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Entry strategies to the Chinese automotive industry

A General Motors case study

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1 Introduction

Since the opening of the Chinese market in 1978, foreign direct investment has been flooding into China. This is also true for the automotive industry where MNCs have increasingly been looking to China for growth. China has had the biggest automotive market in the world since 2009, but access to the market have been restrained by entry barriers imposed by the central government. These were related to foreign ownership in the sector, which forced foreign automotive companies to make Joint Venture (JV) with Chinese partners to get market access. The following regulations had to be respected when entering the Chinese automotive industry.

- No foreign company can produce cars in China without first forming a joint venture with a Chinese partner;
- The foreign share of ownership may not exceed 50%;

These regulatory restrictions were imposed on foreign automakers because the Chinese central government wanted to obtain the knowhow and technological skills to create a domestic automotive industry able to compete with established foreign automotive companies both at home and in international markets.

More recently however, the Chinese authorities have revealed plans to open the industry to Wholly owned foreign enterprises (WOFE) latest at 2023. This will present new opportunities for entry into the Chinese automotive industry, which will be analysed in this paper. Furthermore, the ongoing trade war between the U.S and China, also have implications for the future entry decisions mainly due to changes in tariffs. Therefore, it is necessary to analyse the changes in the regulatory environment and uncertainties regarding tariffs before entering the industry. Due to these changes being so recent, not much research has been conducted in this area, why this will be the main contribution of our research paper.

This research paper will have its main focus on the case of General Motors and analysing their historical, current and possible future entry mode strategies. The paper will be structured as follows. Firstly, we will present our problem area and research questions which have guided our research. Then the methodology will be presented, to give an account for the research methods and how the analysis has been conducted. Afterwards the theories applied namely, PESTEL and OLI theory will be presented. Theory on the different entry modes, export, JV and WOFE will also be

discussed. In the analysis, the PESTEL will then be applied to give an account for the specifics of the Chinese business environment, with focus on the automotive industry. The PESTEL analysis should also provide the reader with a clear understanding of the entry barriers to the Chinese automotive industry.

After having identified the entry barriers and peculiarities of the Chinese market, the case study will be presented. Here GM's entry mode strategy will be analysed and together with the performance, and an account of their success in the Chinese market will be given. The OLI model will also be applied to give a more thorough account of the competitive advantages of GM. Following this it will be analysed whether GM would benefit from converting some JVs into WOFEs or if they are better off sticking to their entry modes they have made use of in the past. Lastly a conclusion answering our problem area and making suggestions for further research will be provided.

1.2 Problem area

Due to the rapid growth of the Chinese economy, multinational automotive companies have been trying to penetrate the Chinese market, some with more success than others. The stagnant markets in the developed world have compelled foreign automotive companies to invest heavily in the Chinese market in pursuit of growth. However due to the peculiarities of the Chinese market and business environment, their entry strategies have been very different. Therefore, the purpose of this study has been to identify the pros and cons of the different entry modes, applied to enter the Chinese market. Furthermore, the Chinese government are changing the regulation to allow wholly owned foreign enterprise in the automotive industry by latest 2023. This has big implications for foreign companies both to those already established and newcomers to the market. To address this problem area, two research questions relating to our problem formulation have been presented, to guide the research.

1.3 Problem formulation

What could be the implications of GM's present and future entry strategies for its future business operations in Chinese automotive industry?

1.4 Research questions

The following research questions will be used to guide our research:

1. Which entry mode strategy did GM make use of for entrance to the Chinese market, and how have this affected their performance?
2. Would it be beneficial for GM to make a wholly owned foreign enterprise in China when this becomes a possibility by latest 2023?

2 Methodology

The paper starts with its primary focus on some entry modes theories namely joint venture, exporting and wholly owned subsidiary and the theory on PESTEL, which is considered one of the most effective tools for macro-environment analysis for business operations. A Case study of General Motors will then be presented, to give an account of their entry mode strategy. Here the OLI paradigm will be applied followed by an analysis of their entry mode strategy, and finally suggestions for future entry mode strategies will be presented for GM.

The methodology chapter has its main focus on the research philosophy behind the research. Then, there will be discussions on the research strategies and research techniques that have been undertaken, which will then be followed by the data collection methods as well as the interpretation /analysis of the gathered data with necessary conclusions and recommendations at the end of the paper.

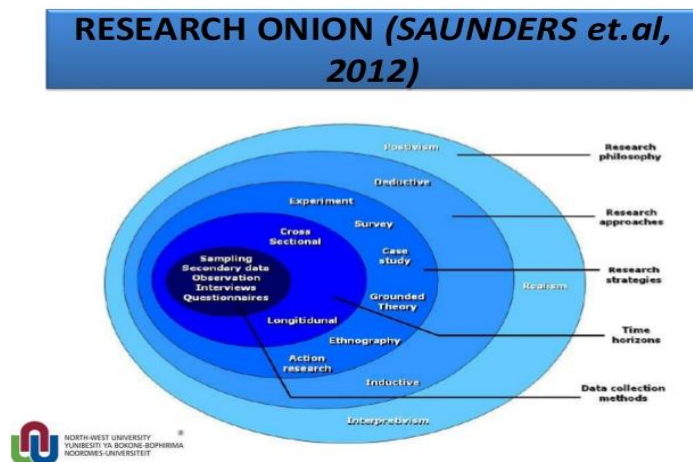
2.1 Purpose of the research

The basic purpose of this paper is to identify the pros and cons of using the different entry modes for General Motors in China and then build upon some stronger foundations to recommend the best suitable entry mode for GM for its future operations in China. In doing this, the regulatory environment of and entry barriers in China will be investigated since this would be the primary concern when suggesting the best entry decisions for GM's future operations in China.

2.2 Framework for research methodology

According to Saunders et al. (2012), in business research, the research philosophy/paradigm takes a very central part as this acts as a framework to guide the whole research process. This framework defines a multi-stage process starting from the research philosophy to the choice of research methods. The research onion (see below) will be helpful in this paper, as this will guide us with an understanding of different research philosophies, research approaches and strategies that are to be

followed with appropriate data collection methods, which will finally provide the researcher with enriched insights for data interpretation.



(Saunders, Lewis and Thornhill, 2012)

2.3 Research philosophy/paradigm

The research philosophy or paradigm that has dominated the literature over time are 'positivism', 'realism' and 'interpretivism.' Bak (2011) highlights the importance of research paradigm as the world views or beliefs or the philosophical grounds that guide the researcher to conduct an effective research. For this research paper, interpretivism has been chosen over the other two. This is because the social world is more complex and thus, it cannot be generalized/theorized by natural and physical sciences. According to (Saunders, Lewis and Thornhill, 2009), interpretivism is guided more by time, context and culture. Researchers are more interactive and participatory in their research studies as they reflect on their own views and understanding of the real-world phenomena.

Saunders et. al. (2009) also claim that the business world is constantly changing and thus, it is complex and unique. The business environment seen today may not be the same tomorrow. According to (Kaplan and Maxwell, 1994), when research is conducted under interpretivism, dependent and independent variables are not predefined, since the focus of the research is on the full complexity of what is making sense as the situation emerges. The research under interpretivism is thus more subjective and is focused not only on 'what' question but also on the 'why', 'how' and 'what if' parts.

In this paper, GM as a part of the automotive industry will certainly have changes in their strategies based on the changing business environment of China mostly driven by Chinese regulatory environment, which cannot be generalized, by laws and sciences. While looking into GM's case, there will certainly be a need of looking into different aspects like internationalization strategies, distribution strategies, entry barriers, and location strategies along with the existing Chinese regulatory environment and trade barriers, which are changing over time. Thus, the questions like 'what', 'why', 'how' and 'what if' will always be of primary focus throughout the analysis and interpretation of the data. Furthermore, the existence of multiple realities has been realized, full understanding of the topic has been generated and the rich complexity of the subject has been captured. Thus, the use of interpretivism paradigm in this research paper is worthy enough to answer these questions.

2.4 Research Approach

Deductive and inductive approaches are significant in carrying out any research activity. Saunders et. Al (2009) describes deductive approach as a way to conduct research where hypothesis is created based on the existing theories/scientific principles and then tested to reach appropriate and sometimes unexpected conclusions. On the other hand, inductive approach is contrasted to this, since inductive approach is based on the idea of using empirical data and then analysing them in order to derive conclusions, which takes the form of new theories. The inductive approach according to (Saunders, Lewis and Thornhill, 2009), is often used under qualitative research technique as qualitative research is more subjective and is more flexible to use throughout the research process as it can be changed as the emphasis on the research changes.

As for this research paper, inductive approach has been used since there has been the use of empirical data, statistics, annual reports, company websites in order to collect data and these data have been analysed which has provided the researcher with in-depth understanding of GM in China. The knowledge and information on PESTEL analysis, WOFE, entry modes, Chinese trade barriers, GM's performance in Chinese market and GM's present and future strategies in China, etc., have helped to get richer insights on GM in China.

2.5 Research Techniques

Two major techniques namely 'quantitative' and 'qualitative' are always considered very important to be adopted while conducting research. Quantitative methods provide and examine numerical data whereas; qualitative method has its focus on narrative data to facilitate data gathering and data analysis. This paper has a basic purpose to investigate the performance of GM in China along with its entry modes, the entry barriers and the trade barriers and how these affect GM's decision-making, which is shaped as a case study. Thus, the qualitative research approach has been applied in this research. According to (Patton, 2005), qualitative research helps to study the real-world settings through written documents that helps to construct case studies through detailed investigation of the phenomena. Denzin and Lincoln (2000) argue that qualitative research comprises social phenomenon in which the researcher uses a range of empirical data in order to investigate a case to get a better understanding of the topic. Use of qualitative technique in this paper will provide the researcher with rich insights through detailed investigation of GM as a case study.

2.6 Research Strategy

According to (Saunders, Lewis and Thornhill, 2012), a researcher can use different research strategies like survey, experiment, ethnography, action research, case study and multiple method. The type of strategy to be used in the research depends on the purpose of the research. That is to say, the research strategy should address the research questions throughout the research process. In this paper, the preferred research strategy has been the 'case study'. According to (Stake, 1994), case study research is suitable for answering questions that start with how, who and why. Its further strength as argued by Stake (1994) and Ghauri (2004) is that it is a sophisticated and very comprehensive research strategy which facilitates in-depth investigating on what is happening, gathering and analysing the associated information and finally drawing conclusions and presenting the results. This is that it is particularly well suited for investigating events that are occurring in a contemporary context. This strategy involves empirical investigations that are based on knowledge and experience, or more practically speaking, involve the collection and analysis of data.

Ghauri (2004) highlights the importance of case study strategy as longitudinal study which is most common in business and management, and great insight can be gained

by looking at a business phenomenon over a year or longer, but this would require the researcher to have detailed investigation of the phenomena. Yin (1994, p. 3) presents case study research strategy as a method through which a contemporary phenomenon is investigated within its real-life context, in particularly when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. Here, the questions like 'why' and 'how' become significantly important to remain focused to the purpose of the study. As for this paper, it has been prepared with an attempt to understand the Chinese barriers for foreign automotive, particularly GM. In doing this, there have been attempts to understand Chinese macro-environment through PESTEL analysis, Chinese regulatory environment and the pros and cons of using different entry modes by GM in China. To gain all these insights of GM and Chinese business environment, a case study research strategy is best applied.

