compromised by a lack of resources or poor strategic positioning. Organisations have limited internal factors such as structure, management processes, capabilities and international experience affect how well a desired global strategy can be implemented.

The second section analyzed the external industry global factors that have impact on the internationalization of the Chinese automotive industry, this section examined factors such the importance of the technology on the internationalization of Chinese automakers, also analyzed the environmental driver and the cost strategy that influence the international activities of the cars industry in China. Examples of the internationalization of some Chinese automakers were given, it shows that most of the young tigers automobile firms in China such as Chery and Geely, do not produce foreign models by paying much for getting the how-to-know strategy because they want to build their own brands which can make future value by
developing their technical capabilities through attracting international Chinese engineers and managers who have international experience to develop their own models or by getting through mergers and acquisitions operations with specialized automotive technology companies to reduce the non-production costs and improve the R&D functions.

The third section is establishing a global strategy plan the Chinese automotive firms can follow related to overcoming the challenges that emerged when analyzing the internal and external drivers of automotive internationalization of Chinese companies. One of the global effects is that firms can equalize globalization driver disadvantages by making good strategic market participation choices.

The analysis of this chapter found that multiple factors play an important role in firms' internationalization export plan. It is thus essential that the interaction among independent variables is considered in the determination of global strategy plan.
5. CONCLUSION

This research aimed to examine and analyze the internationalization of the automotive industry in China in process of going global, attempted to identify the challenges facing the Chinese automotive industry, and structured an arrangement for a global strategy plan that can overcome the challenges for a better competitive advantage of the Chinese automakers.

This research represented a global strategy model as an integrated framework. Explaining the global expansion of the Chinese automobile industry, and empirically tests the validity of the integrated framework with data analysis.

The contribution of the paper introduces a more comprehensive model on the global expansion of a firm. The model is integrated of previous studies and construct of applied internal and external factors by changing level of analysis. The integrated model settles the converse views on global expansion in the existing literature and suggests implications over the factors analyzed to set implementations of global expansion strategy.

This study also investigated whether different external globalization drivers and internal organization factors have different effects on various dimensions of China’s automakers firms’ global strategy. As a result, China’s automotive industry does not take in consideration some of the main requirements of competitive advantages in global markets. This industry in China does not also follow a comprehensive global strategy of standardization or adaptation of products/ activities and other factors that create the global strategy of a firm.
6. DISCUSSION AND RECOMMENDATIONS

This research is one of the very few studies that has not examined only the internal factors or the external factors of firms from emerging markets when going global, but it has analyzed both of the factors and linked the relationship between the environmental factors and the industry drivers of a firm, that makes this research a creditable reference for future developing researches using the same theoretical model this research used.

Briefly, answering the first research questions discussed in the data analysis chapter, of “How the internal organizational and external globalization factors with prevailing challenges affect the Chinese automotive industry in the process of going global?”

The data analysis of this research has shown that the Chinese automobile industry has some competitive advantages such as the low cost of productions and manufacturing, but also faces a number of challenges starting from low quality and lack of producing high-technology, continue to face the lack of effective managerial skills and the challenge in economies of scale. They also face challenges of introducing environment friendly cars. These challenges impede the internationalization of the Chinese automakers and slow down their involvement of comprehensive global strategy.

The other research question was “How can the Chinese automobile firms overcome the challenges faced to create a global strategy to internationalize in mature markets?”

Briefly, answering this question: Companies can adopt a number of strategies to overcome such challenges:

- Chinese companies that are looking ahead for competitions in international markets, need to expand research and product development, and should be able to introduce more technology on their vehicles at a lower cost because their lower manufacturing rates help them keep development costs low.
- Companies can establish a strong Chinese management team by providing proper training to acquire the development of skills and knowledge needed to manage the global activities.
- Companies can employ Chinese managers who have international experience or experienced foreigners who are well trained to integrate into the culture and daily
operations of the company (Geely and Shanghai companies have integrated successfully this kind of needed managers).

- M&A which can shorten the time required to build a talented management that can lead Chinese companies into global competition. The case of Geely acquired Volvo cars is an applicable demonstration for using M&A.
- The central government in China has a role key to enforce the Chinese firms to introduce stricter environmental policies for reducing car emissions to reach the standards needed that make it able to sell in industrial countries.

Chinese automakers have the plan of exporting to Europe and mature markets means that their cars will meet demanding international safety, environmental and recycling standards and so are able to enjoy a strong competitive advantages.

**Recommendations**

This paper was an attempt to draw out some of the issues related to internationalization process and global expansion strategy of the Chinese automotive industry. However, this research did not analyze all the drivers and dimensions that play a role in internationalization of the Chinese automobile firms. Yet, I believe this paper may provide practical insights to understand the internationalization and the global strategies of China’s carmakers.

The internationalization process of Chinese automotive industry in general faces the same challenges as other industries in the emerging markets. This paper suggests that in comparative application of China’s economy of internationalization process to most of other industries in the emerging markets, they have similar development strategies and profiles due to the similar enterprise organizational mode and industrial environment. Therefore, most of the factors discussed in this paper can also apply to many industries in other emerging markets that are seeking for internationalization by creating a competitive global expansion strategy.
Appendix 1. Global Leverage Points

Source Figure: Lessard D. (2003) pp. 8

Appendix 2. Configuration and Coordination

Source Figure: Lessard D. (2003) pp. 9
Appendix 3. Dimensions of Internationalization of the Firm

Source Figure: Lessard D. (2003) pp. 10
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