2.7 Case Selection

Case study research is the most appropriate way of analysing the performance of a company in a more detailed and comprehensive way. According to (Yin, 1994), case study research is particularly suitable for description, explanation and exploratory research. In addition, it provides an idea to investigate the research questions, which are closely connected to the context or situation, which is very helpful in business and management research. The aim of case study research is to dig deep, look for explanations and gain understanding of the phenomenon through multiple data sources and through this understanding extend or test theory, which is thus, helpful for the researcher to carry out this research on GM as a case study.

This paper with its basic purpose of suggesting suitable measures to overcome the entry barriers for GM in the Chinese market, thus, implies case study research. The case selected in this paper is obviously GM, which is one of the major players in the Chinese automotive industry. The purpose of this paper is not to select multiple cases and compare, contrast or analyse their business operation strategies. The focus has rather been placed on just one case (GM) and then describe and analyse its existing entry mode strategies and provide the base for possible future entry modes based on the Chinese government is changing regulatory environment and macro-environment analysis through PESTEL tool.

2.8 Data Collection Methods

The data collection methods depend on the type of research. The most common used methods of data collection are sampling, questionnaires, interviews, observations which are considered to be first hand or primary data while, on the other hand, company's website, annual reports, statistics, research papers, books, journals and articles are most common forms of secondary data. As for this paper, it is a case study of GM about its performance in China, which is a macro-analysis. Hence, the major sources of data collection will be the second-hand data. This is because the aims and the objectives of the research have implications for secondary data. The major focus of the paper is to describe, analyse and interpret these secondary data and put the reflection of our own understanding of the whole phenomena. In this regard, the use of primary data like interviews and observations would be a very difficult task, which might not be able to address the aims and objectives of the research completely.

2.9 Reliability and validity of data

There might be some problems with the secondary data due to the existence of unreliable and un-academic sources. The researchers have been avoiding these unreliable sources. In the data collection process, current and latest information have been gathered to facilitate the researchers with updated knowledge. This has been made possible by using appropriate resources like company's website, annual reports and statistics and the best available information from WTO and World Bank. Apart from that, the journals and articles that have been most cited and peer reviewed have been used in order to cross check the available information. The use of newspaper articles from renowned newspapers like The Financial Times, The New York Times, Chinese National Daily, etc. have further contributed to increase the reliability and validity of the collected data. Thus, it can be assured that the information available in this research paper can also be used by other researchers to conduct research in the Chinese automotive industry, since the data is valid.

2.10 Role of the researcher

As interpretivism, reasoning has been applied in this paper, the researcher should reflect on his own worldview since this can affect the study. In qualitative research the researcher can never be objective, thus self-reflecting is a part of this research design. Learning to conduct qualitative research also involves transformations, but of the

researcher's understanding rather than the data. Qualitative researchers often describe the ambiguities and complexities of extracting meaning from ambiguous and complex data. The data collected during the research process may be interpreted in many different ways by different researchers (Barrett, 2007). According to (Graue & Walsh, 1998), data analysis and interpretation are often intertwined and rely upon the researcher's logic, artistry, imagination, clarity, and knowledge of the field under study. Hence, it is always important to know how the analysis and interpretation are affected by the worldview of the researcher. The researchers in this paper have used lots of different valid articles to cross-check the available information on GM operations in China and then tried to reflect on their understandings of the situation which would unavoidably impact the study. The researchers have to the best of their ability been reflecting on their own world views during the research, to make it as objective as possible.

3 Theory

In the following chapter the theory of foreign direct investment (FDI) used in used will be clarified namely Joint Ventures. Then a theory on export will be provided, since these two are the most common entry modes to the Chinese market. Furthermore, there will be a short description of the use of the PESTEL model in relations to the project. Lastly the OLI model will be presented. These theories should guide us to answer the research question, so to analyse the specific entry mode of GM and provide suggestions on whether to change their current entry mode.

3.1 Foreign Direct Investment

In the following part there will be mentioned two ways for a company to invest in another country via Foreign Direct investment (FDI). There are four categories for capital flow into a host-country, these are referred to as "Entry modes" and consist of "greenfield" investment; mergers and acquisitions; cross-border loans and trade credits between related businesses (*Foreign direct investment for development, maximising benefits, minimising costs*, 2002, p. 43). Many developing countries prefer greenfield over the other entry modes as mergers and acquisitions leads to the perception of hostile takeover (*Foreign direct investment for development, maximising benefits, minimising costs*, 2002, p. 43). For the automotive industry, the only focus will be Joint ventures and wholly owned foreign enterprises as a "greenfield" investment due to regulations in China. Both joint venture and wholly owned enterprise

is the most common type of investment for foreign investors (Chung and Enderwick, 2001, p. 444).

3.2 Joint Ventures

There are two basic forms of creating a joint venture. The joint venture may be created as either a structural or contractual, or both (Karalis, 2013, p. 7). According to Karalis (2013) the duration and purpose of a joint venture and the most suitable form for corporations would be long term ventures, as these are best suited for the corporate structure (Karalis, 2013, p. 7), whereas short term joint ventures is better suited for contractual joint ventures.

There are a certain government involvement for joint ventures that are created in developing countries of socialist economic systems (Karalis, 2013, p. 8). The joint ventures are often required to adhere to a regulatory format for the governance (Karalis, 2013, p. 8), they often would also have to comply with the countries governmental regulations on the export and import balance, local content requirements, technology licensing and currency exchange (Karalis, 2013, p. 8).

There are four stages in the life cycle of joint venture, the first stage is where the preparation, and sourcing prospective partners happens. The Second stage is the joint venture agreement and establishing the joint venture. The third stage is the operational stage, where the partners monitor each other to see if they conform to the agreement stipulated in the joint venture agreement (Shishido, Fukuda and Umetani, 2015, p. 115). The fourth stage is where the joint venture transforms or is terminated (Shishido, Fukuda and Umetani, 2015, p. 115).

3.2.1 Equity joint venture

An equity joint venture (EJV) is characterized by shared ownership between two or more partners. The EJV is a common way for foreign investors or companies to invest in China. Due to the law of the People's Republic of China, that where first framed in 1979 for foreign investments in China. This is done by the host government in an attempt to increase technology sharing via transfers of know-how (*Foreign direct investment for development, maximising benefits, minimising costs*, 2002).

Foreign investors can contribute up to 99 % of for an EJV but no more than that ("Establishment of a Joint Venture (JV) in China," no date). There are certain restrictions for ownership for foreign investors; these are "restricted" industries that the

Chinese government sees as a pillar for the Chinese economy (“Establishment of a Joint Venture (JV) in China,” no date). For these industries, the foreign partners cannot hold more than 50 % of equity.

When forming an equity joint venture, it is critical for all partners to know the level of equity held by each partner, as a 51 % stake means control, whereas 50-50 means equal control (Naaranoja, Takala and Kazmi, 2013, p. 550).

According to Naaranoja, Takal and Kazmi the general purpose of an international joint venture is to combine complementary resources from each partner, such as ordinary assets as financial, technical, and human resources, and immaterial assets such as goodwill, technical know-how, team-spirit and similar immaterial assets (Naaranoja, Takala and Kazmi, 2013, p. 550)

There are certain measures to take into consideration when selecting a Chinese partner for a joint venture. They are the following: Size of the prospective partner and the partners financial capabilities, complementary value (i.e., market share, market knowledge, customer base etc.), element of trust and location of the prospective partners company (Naaranoja, Takala and Kazmi, 2013, p. 550). Other than these criteria's, there is some further general factors to take into consideration for selecting a partner. These criteria's are to appropriate the fitness of the partner, the fitness criteria are: strategic fit, operational fit and cultural fit(Naaranoja, Takala and Kazmi, 2013, p. 550).

For strategic fit, it is how a potential alliance between partners can complement the partner's strategy. Operational fit to derive compatibility from the potential synergies, they must have compatible systems, procedures and technologies that can fit or work together (Naaranoja, Takala and Kazmi, 2013, p. 550). The cultural fit refers to both the national and the corporate culture, as there has to be a compatibility between the partner firms (Naaranoja, Takala and Kazmi, 2013, p. 550).

3.2.2 Contractual joint venture

A contractual Joint Venture (CJV) is organised through a contract rather than an equity interest in comparison to an EJV, and the legal arrangement is different compared to EJV. A CJV is formed as a limited liability company as a legal entity or as a an

economic entity without legal person status (Wang, 2008, p. 5). Compared to an EJV a CJV is not bound by equity and all of the terms and conditions are negotiated between the partners in which form they each should contribute to the joint venture, and is a way to quickly set up business for short-term opportunities and dissolve the joint venture when the task is done (Wang, 2008, p. 5).

3.2.3 Selecting a partner for Joint Venture

Karalis mentions that the single most important event in establishing a joint venture depends on selection the partner (Karalis, 2013, p. 23). The joint venture partner could be a distributor, or a supplier may propose an equity involvement (Karalis, 2013, p. 23).

Whether the prospective partner suggest the initiative for the joint venture, each prospective partner must weigh and evaluate the partners carefully, both objectively and subjectively (Karalis, 2013, p. 24). The evaluation should start in the planing phase, and continue throughout the whole process. The criterias for the objective evaluation should include operating and financial considerations, whereas the subjective evaluation should asses past history, general reputation, management strength, turnover and joint venture experience (Karalis, 2013, p. 24).

3.2.4 Forming

In forming the joint venture, there will have to be included the consideration of the nature of joint venture operations. These considerations would be; the duration of the joint venture; the legal jurisdiction of the joint venture; a need to isolate the partners from any liabilities; Requirements for govenance, tax and fiancial considerations (Karalis, 2013, p. 42).

For joint ventures simplicity is desireable, but they are often complex in form; with several participants; multiple locations; different local laws and regulations makes the process even more complex (Karalis, 2013, p. 42).

3.2.5 Duration

The duration of a joint venture is governed by the joint venture entity and term and termination provision of the joint venture. If the joint venture isn't continuous, the life of the joint venture may conclude on an expiration of a term of years, or completion of objective (Karalis, 2013, p. 55). The joint venture agreements usually state these

conditions. Termination might occur through shareholder buy or sell rights, often through shareholder buying out another (Karalis, 2013, pp. 55–56).

3.2.6 Local law

Shareholder rights might vary from jurisdiction to jurisdiction, even the form of the joint venture might change, as the local code might be a factor in deciding where to place the joint venture (Karalis, 2013, p. 100). Even within China, there can be different laws in different regions.

3.3 Wholly owned enterprise/sole ownership

This section will lay out the theory on Wholly owned enterprises, which will be applied in the analysis to give an account for whether GM should change their entry mode strategy, when Wholly owned foreign enterprises (WOFE) is allowed in China.

According to (Sharma, 1995; Osland, Taylor and Zou, 2001), using wholly owned subsidiaries allows the parent company to retain the greatest amount of control but then they also bear the costs and risks of full ownership. Under this entry mode, the parent company enjoys 100% ownership, which also facilitates instant decision-making. A company can become a wholly owned subsidiary through acquisition by the parent company or spin off from the parent company. In contrast, a regular subsidiary is 51% to 99% owned by the parent company.

Sole ownership may take the form of a Greenfield operations or an acquisition, which would require larger investment, and the highest level of resource commitment. This can be risky in most cases. According to (Sharma, 1995) and (Chiao, Lo and Yu, 2010), wholly owned subsidiaries have arrangements for both production and marketing-related activities in the host market. Using wholly owned subsidiary, an MNC can increase the efficiency of resource allocation and utilization of its transfer in-house.

According to (Sun, 1999), the choice of entry mode most often depends on the type of products that are to be introduced in the new market. For example, there is higher level of control associated with the technologically sophisticated products compared to unsophisticated ones. In this regard, technologically sophisticated companies quite often use wholly owned subsidiary compared to other forms, which allows parent company to have the highest level of control on its operations. As argued by Osland et. Al, (2001), risk of technology loss is lowest in a wholly-owned subsidiary since the

operations are under the control of only one firm. Resource commitment, control, and technology risk are highly correlated as higher control leads to reduced technological risks. On the other hand, control also requires increased resource commitment.

Sun (1999) and Osland et. al (2001) claim that country risk and the uncertainty of business environment may require MNCs to gain information on different areas in order to operate fully-owned enterprises in the host country. Sun (1999) argues that in terms of bargaining power, foreign firms with proprietary products and high technology seem stronger as they can force the host government and partners to allow them more ownership. The level of control, however, erodes over time with the maturity of the product and technology. In this case, firms tend to form joint ventures rather than using higher level of control through wholly owned subsidiary.

In the next section, theory on exports will be laid out since this is one of the preferred entry modes for MNCs to enter the Chinese automotive industry.

3.4 Exporting

As defined by (Yaşar, 2015), exporting is a significant channel for transferring foreign knowledge and technology from international markets, especially in developing countries. The main distinctive characteristic of export entry modes, according to (Andersen, 1997), is that the physical product is transferred between countries, while in the other modes service or technology is transferred. Gunnarsson et al. (2011) states that export modes consist of indirect entry, direct agent/distribution, direct branch subsidiary and other. Anderson (1997) and Gunnarsson et al. (2011) further state that exporting is the quickest and easiest way of entering a new foreign market which helps to gain knowledge and experience of the new market. Companies can export products either indirectly, through intermediaries in the home country; directly, through target country intermediaries; or by a subsidiary in the target country. Exporting through subsidiary would require a company to use FDI mode. Anderson (1997) claims when using a marketing subsidiary, the foreign firm is present in the target country's distribution channel. This subsidiary has the highest degree of control over the product, price, distribution, logistics and promotion. Since, the foreign market subsidiary has all the expertise of the target market; it becomes easier for companies to penetrate the target market with the help of these subsidiaries.

3.4.1 Indirect export

According to (Gunnarsson, Devine and Philipson, 2011), indirect exporting can be seen as a good way of gaining knowledge about the target market. The negative effect of the entry mode is that the company has no control over the international market entry strategy since the domestic intermediaries are doing all these activities. Anderson (1997) believes that indirect exporting is a less committed and less controlled international entry mode compared to direct exports. While the subsidiary, as suggested by (Andersen, 1997) faces product substitution among target country's consumers at the retail level, the exporter faces product substitution from the importer in addition to substitution at the retail level. Indirect and direct export modes may result in unanticipated substitution by importers and intermediaries, consequently undermining a firm's control over its international strategy.

Wach (2014) states that indirect exporting can have several advantages and disadvantages. The good side of this mode is that it is the least complicated mode of internationalization, which requires lower entry cost, has lower financial risk, entry difficulties are lied on the domestic intermediary, low staffing requirements, lack of marketing costs, and relatively simple extension of sales markets. The downside of using this mode, according to (Wach, 2014), is low profitability of the transactions, full dependence on the domestic intermediary, lack of knowledge on the foreign market(s), inability to gain international experience, the domestic intermediary can find a better provider and in most cases, these domestic intermediaries can be very much interested to the importing markets and thus, start their own production in the home country.

Since firms who export through intermediaries, as argued by Bai (2014), Wach (2014) and Yaşar (2015), usually do not engage in direct contact with their foreign buyers and do not maintain employees in foreign markets, flow of knowledge and communication can be less effective than that of direct exporters. Hence, firms who export directly may have more opportunities to improve.

3.4.2 Direct export

Direct exporting occurs when the producer sells directly to the importer or buyer located in a foreign country. From the manufacturers' point of view, this type of entry

mode would require very little or no knowledge about the foreign market. According to (Wach, 2014), the advantage of direct exporting is that it has low entry cost, moderate financial risk, the agent overcomes the difficulties of entry, relatively low staffing requirements, less marketing costs, physical presence on foreign market which allows direct contact with customers, quicker response to changing market situations, full control over the sales process and relatively higher profitability. On the other hand, Anderson (1997) argues that direct export provides better protection of trademarks, goodwill, patents and other intangible assets.

Yaşar (2015) further comments that through direct participation in international markets, firms build relationships with customers and their trading counterparts, which can result in enhanced labour force skills, improved product offerings, and the know-how of technological advances brought about by foreign firms in the target markets. However, there are some downsides of direct exporting as well which Wach (2014) describes as low profitability of the transactions, high dependence on the foreign agent, inability to gain international experience, agent substitution, high transport costs, potential trade barrier, relatively costly representative office, high entry cost and costly distribution network.

As argued by Wach, (2014), direct exporting is connected to the entry strategies like direct agent/distribution and direct branch subsidiary. He says that direct agent/distribution exporting is described as when the intermediary in the foreign country handles all the marketing for the producer. In contrast, direct branch subsidiary requires an equity investment in the marketing institutions located in the target country. This is because under this type of entry mode, the producer has its own marketing units or foreign sales branch.

3.5 PESTEL

The PESTEL model describes the Political, Economic, Sociocultural, Technological, Legal and Environmental context of the external environment within which a company aims to operate. Williams and Figueiredo (2014) argue that PESTEL is mainly used to identify and summarize environmental influences on an organization to help it to assess actual and future strategic contexts. According to (Gupta, 2013), the underlying perspective of the PESTEL analysis is that the enterprise has to react to changes in its external environment. This reflects the idea that strategy requires a fit between capabilities and the external environment and so it is necessary for an enterprise to

react to changes. The PESTEL Model will be used to give an account of the specifics in Chinese business environment. It will provide insights to why GM chose their specific entry mode and whether they should change or convert their Chinese operations to WOFE.

3.5.1 Political

It is important for a company to know the political environment of the host country in order to get better understanding of similarities and differences in the political situation, which would help them in the formulation of effective business strategies. According to (Newton and Bristoll, 2013), it is very important to have knowledge and understanding of the political environment. Even if the political situation sometimes looks relatively stable, there might be changes in the policy at the highest level and this may result to serious implications if not known or understood. Newton and Bristoll (2013) further argues that political situations are to be considered more seriously if the regions of operation are expected to be quite distinct politically. For example; U.S and China. Gupta (2013) claims that political environment generally includes domestic political climate, specific legislation and regulation of the host country, government change, world power shifts, etc. Newton and Bristoll (2013) highlights the political changes as changes in employment laws, consumer protection laws, taxation regulations, trade restrictions, health and safety requirements, etc.

3.5.2 Economical

The economic environment of a country has to be understood since this, according to (Gupta, 2013; Newton and Bristoll, 2013) includes changes that normally relate to the effects of economic cycles, patterns of world trade, currency conversion rate changes, commodity prices, interest rates, unemployment, skills level, changes in capital markets, labour markets and rates, and economic effects on suppliers and particular groups of customers. Newton and Bristoll (2013) further state that it would also be important for a company to know the target country's GDP, GNP, consumer based indices via per capita income and purchasing power parity of people, current cost of living in the target market and the availability of credit or finance. This would then help the company to get prepared for detailed investigation on most important areas and then formulate new strategies to operate in a new market.

3.5.3 Social/cultural

Social environment includes the effects of demographic patterns, tastes, habits, choices and concerns of the host country in overseas business. Social environment would be very important to know, as customers are the crucial aspects of every business. Since the customers' demographic patterns and cultural practices affect their buying behaviour, it determines the sustainability of any business (Gupta, 2013). Newton and Bristoll (2013) indicates these social and cultural factors as age distribution, income statistics, population growth rate, education and career trends, feeling of nationalism, religious beliefs, etc. A company needs to address these social issues, which would then help them to decide on entry modes, formulate marketing and distribution strategies to get closer to supplier and customer groups. Newton and Bristoll (2013) suggests that social factors and cross-cultural communication are very important aspects since they play a very critical role in global markets. Lack of understanding and knowledge of this aspect can lead to serious losses, which would then require larger reinvestment. Hence, it becomes important to know how to manage local labour force as well as promotional issues.

3.5.4 Technological

Gupta (2013) defines technological environment as technological changes that have their effects on products, processes, distribution channels and R&D activities. Newton and Bristoll (2013) point out that the pace of technological change is a key factor to determine success of any business since the things that are not able to be performed and are often considered impossible today are possible tomorrow. Newton and Bristoll further claim that technology can be divided into two parts, manufacturing and infrastructure which include automation, product advancement, incentives, cost savings through outsourcing, enhanced network capabilities for extensive coverage, etc. Newton and Bristoll (2013) also argue that if an organization is unable to keep up with the technological advances, then they risk other competitors or even smaller businesses entering the new market and thus, market dominance is diminished. Nevertheless, if these technological opportunities are timely identified and well used, then one can continue to be market leader.

3.5.5 Environmental

Environmental issues are a matter of real concern these days. This has been a global issue in a sense that a company, when operating a business in its native country can

have serious environmental effects which can also be felt outside. The environmental factors must be taken seriously, as they can result in gigantic fines for companies not adhering to environmental regulations. Newton and Bristoll (2013) states that environmental factors also include weather patterns, climatic cycles and geographical locations. It is to say that companies planning to operate in a new market should be aware of the weather patterns and climate cycles since that might seriously affect the business. Potential natural calamities, extensive exploitation of resources, logistical problems, financial penalties, etc. will be very important considerations as they can cause obstacles and heavy losses for companies to operate in the target market. This, according to (Newton and Bristoll, 2013) would require companies to focus on doing eco-friendly business and also allocate larger part of financial investment in such areas.

3.5.6 Legal

It is important for a company to know the existing and impending legislations in the countries of its trading partners. According to (Newton and Bristoll, 2013), this is important because such legislations may affect different industries in the way they operate. Legislations can be in the areas like employment, health and safety, consumer protection, environmental issues, taxation and tariffs laws, trade restrictions and quotas. Newton and Bristoll (2013) also believes that these regulations can also be regional and national and in this regard, companies operating in such countries should have the knowledge of regional or provincial regulatory environment as well. The legal factors may have implications on extra cost or investments. Hence, this should be taken into account when formulating business strategies.

3.6 OLI framework

The OLI framework is also known as eclectic paradigm (Thivant and Machková, 2017). The framework was developed by John Dunning as a decision-making model, to explain the location and control dilemmas of internationalizing companies, and to assess the complex phenomena of multinational enterprise (Buckley and Hashai, 2008). OLI stands for ownership, location and internalization (Neary, 2008). These three factors are different types of competitive advantages a company have over the competitors. It has proved a dominant analytical framework for business investing overseas and has been widely used in assisting the evaluation of FDI and the foreign activities of MNEs (Thivant and Machková, 2017). However, the framework of OLI is

not a single theory. It is a complementary and alternative theories that together explain the level and pattern of value added activities of the entry modes, like FDI (Arnett and Madhavaram, 2012).

There are five foundation requirements for the OLI framework to work. (Arnett and Madhavaram, 2012).

1. Ownership advantages, location advantages, and internalization advantages should be allowed to affect MNE performance.
2. Firms should be able to develop sustainable advantages in resources over rivals.
3. Resources should be transferable.
4. Country specific factors should influence MNE competition.
5. The theory should be capable of capturing the dynamic nature of MNE competition.

Moreover, eclectic paradigm faces many critical opinions as well. Many claims that this paradigm is too broad, like a broad tent rather than a model (Buckley and Hashai, 2008).

The competitive advantages are examined by the resources advantages in Ownership, Location and Internalization of entry into a foreign market before making the decision.

The resources are manifested in the three factors discussed below.

3.6.1 Ownership advantage

Ownership advantage also means firm-specific advantage. It refers to the company's capabilities and assets advantages. This advantage depends on both the internally generated resources and the outside resources generated from its rivals. The different ownership advantages affect the strategy of the company.

As Dunning (Quoted in Arnett and Madhavaram, 2012) stated, the foreign direct investment for MNEs is determined by:

1. The extent to which a company can gain access to the resources or assets that rival lacks

2. The extent to which it is the best interest of companies to internalize the resources rather than sell or lease to other companies
3. The extent to which a company can add value to the available resources of the country.

3.6.2 Location

Location advantage refers the potential economic, political and cultural advantages that a company could gain from the host country as for example to access to raw materials, cheaper labour, lower wages, market access, etc. (Batalla, 2012). The decision of where to locate a production facility is influenced considerably by factors such as locally available resources, entry barriers, barriers to trade and international tariffs (Arnett and Madhavaram, 2012).

3.6.3 Internalization advantage

Internalization advantage is what a company can gain from using their ownership advantages, rather than selling their resources to other companies, through for instance licencing (Arnett and Madhavaram, 2012). Having the competence to transfer the advantage across national boundaries, is an alternative to licensing the company's R&D, technology and their products to competitors or foreign-based enterprises, at risk of intellectual property theft (Arnett and Madhavaram, 2012).

The competitor's status also affects the strategy, facing a successful rival could threaten or decrease the parent companies resource advantages, instead the strategy is required to be more safeguarded, or requires changes to the OLI configurations in future time periods. The process continues for as long as rivals exist.

However, the theory does not work under the neoclassical theory of competition; where in a perfect competitive state, all known information is available. The intensity of competition in a relatively equally determined state, the market itself is preferred as the most efficient mechanism for resources transfer (Tsoulfidis, 2011).

OLI configurations of firms can be affected by a number of factors, including (Arnett and Madhavaram, 2012):

- technological/organizational innovations
- changes in the composition of senior management
- increases in labour productivity
- new marketing techniques
- mergers and acquisitions

Ownership, localization and internalization advantages could change over time and it varies between industries and business. For example, the fast change of technology today affects the resource advantages, the company who is the market leader might not always use the advantages as they could be slow to react to changes in resources (Arnett and Madhavaram, 2012). The resources should be taken into account for the investors, and be aware of the complex environment (Arnett and Madhavaram, 2012). Otherwise, the companies risk the possibility of facing the drawback of resources and might be forced to form partnership with local firms, or form partnership with other non-local firms to gain extra resources needed (Arnett and Madhavaram, 2012).

Analysis

4 PESTEL China

In this section, the macro environment of China that is specifically related to the automotive industry and the case of General Motors will be analysed. This will provide insights into the peculiarities of the Chinese market and automotive industry in the country. The analysis should contribute to answering our research questions, by examining what make the Chinese market different from other markets and how this has affected GMs entry mode. Furthermore, it will also provide insight on possible changes in legislation, which should give help when giving an account on whether to convert JVs into WOFE later.

4.1 Political

To understand why the Chinese market is different from the Western market one must first analyse the political environment. The contemporary political history of China has

been dominated by communism. “Communism is a political and economic doctrine that aims to replace private property and a profit-based economy with public ownership and communal control of at least the major means of production (e.g., mines, mills, and factories) and the natural resources of a society” (Dagger and Ball, no date). The Communist Party of China (CPC) rose to power in 1949 after a civil war, forcing the previous leaders of the nationalist party, Kuomintang to flee to Taiwan. This led to a period with communist planned economy or Maoism, which lasted until the death of Mao Zedong in 1976. After Mao’s death, Deng Xiaoping took over the leadership of CPC and slowly started to open and reform the Chinese economy. The establishment of the “open door policy” by Deng Xiaoping in 1978 meant the start of both entering the world economic stage and opening the market for the foreign investors to do foreign direct investment (FDI), international trade, commercialization and industrialization. The CPC is still in power today, with Xi Jinping as leader of the CPC and president of the Peoples Republic of China (Twitchett *et al.*, 2018).

4.1.1 Socialist market economy

The term ‘Socialist market economy’ was introduced in 1992 during the 14th National congress of the CPC. Socialist market economy differs from ‘market economy’ since the CPC still retains control of the direction of the country, allowing it to maintain its socialist development course (de Rambures, 2015). The socialist market economy came about when Deng Xiaoping and the CPC moved their focus from culture (Mao), to advancing the material productive forces to build an advanced socialist society (de Rambures, 2015). The Chinese socialist market economy is a mix of public and private actors, being steered in the direction desired by the CPC for the future of China (de Rambures, 2015). The role of the State is thus much more central than in a market economy.

This was evident from the beginning when multinational companies started moving to China in the 80ties and 90ties, where the State was very selective with which companies and industries they welcomed in China. When they welcomed the automotive industry, it was done by carefully negotiating with different international manufactures and only licensing the project seen to be favourable to the development of China. Because of the economic importance the automotive sector had historically enjoyed, the Chinese desperately wanted to learn how to make their own cars. They

therefore invited first VW and then GM to make joint ventures with Chinese local municipalities and the central government, trading market access for technological know-how (Dunne, 2011). Making a joint venture with the central or local government, meant that the foreign automaker had to bring all the technological know-how to the JV and the central or local governments contribution was mainly supplying the license allowing production in China (Dunne, 2011). Especially in the beginning the local JV partners also had another great contribution, they made sure there was a demand for the produced cars. General Motors for instance sold more than 95 % of their vehicles to the Shanghai municipality in 1999, which were also their JV partner (Dunne, 2011) In the 90ties most people able to afford a car was employed by the state, and thus the demand for cars mainly came from them. This picture has changed today, where most cars are bought by individuals rather than the State.

4.1.2 China and WTO

China joined the World Trade Organization on the December 11, 2001 (*WTO | China - Member information*, no date). There are several ways of looking at the World Trade Organization. It is an organization for trade opening, “It (WTO) is a forum for governments to negotiate trade agreements. It is a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other” (*WTO | What is the WTO?*, no date). Before China became a WTO member, it had tariffs of 150 % on car imports, which goes some way in explaining why foreign car makers were competing to enter China through JVs (Dunne, 2011). After the WTO membership the tariffs on car imports was lowered to 25 %, however car exports from China is only imposed a 2,5 % tariff, when entering the U.S market (Dunne, 2011). By claiming that the automotive sector is critical to national security, they have been able to uphold higher tariffs than other member states on the automotive sector (Security exceptions WTO). Changing U.S presidents have long advocated for a more ‘fair’ trade policy with China, and recently the new president Donald Trump, have started to impose new tariffs, tweeting that China should develop a plan to reduce the 100-billion-dollar trade deficit with the U.S (Matousek, 2018). Elon Musk CEO of Tesla Motors replied to Donald Trump’s tweet and rhetorically asked, “Do you think the US & China should have equal & fair rules for cars? Meaning, same import duties,

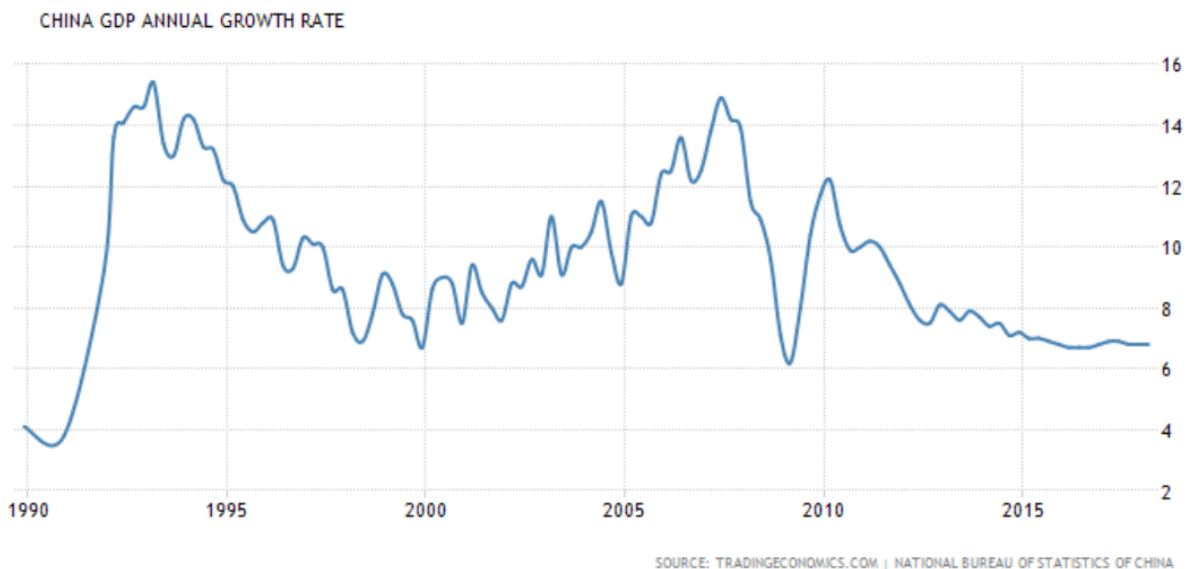
ownership constrains & other factors? It is like competing in an Olympic race wearing lead shoes” (Matousek, 2018). These tweets sum up the frustrations both foreign governments and companies in the automotive sector have towards the Chinese trade policies, which is widely viewed as discriminatory. On May 22, 2018, China announced that they would lower the Tariffs on imported cars from 25% to 15% from July 1, 2018 (Welch and Coppola, 2018). Whether it was due to pressure from the U.S President is unknown, however it is likely that it is related to the current ‘trade war’ between U.S and China. The tariffs are extremely relevant to our research questions since they have great impact on which entry mode is best applied.

4.1.3 Intellectual Properties

Another big part of WTO is protection of Intellectual property, on this issue the U.S and other countries are also accusing China of not following the WTO rules (Miles, 2018). When foreign companies enter into JVs with Chinese partners, they typically bring their intellectual property into the JV, thus teaching the Chinese the expertise. However there have been several complaints that when a JV is terminated, the Chinese partner continues to produce the same goods, regardless of the contractual and WTO obligations (Zimmerman and Chaudhry, 2009). In September 2017 the Chinese government started an intellectual property rights (IPR) protection campaign where authorities promised to improve IPR with campaigns against violations and stepping up judicial and administrative protection (Tang, 2017). This however have not stopped the U.S from pursuing a WTO lawsuit on IPR protection, so they do not seem to be convinced the Chinese will voluntarily step up the IPR protection. In the automotive sector, technology and IPR are very important since R&D is extremely expensive protecting their IPR is crucial to stay competitive (Zhao, Anand and Mitchell, 2005). The industry is currently in a phase where R&D is more important than ever, due to autonomous vehicles and new electric vehicles (NEVs) are looking to have a disruptive effect on the industry. According to the theory, IPR protection is one of the most important factors when deciding on the entry mode. GM have two R&D facilities in China, one with their JV partner SAIC focusing on electric and hybrid vehicles (*About GM China*, no date). The other R&D facility, which is a wholly owned subsidiary by GM, also focus on NEVs, arguably because this technology has potential to create huge profits in the future. IPR will be discussed further in the chapter on entry barriers.

4.2 Economic

Ever since China began opening their market to foreign companies and FDI, China has experienced growth rates far higher than in the West. As evidenced in the table below China has since the beginning of the 90ties experienced annual GDP growth rates of up to 15 %. Since 2011 there has been a decline in growth, however the growth is still high at above 6 %. This is well above the Western countries, who have struggled with growth ever since the financial crisis in 2008. China's GDP pr. Capita (PPP) was in 2016 \$15.500, still under a third of the U.S which was \$57.000, but the total GDP of China is now the second biggest in the world, second only to the U.S (*GDP per capita, PPP (current international \$), no date*).



The rapid increase in GDP has increased the Chinese Urban middle class dramatically. The consultant company McKinsey made a report (Barton, 2013), stating that in 2022 only 16 million Chinese urban households will be poor, down from 90 million in 2002. From the table below, one can also see that in 2002, there was hardly any urban middle class, but it had already increased significantly by 2012 with 54 million middle class urban households and will continue to rise until 2022. The big increase in the urban middleclass have significant impact on the cars sold in the country, which is expected to keep increasing albeit not as rapidly.

Average annual household income (class) - US\$		Urban households - Millions			
		100% = 165 2002, %	100% = 256 2012, %	100% = 357 2022E, %	Change in number of households 2002-22, millions
Affluent	>34,000	1	3	9	29
Upper middle class	16,000 to 34,000	2	14	54	188
Mass middle class	9,000 to 16,000	7	54	22	66
Poor	<9,000	90	29	16	-92

Source: McKinsey Insights China - Macroeconomic model update, April 2012

Source: (Barton, 2013)

The fact the Chinese have the biggest population in the world makes it extremely important for the automotive companies when deciding to enter the market. The huge market and great economic growth have also sparked a big increase in FDI to China, reaching \$290 billion in 2013 before dropping back to \$174 billion in 2016 (*Foreign direct investment, net inflows (BoP, current US\$)*, no date). This is evidence that foreign companies are still investing heavily in China, although it seems to be slowing down. China has since 2009 been the biggest market for cars in the world, and sales have continued to increase ever since, why the car manufactures have increasingly been looking to China to increase profits and sales (*Production of cars in China from 2008 to 2018 (in 1,000 units)**, no date). The gigantic home market is one of the main drivers for attracting FDI in the automotive industry, since most foreign automakers are interested in grabbing market shares to increase their international profits.

4.3 Social/Cultural environment

When seen in relation to Western countries the Chinese culture is very different. It is widely recognized that cultural understanding is one of the most important success factors when entering or doing business in foreign countries. Chinese culture is more focused on the group than the individual, which is the main focus in the Western countries. This is for instance evident in their tradition of Mianzi or Face. Face refers to how one should behave towards a Chinese business partner or employee. It includes not reprimanding people in front of a group and showing respect, so the Chinese partners or employees does not lose Face (Smith, 2012). Another crucial part

of Chinese Business culture is the power distance. A foreign partner must recognize the strong hierarchy, as this helps identify who the decision makers are and finding the right person to negotiate with, which is a key factor to success (Kirkman *et al.*, 2009). Chinese business culture is also highly depended on relationships and contacts; this also goes for foreign executives looking to invest in China. The Chinese calls this Guanxi, the network of personal contacts, is the most important part in doing business, higher even than education and experience. It is seen as social capital for professional advancement. This network includes the family, friends, colleagues, or other relevant people for the business. Guanxi is connected with “huibao”, which means that you have to return the favour once others helped you. In business, knowing the right person and having a network within companies and central, local and regional governments are extremely beneficial (Smith, 2012). For a foreign company, having contacts and partners in China can go a long way to secure licenses, permits and contracts in Chinese society and is thus one of the biggest deterrents for success in the Chinese market. Cultural understanding is one of the biggest gains when entering through a JV in China, since the JV partner is typically a state-owned company the need to establish Guanxi is not as important. With a WOFE, the company must establish their own connections (Guanxi) which can take a long time (Smith, 2012). Guanxi will be discussed in further detail in the chapter on entry barriers.

4.3.1 Consumer preference:

The initial demand for cars in China was dominated by municipalities or public owned companies. This had the effect that the consumer preference was for cars with lots of space in the backseat since most car owners at the time had a professional driver to transport them. The engine also had to be small, so money was not wasted on fuel, why big petrol consuming engines have never been popular in China (Dunne, 2011). Today the private sector is driving demand for cars, which has increased the variety of models and brands in China. The most popular models in China now is the SUV and crossovers since these offer more space to consumers (Demandt, 2018). Furthermore, small cheap cars are also popular in China, since these are more affordable (Demandt, 2018). The initial Chinese market was dominated by foreign cars, but in 2016 Chinese brands (including JV Chinese brands) had a market share of 42,3%, up from 30,5% in 2007. Sales of domestic brand vehicles across all segments were up 5,2% in 2017, while sales of domestically produced cars from

import brands (JVs) increased just by 0.8 % with American produced JV cars increasing 2,6 % (Demandt, 2018). Previously the Chinese had preference for foreign products and especially cars, since they were believed to be of better quality. This seems to be changing as the Chinese car manufactures is closing the gap to their foreign competitors. The consumer preferences are important when deciding on a strategy for the Chinese market, since GM through their JV with Wuling-SAIC are now producing the most popular Chinese brand Baojun, Thus, if the Chinese continues to buy more Chinese brands, the GM strategy of producing Chinese brands in their JVs will be beneficial.

4.4 Technological factors

The current society bases most of its activities on the use of technology. Investing in technology is thus important for countries if they wish to compete on the international markets. When China decided to open their market, their technology was far behind especially the Western countries. Therefore, in the beginning the goal of the Chinese government was to import some know-how and technology in their manufacturing sector, and hopefully over time the Chinese would learn to create goods as technologically advanced as their foreign competitors (Dunne, 2011). Foreign multinationals were thus invited to invest in China, in the automotive industry this had to be done through JVs since it was believed that they would in time be able to create their own automotive sector, and be able to compete with the Western, Korean and Japanese companies.

The Chinese produced goods have long had a reputation of being of inferior standard but are usually cheaper. However, in a new government plan “Made in China 2025” is stated that the goal is to give Chinese technological goods a better reputation by improving the quality, standards and technology (Wuebbeke *et al.*, 2016). Instead of being a producer of low-skilled technological products their goal is to become a high-tech superpower, able to produce more advanced and better goods than other countries. In the automotive industry China now has companies also doing well in the international market, Geely a privately owned Chinese automaker for instance is the most successful private car manufacture in China and also owns foreign car brands such as Volvo and Lotus (*History | Geely*, no date). Obtaining the expertise to be able to compete in the international market is far from easy, since the JV partners might be reluctant to share technology, expertise and IPR.

In the automotive industry, China has had a great focus on electric vehicles in recent years, giving large economic incentives to consumers buying these less polluting models. The Chinese government intends to spend 10 billion RMB (\$1,6 bn) each year, with the aim of supporting and improving technologies to produce electric cars (Hong and Mu, 2010). Since this technology is still in its infancy, the Chinese are putting an extra effort in this area, since this would go a long way to complete their “Made in China 2025” plan, on focusing on high-tech industries. By 2030 all high-tech products should be produced in China and exported to the whole world. Previously most companies made subsidiaries or JVs in China to take advantages of cheap labour or to gain market access, in the future a more high-skilled labour force should be able to produce the world’s best high-tech products, including electric vehicles (Wuebbecke *et al.*, 2016).

To sum up, China in recent years has seen an exponential increase in its technological expertise, especially thanks to the many initiatives launched by the government to promote its development. The cooperation between the Chinese government and the individual industries has been greatly strengthened in recent years, and the possibility of opening a fully owned subsidiary in the future could be an incentive for new automotive companies willing to enter the Chinese market but opposed to sharing their expertise and IPR, such as Tesla.

4.5 Environmental Factors

China, as most of the developing countries, in line with its economic development has increased its environmental impact at global level in the last decades. Today, China is one of the most polluted countries in the world, and the world’s biggest carbon emitter, its CO₂ emissions account for approximately 30% of global emissions (US EPA, no date).

China’s air pollution is so extreme that it has been estimated to contribute to 1.6 million deaths per year in the country (*Berkeley Earth*, no date). It should be mentioned that the Emissions pr. capita is still significantly lower than the developed countries.

China is one of the largest importers of crude oil in the world (*China surpassed the United States as the world's largest crude oil importer in 2017 - Today in Energy - U.S. Energy Information Administration (EIA), 2018*). To avoid a continuous dependence on imported fossil fuel sources and to help against climate change in September 2016 China signed the Paris learning agreement. In accordance with that in its 13th Renewable Energy Development Five Year Plan (2016-2020) China set as main targets (*China's National Plan on Implementation of the 2030 Agenda for Sustainable Development, 2016; IEA - China, 2016*) to decrease the carbon intensity by at least 60% compared to 4,523 metric tons per capita in 2005 (*China | Data, no date*).

- Increase share of non-fossil energy in total primary energy consumption to 15% by 2020 and to 20% by 2030.
- Increase installed renewable power capacity to 680 GW by 2020.
- Lead renewable energy technology innovation.
- Further support development of the renewable energy industry in China and decrease reliance on foreign companies in the domain.
- Resolve renewable power curtailment issue problem.

The CO₂ emissions of China's automobile industry is around 8% -10% of the total emissions, and according to the forecast made by (Wu, 2015) in the period 2008-2030, transport sector emissions is predicted increase by 3.5% every year. To fully reach its targets, China will have to increase the use of sustainable transportation. In this light, the Chinese government is encouraging a switch in the automotive market, promoting and providing incentives for costumers buying NEVs. Numerous policies have been presented to curtail the increasing CO₂ emissions as for example having awarded subsidies worth 100,000 RMB (\$ 15,000) per vehicle (Clover, 2017c).

The electric vehicle therefore, can be seen as a must for the Chinese government, to fully reach its CO₂ emission targets and the carmakers are moving in this direction.

4.6 Legal

In China, the Judiciary system is not as transparent as in most Western countries. The courts and judges are not independent from the party (CPC), why some controversial lawsuits will never make it into the courts. This can both relate to party interest, but

also regional and local governmental powers can affect judiciary rulings of the courts. Guanxi is one of the biggest problems in the legal system, with judges favouring relatives, friends and contacts over fair judgements (Potter, 2001). This is also a problem in the automotive sector since foreign companies cannot trust the Chinese courts to make fair judgements. This has led foreign companies to favour arbitration to settle legal disputes in JVs, with almost all disputes being settled outside the Chinese judiciary system (Dunne, 2011). Yasuhiro Tabata, managing director of the Japans Intellectual Property Association, described the characteristics of the legal environment in China:

1. A complex legal system consisting of custom and statute.
2. Insufficiency in “Rule of Law.”
3. Insufficient independence of judicial system.
4. Insufficient transparency in legislative, administrative, and judicial procedure.
5. Local-protectionism in legislative, administrative, and judicial procedure

Yasuhiro Tabata here states what many foreign governments and automotive companies think about the legal system in China. (Zimmerman and Chaudhry, 2009, p. 316).

Protectionism has been widely used by China in the automotive sector; this area will also be discussed further in the chapter on entry barriers. China is currently looking into changing the protectionist regulations in the sector by allowing foreign companies to establish wholly owned subsidiaries in the country. They have announced that it will remove all ownership limits on automotive companies by 2023 (*China’s Auto Industry: Foreign Ownership Limits Scrapped*, 2018). The article further states, “According to the National Development and Reform Commission, ownership limits on new energy vehicles (NEVs) will be scrapped this year, commercial vehicles by 2020, and passenger vehicles by 2022. By 2023, all other ownership limits on autos will be eliminated” (*China’s Auto Industry: Foreign Ownership Limits Scrapped*, 2018).. Elon Musk, CEO of Tesla Motors, have for several years been looking to start production facilities in China. Recently he announced that Tesla have set up a wholly-owned subsidiary in China, with the intention to produce cars as the first foreign automotive company in the world (Lambert, 2018). This indicates that China is serious about

opening the industry, which is likely to change the entry modes foreign automotive companies make use of in China, which have thus far been dominated by Imports and JVs. Establishing a WOFE instead of a JV, is one of the most effective ways of protecting IPR, since the patents and core technology will not be shared outside the company, why GM should also take this into consideration when deciding on creating a WOFE for car manufacturing in China.

5 Entry barriers

Identifying the entry barriers to the Chinese automotive industry is crucial for this study and will be applied to give an account of GMs choice of entry mode and when considering converting into a WOFE.

Porter (1998, pp. 7–13) mentions that there are seven major entry barriers, these are: economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale and government policy. However entry barriers can be seen as a resources of incumbents to keep laggards at bay (Lutz, Kemp and Dijkstra, 2010, p. 21), and keep the market share. There are however, other entry barriers when entering the Chinese market, then the ones Porter listed as major entry barriers.

5.1 Government policy

Companies entering China must take into account which region of China they want to place their operation, as there are different governmental policies in each region, and they can as Lutz, Kemp and Dijkstra (2010) mention change over time as the chinese infrastructure is still in the process of being developed, modified and improved. This has implications in form of foreclosing entry into certain industries or limit the industry with licensing control and access to resources (Porter, 1998, p. 13). This is furthermore a symptome of the Chinese industrial market as Gassmann and Han (2004) mention, as it transitions from an emerging market and the economy undergoes change the market changes from a planned to a market driven economy. This in turn changes the industrial regulations, legislations and policies (Gassmann and Han, 2004, p. 428).

5.2 Intellectual property

A large entry barrier for multinational companies to enter the Chinese market is the intellectual property of the companies, as these companies invest a lot of resources into research and development.

There seems to be poor protection for companies and their intellectual property rights in China, and this in turn leads to companies risking theft of the intellectual property. This in turn also hinders the different markets as there can be a lack of motivations for doing R&D, as Niu et al. (2011) describe as a prevalent imitation of the technology among companies, where the weak intellectual property protection is part of the cause for lack of motivation for doing R&D (Niu, Dong and Chen, 2011, p. 75)

This is a risk for all foreign and domestic companies when doing business in China. New ventures in China might therefore face poorer intellectual property protection rights, compared to operating in other countries. This can according to Terjesen et al. (2008) be overcome by focussing mostly on the company's key resource aspects such as management and marketing expertise as these are more difficult to steal. *"Advanced technology has yet to become an advantage for any incumbent firms because a comprehensive system to protect the entrepreneurs' intellectual property is still absent or lacking in most areas in China."* (Niu, Dong and Chen, 2011, p. 75)

Even with the possibility of intellectual property theft, there can be a strong incentive for a foreign company to make business in China. This drive is mostly due to the accesses of low-cost labour and a big home market (Niu, Dong and Chen, 2011, p. 75). If the product requires local adaptation and demanding customer cooperation it will according to Gassmann and Han (2004) lead to the likelihood of establishing a local development plant.

5.3 Language and cultural

There are some differences when operating in the Chinese market compared to western markets when it comes to the language and culture of the Chinese people. The Chinese customers are less inclined to take risks compared to western customers, but this is typical for booming economies (Gassmann and Han, 2004, p. 429). Due to the averseness for the Chinese customers to take risks, it is a contributing factor for companies to enter the market as early as possible to ascertain a high profile in the Chinese customer's eyes, just as GM did.

There is the non-existing entry barrier in China, which is usually found in other countries. This relates to that the Chinese view foreignness of a product or service as symbol of superior quality and design, something that is unique for the Chinese consumer mentality according to Dong and Chian (Quoted In Niu, Dong and Chen,

2011, p. 76). This is an entry barrier for laggards as the Chinese also view the timeframe in which the foreign product has been available on the Chinese market as a contribution factor in superiority, a factor the incumbents reap the benefits of.

The culture of the Chinese employees plays a larger role when the foreign company is established in the Chinese market. This entry barrier arises in the management of the foreign entity, whether it is a joint venture or a wholly owned company, as there is a language and cultural gap. Something Gassmann and Han (2004) addresses as an initial barrier for the management. Part of this is due to the Chinese mentality and their culture, which in turn will be translated to inefficient management (Gassmann and Han, 2004, p. 431).

These inefficiencies arise according to Hofstede (Quoted in Gassmann and Han, p. 431) as most Western managers generally come from low context cultures such as Germany and USA, where the message must be spelled out clearly to avoid any ambiguity, in contrast to the Chinese culture, which is a high context culture. For high context cultures it is assumed the receiver is intelligent enough to understand the nonverbal signals and understand the true connotations (Gassmann and Han, 2004, p. 431).

There is a challenge for foreign companies to maintain long-term staff loyalty in China (Gassmann and Han, 2004, p. 432), and it is something that companies are at risk of, when it comes to knowledge flow of intellectual property due to Chinese regulations not enforcing intellectual property law.

5.4 Bureaucracy

For a business to be successful in China, the business is severely reliant on strong informal networks and relationships – the frequently cited ‘GuanXi’ (Gassmann and Han, 2004, p. 428), which leads to the bureaucratic entry barrier for entering and establishing a successful company in China.

An important aspect for foreign companies that want to conduct business on Chinese soil is to create good relations with government officials “GuanXi” as this is crucial for the companies to conduct business in an efficient manner, and thus a successful manner (Gassmann and Han, 2004, p. 433). It is important for the companies to nurse the relationship, as there are numerous possibilities for the Chinese government to

hinder a company's business by making everything difficult (Gassmann and Han, 2004, p. 433).

China's policymaking and lack of transparency makes it difficult to distinguish the policies within China's political, industrial, technological and industrial sphere (Gassmann and Han, 2004, p. 433). An incentive that would at first glance seem to be preferential for a foreign company to invest in china is something that quickly can turn into prolonged procedure, Gassmann and Han (2004) mentions such preferential conditions such as tax relief and other incentives can be stressful due to long and multiple bureaucratic hurdles for very specific rules.

5.5 Protectionism

China is quite different compared to many other countries regarding how the Chinese government regulates the market to get automotive manufactures to invest in china. The only way to have a complete vehicle manufacturing plant is to enter into a joint venture partnership with a Chinese partner. This is one way the protectionism leads companies wanting access to the Chinese market, are forced into these partnerships with a Chinese partner, as this is the only way to do business in the industry. Because the Chinese regulations dictates that a foreign car manufacturer will have to enter into a joint venture partnership with no more than 50% of the equity.

A lot of this stems from the way the Chinese state of mind is, as the Chinese state is very bureaucratic and it stems from the communism and the Confucianism way of thinking, which also makes it hard for foreigners to understand the devotion and obedience and respect for authority (Nair and Stafford, 1998, p. 139).

This is evident in the policies they make for certain industries such as the automotive industry, where the Chinese government seeks to protect the national Chinese automotive companies from foreign competition, in regard to gaining superior technology knowledge. Non-Chinese car manufactures have stated that Beijing have been pressuring the foreign car joint ventures to develop native brands as part to boost the national car manufactures innovation, a policy that foreign car manufactures complains is a way to enforce transfers of technology (Waldmeir, 2011). However, it will be evident later this is exactly the strategy used by GM. A debate that surfaces again in the Chinese government's push for clean energy, and electric cars, and the three-decade-old strategy of trading market access for technology (Clover, 2017a).

This is evident in the pressure these foreign automotive manufactures faces from the Chinese government to share some of their core technology pertaining to new technology, such as GM being pressured to share core technology from their Chevrolet Volt plug-in hybrid (Tang, 2012, p. 32).

The Chinese government stated in 2011 they would impose sanctions upon U.S made sedans and sport utility vehicles due to unfair American government subsidiaries (Tang, 2012, p. 34). These sanctions would add levies unto of already existing tariffs, and would hit different car manufactures differently (Tang, 2012, p. 34).

5.6 Partial Conclusion

It is evident that to be able to access the Chinese market for a foreign entry participant, the organization must take into account which industry they want to operate in, and if there are any government restrictions in form of policies to hamper foreign domination of the niche industry. In certain industries, there are still policies in place to conform the foreign companies to participate with technology sharing via forced joint venture partnerships with Chinese partners.

Technology sharing is not bad per se, the problem lies in the weak enforcement of intellectual property rights from the Chinese government. Foreign investors see little they can do to counteract unwanted technology transfers, since local governments are in most instances an important stakeholder, legal proceedings are not the best way to solve these kinds of problems. It could even hinder the company's future operations.

It is as mentioned from interviewed experts that partnerships with competitors is not preferable due to fear of unwanted technology transfer. A way to circumvent unwanted technology transfer of core technology is for the foreign parent company to transfer obsolete technology to the joint venture, as to not risk theft of their core technology. This could also be done by converting their JV into a WOFE, when the Chinese authorities allow this in the automotive industry.

6 Case study

6.1 History of GM in China

In 1995 GM beat their main rival Ford to establish a JV with the state-owned company SAIC in Shanghai. Four years later, in 1999, the first car was produced on

the plant, the American Buick. When they entered the market there was not many competitors only VW was present in China at the time, also in Shanghai (Dunne, 2011, pp. 20–33). The Shanghai VW was located in the west side of the river Huangpu, area called Puxi, whereas the Shanghai GM was being opened on the east side of the river, in the Pudong area (Dunne, 2011, p. 11).

A successful joint venture required not only an economically rich partner, but also a location in a city with a decent level of income. For this reason, the partner chosen by GM was the city of Shanghai, as Rick Swando, a GM executive said, the people in Shanghai are the only one to have understood how to make money in China (Dunne, 2011, p. 23).

The success of the GM in China, is strictly related to his partner SAIC (Shanghai Automotive Industry Corporation), owned by the Shanghai municipality. The initial negotiation was not so easy (Dunne, 2011). SAIC was looking for a company that unlike VW, was willing to share its technology and know-how with its Chinese partner it (Dunne, 2011, p. 82).

The winning strategy put in place by GM, was to invite the executives of the SAIC to visit their Brazilian subsidiary, showing them how GM America worked in perfect harmony with the Brazilian executives, and how the know-how was perfectly shared within it. GM, in this way, reassured its Chinese partner, of its intention to collaborate openly within the joint venture (Dunne, 2011, pp. 47–48).

SAIC and GM invested 700 million dollars for the manufacturing plant, building the first American car models on Chinese soil, the "Buick Century" and "Buick GL8" models (Gallagher, 2003). The choice of these two models was determined by the fact that the Chinese had the preference for big and comfortable cars at that time, especially in the rear seats. Mainly due to demand being driven by Shanghai municipality and state-owned companies.

In 1997, the representative of GM, and its Chinese partner SAIC, worked out some basic principles for the new joint venture. The so called Fours S's, Study, Spring, Standard and Shanghai GM. These principles are therefore based:

- on the mutual study, to reduce the gap between the two companies, not only from the aspect of manufacturing know-how, but above all from the cultural point of view;
- on flexibility, or on the need to be flexible on the market, and quickly understand customer needs;
- on a set of rules and standard processes, to strive for a high level of quality;
- to place the good of the Shanghai GM above all, creating on this direction a joint venture with a perfectly fair share distribution control (50-50).

(Gallagher, 2003)

From that moment on, the road for success was paved for Shanghai GM. In 1999, 20.000 Buick sedans were produced, and by 2000, Shanghai GM had localized 60% of the parts, importing only 140 million dollar worth of parts annually from the USA (Gallagher, 2003, p. 71). In 2000 the sale of Buick Century went up to 30,000 cars, ten thousand more than in 1999. However, this did not make Shanghai GM the most profitable company on the Chinese market, Shanghai VW had more sales, but also been present in the country since 1985 (Dunne 2011 p. 37). However GMs problem was that their cars consumed too much fuel for the Chinese consumers who wanted smaller and less fuel consuming cars (Dunne, 2011).

The turning point came in 2000 when GM entered the Korean market, and together with SAIC became the majority shareholder of the Korean company Daewoo, a company renowned for its ability to quickly create small, compact cars at a price very accessible to Chinese consumers (Dunne, 2011, pp. 120–121). GM had been used to producing bigger cars for the American model and as such did not have a competitive advantage in small engine vehicles. The models chosen to enter the Chinese market were: - Buick Excelle sold for \$ 15.000 and - Daewoo Matiz, sold for \$ 10.000 (Dunne, 2011, pp. 132–133). For Shanghai GM, however, timing was crucial, in fact in 2001 China entered the WTO, which facilitated the inclusion of foreign companies within the Chinese market, especially those of Japan, a leading manufacturer of small and compact cars (Dunne, 2011, pp. 123–133). In 2002, Shanghai GM was the third largest joint venture in China, selling more than 100.000

cars, and achieving 11 percent of the total market share for passenger vehicles (Gallagher, 2003).

The economic boom in 2005 led the Chinese market to become one of the largest in the world, a record achieved in 2009, the market soared from 3.6 million in 2005 to 10.5 million cars in 2009 (Dunne, 2011, p. 162).

6.1.1 American financial crisis

The 2009 for GM can be considered a double-sided year, in fact, while Shanghai GM recorded sales records, from 365,000 in 2005 to 787,000 units sold in 2009 (*General Motors Sets Company Sales Record in China in 2008*, 2009), and was looking for new dealers and new places to open new factories. At the same time GM in Detroit, and the whole international markets was in the middle of the financial crisis. In this period GM went bankrupt and was only saved by U.S state founded loans, which kept them floating. In this period China was GMs only profitable market, why focus was increasingly being put there (Dunne, 2011).

6.1.2 Electric cars

In 2010, China having the largest car market in the world, with more than 17 million vehicles sold (buses, cars, trucks), had to face a problem, oil dependency and pollution.

The electric car, in addition to solving the problem of oil dependency, represented for the Chinese government the ideal opportunity to become a leader in the sector, compete with foreign car companies. The target of the Chinese government is to produce at least one million electric cars annually by 2020 (Dunne, 2011)

In 2017, the General Motors Chairman and CEO Mary Barra, stated that “By 2025, nearly all models from GM’s global brands in China – Buick, Cadillac and Chevrolet – will offer electrification technology. To support GM’s growing NEV fleet planned for China, its SAIC-GM joint venture is opening a new battery assembly plant in Shanghai this year (*Mary Barra Outlines GM’s Road Map for Safer, Better and More Sustainable Transportation Solutions*, 2017). In the next part the general performance of GM has been discussed.

6.2 Performance of GM

General Motors worldwide performance seems convincing as it showed the annual net sales of 9.6 million vehicles globally and revenue in the year 2017 appeared to be approximately \$146 billion (Wang and Zhang, 2017; *Annual Report 2017*, 2018, p. 18). The reason for these convincing figures, according to (*Annual Report 2017*, 2018), is due to GM's increasing sales in Argentina, Brazil, and Egypt. The driving force for the increasing sales in South America was the increasing demand for GM's Chevrolet models namely Chevrolet Cruze and Chevrolet Onix. However, there was disappointing sales figures for GM in regions like Asia/Pacific, the Middle East and Africa due to decreased wholesale volumes across multiple product lines. However, GM had been able to secure better results in these regions with its JVs and other subsidiaries.

At the same time, GM's total sales in China, as stated in (He, 2018), reached more than 4 million with an increase of 4% compared to 2016. In the meantime, the total China Automotive sales in the year 2017 was 28.3 million. The key drivers of the sales were the Cadillac, Buick and Baojun passenger vehicles and SUVs. As mentioned in (He, 2018), China has been the largest retail market of GM for the sixth straight year with an increasing consumer trust on GM brands, a main factor for GMs convincing results in China, He (2018) further explains. GMs Annual Report (2018) also mentions that their Chinese automotive JVs generated equity income of \$2.0 billion that has been more or less the same compared to its equity income of approximately \$ 2 billion in the years 2015 and 2016. GM believes that obtaining this level of equity income has helped GM better satisfy its JVs in China and thus, the major focus would be on improving China equity income with improved performance on vehicle mix, cost efficiencies, and downstream performance optimization.

The fact that GM has been delivering better results can also be realized through the figures that says that GM sold 39% of the total global sales in 2016 as stated in (Clover, 2017b) and was able to gain the profit (before tax) of 24% of the total global profits. The figure shows that GM has been able to better utilize its potential in Chinese markets as the total vehicle sales in China in 2016 ranked GM in the second position after Volkswagen Group who sold 41% of the total global sales in China as presented by (Clover, 2017b). However, GM retains only half the profit margins of VW in China

and even though China is their biggest market, the U.S was still the most profitable market for GM in 2016 (Clover, 2017b).

6.3 GM Brands in China

In this section of the case study the 5 biggest brands of GM in China will be presented individually, to analyse which cars they sell most of in China. Firstly, the three American models sold in China namely Chevrolet, Buick and Cadillac will be presented. Then the two biggest Chinese brands will be presented, these are Baojun and Wuling which are brands made by GM in co-operation with their JV partners. Finally, the Chinese and U.S brands will be compared, to give account for which models sell best in China, which will assist when answering the research questions both on the success of GM and on whether they should change their entry mode strategy.

6.3.1 Chevrolet

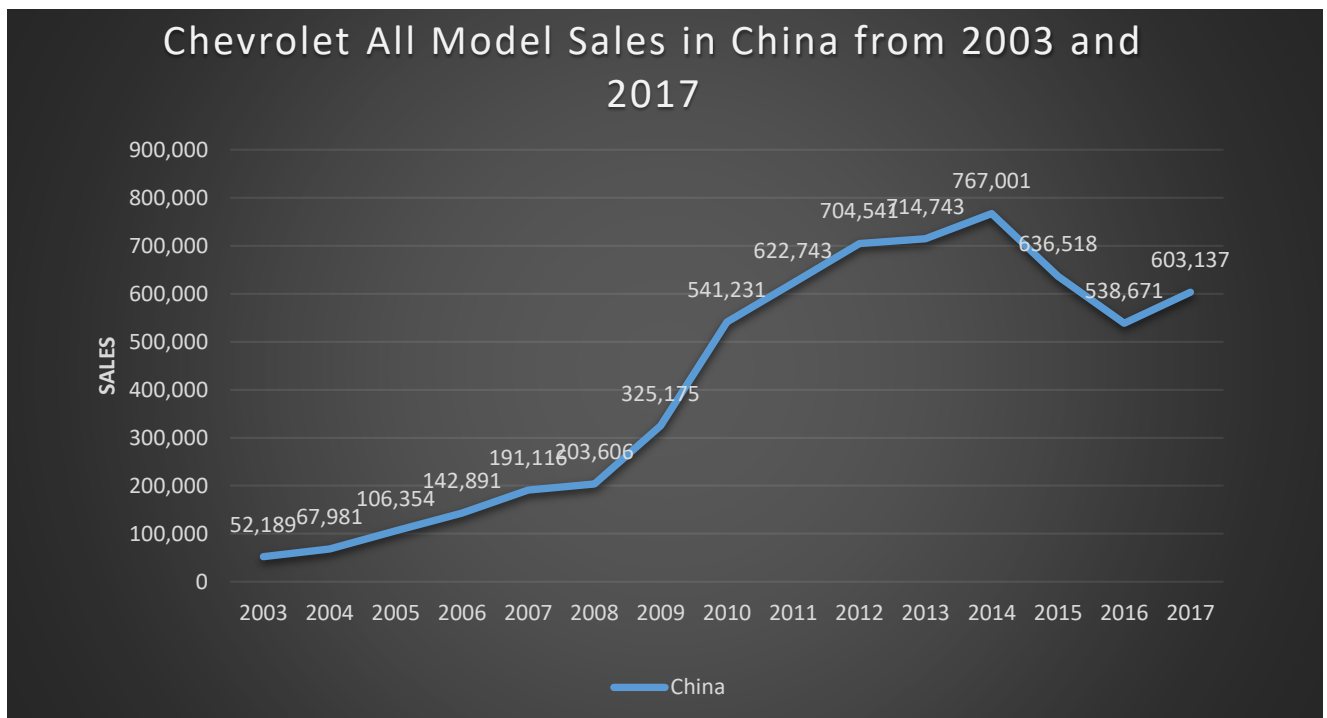
Chevrolet has been sold worldwide, but it entered Oceania Market only this year, with a subsidiary in Australia, called Holden. It also relaunched in Europe market in 2005, by selling vehicles built by GM's subsidiary in South Korea, GM Daewoo, with the intension of being a mainstream value brand. In 2011, the GM Daewoo was fully acquired, renamed GM Korea. The brand also continued to be marketed in the CIS states, as well as in Russia. In North America market, it produces variety of vehicles, includes subcompact automobiles and medium-duty commercial trucks.

During the economy recession, from 2007 to 2010, in order to compete with foreign automakers, Chevrolet launched new vehicles and developed more fuel efficient cars and trucks. It started to produce plug-in hybrid Chevrolet Volt first in 2010. The successful invention became the world best plug-in electrical car, at the same time received many awards. It has been ranked as the all the time top-selling plug-in hybrid for many years. In October 2016, the production of Chevrolet Bolt EV opened the market for all electric cars ("Chevrolet," no date).

Chevrolet first entered China as a dealer in Shanghai, it was also the first step for GM to enter China market in 1920s (Nelson, 2011). Since 2009, China has become the 3rd largest market for Chevrolet. The sales volume reached 332,774, just ranked behind

the US and Brazil (1,344,629 and 595,500 vehicles) (*Chevrolet European sales figures, no date*).

It has become the biggest brand, and the most internationalized and popular brand under GM (*雪佛兰_百度百科 | Chevrolet, no date*). There are 5 different kinds of model under Chevrolet in Chinese market. Van, SUV, Sport utility vehicles, race and pickup. Chevrolet sales overview through the Shanghai-GM Joint venture with local Manufacturing partner SAIC over the years, excludes import models (*雪佛兰chevrolet 中国官方网站, no date*).



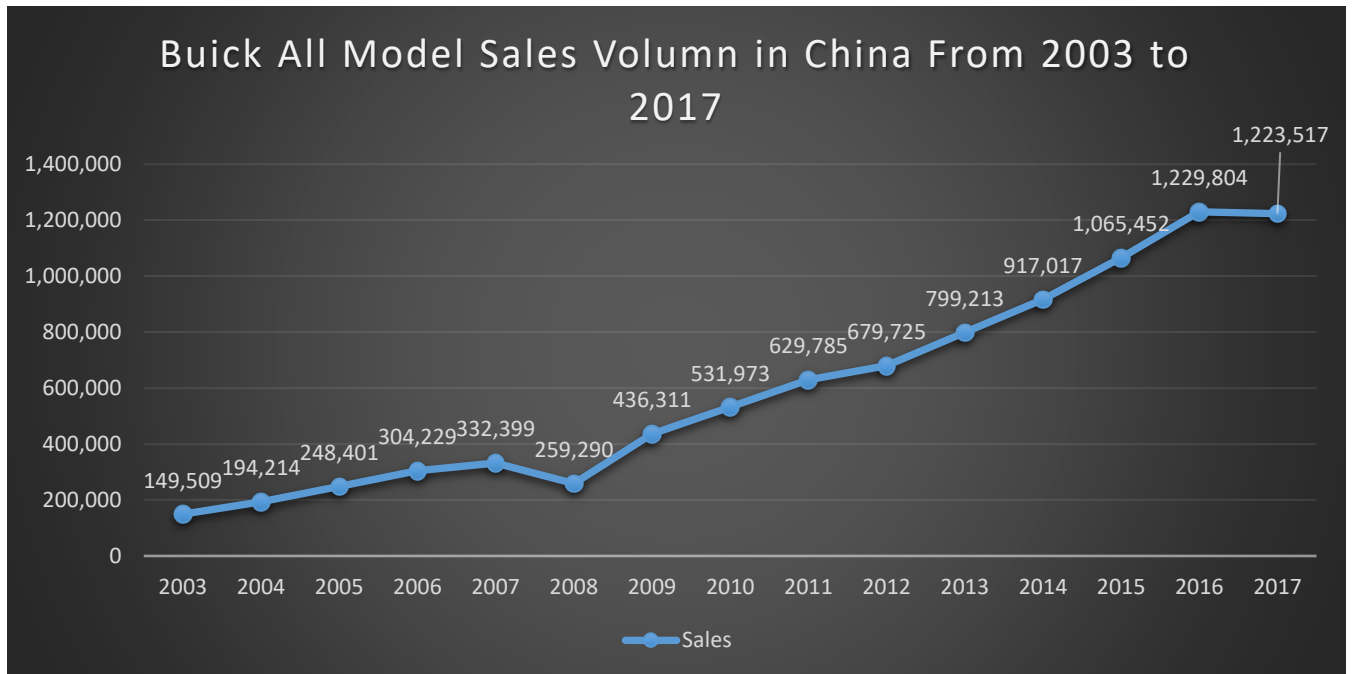
Figur 6.3.1 - (*Chevrolet European sales figures, no date*)

6.3.2 Buick

Buick founded in 1899, by Buick Anto-Vim and Power Company in America. Buick marketed as a premium automotive brand by offering high range luxury vehicles. It is present in 4 markets, U.S, Canada, Mexico and China. But the main market is in China 80% of Buick branded automobiles are sold there. In 2017, the brand sold 1,2 million vehicles in China, while 205.000 in the U.S. (Ferris, 2018). It positioned as a niche brand selling “Affordable luxury” (Ferris, 2018). The first car GM started producing in their SAIC JV was Buick which the Chinese saw as a luxury vehicle, why GMs JV partner SAIC was very eager to get it to China. Since then it has been one of the best

performing brands in China (Dunne, 2011). Buick revealed an electric concept car in April 2017 in China, and the company also intent to release 2 new electrified versions of their Velite model, which is only to be sold in the Chinese market (Ferris, 2018).

The sales overview of Buick over the years includes all the models produced in China



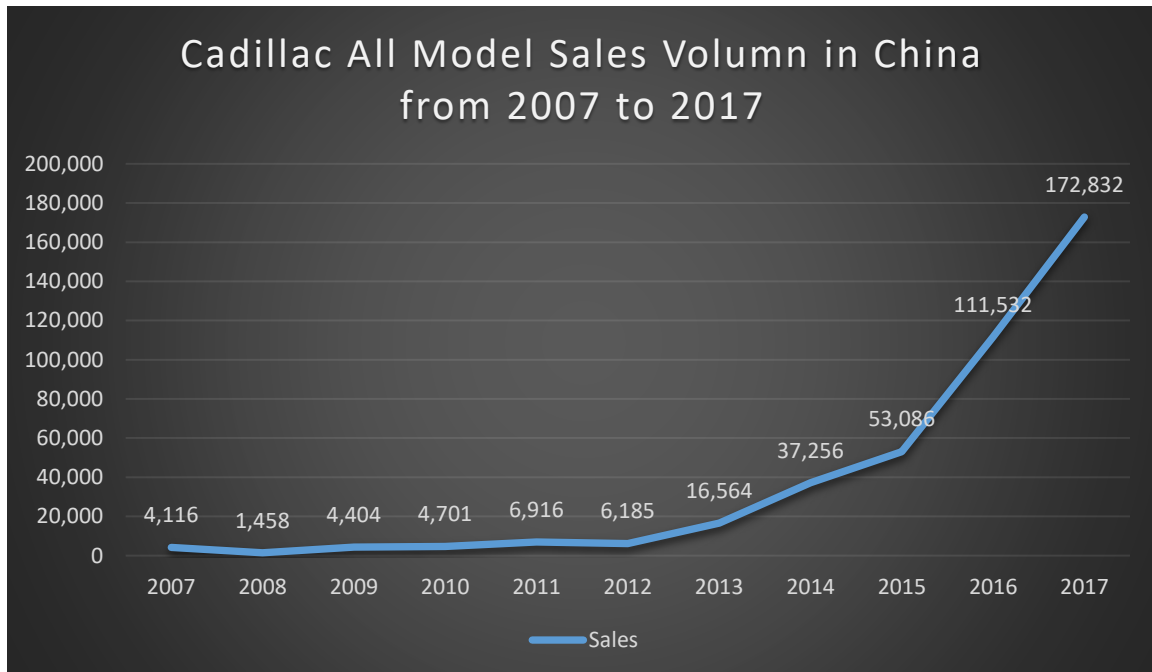
Figur 6.3.2 - (Buick China auto sales figures, no date)

6.3.3 Cadillac

Cadillac is a leading luxury carmaker, a division of the GM which was bought in 1909. It is mainly sold in three markets: US, Canada and China. But the Cadillac is also distributed to 34 other countries.

Cadillac opened its first dedicated factory in China 2016 and plans to have 300 dealerships across the mainland by 2020. In 2017, China became its largest market, with recording sales of 172,832 vehicles, up 54.9% compared to 2016 (see below). It has a well-developed distribution network in the current market of the first and second tier cities. Its China chief executive, Schaaf, has said that they expected to enter the small cities, mainly from tier three to tier five cities, and gain market shares here by 2025 (Ren, 2018). Cadillac is GMs luxury brand in China and ranked No.4 in 2017 in

the Chinese Luxury vehicle market after its competitors, German brand Audi, BMW and Mercedes-Benz that account for 75% of the Chinese market (Ren, 2018). The sales is locally produced in China through the Shanghai-GM joint venture partner SAIC.



Figur 6.3.3 - (Cadillac China auto sales figures, no date)

6.3.4 Baojun

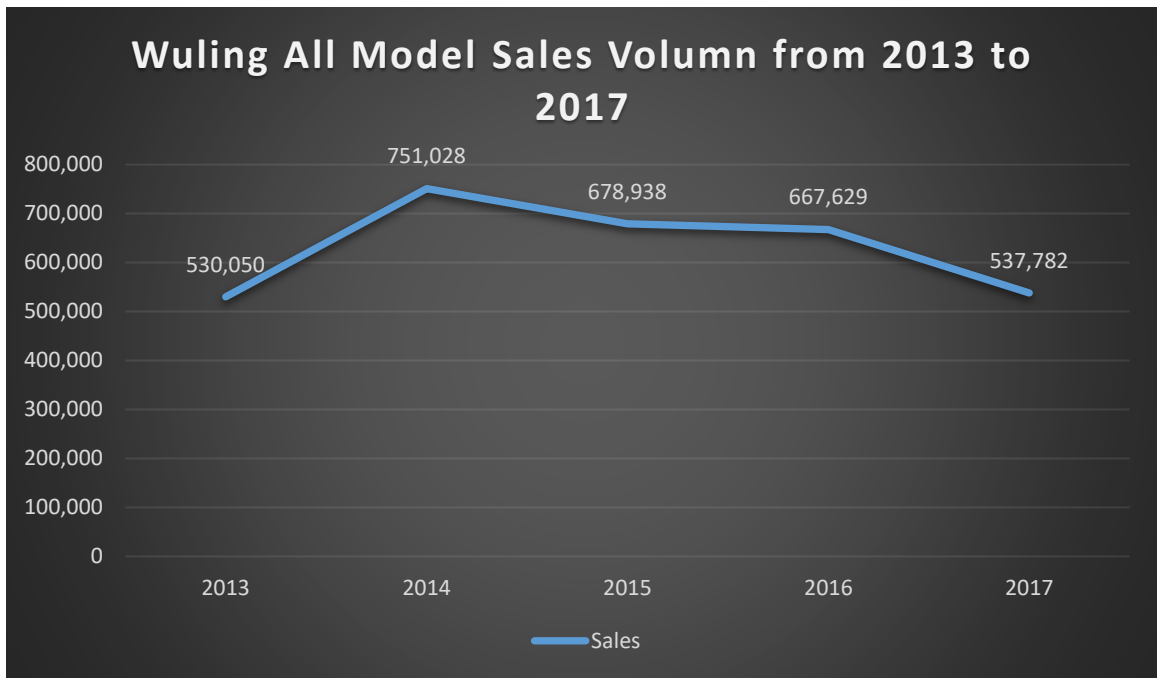
Baojun is a brand under Shanghai-GM-Wuling. The Baojun was established in 2010, as a cheaper alternative for the existing GM brands. The brand is a part of a JV between SAIC, Wuling and GM, to make a cheap Chinese car, that can compete with the foreign brands. Since 2013 it has become one of the biggest brands in China, selling more than 1 million cars in 2017. This could also indicate that the Chinese consumers are moving towards Chinese brands when deciding on a new car. The Baojun is one of the cheapest cars on the Chinese market, they even made an electric car that after subsidies from the Chinese government cost below \$8000, which they are also hoping to export to for instance the U.S (Ayre, 2018).



Figur 6.3.4 - (Baojun China auto sales figures, no date)

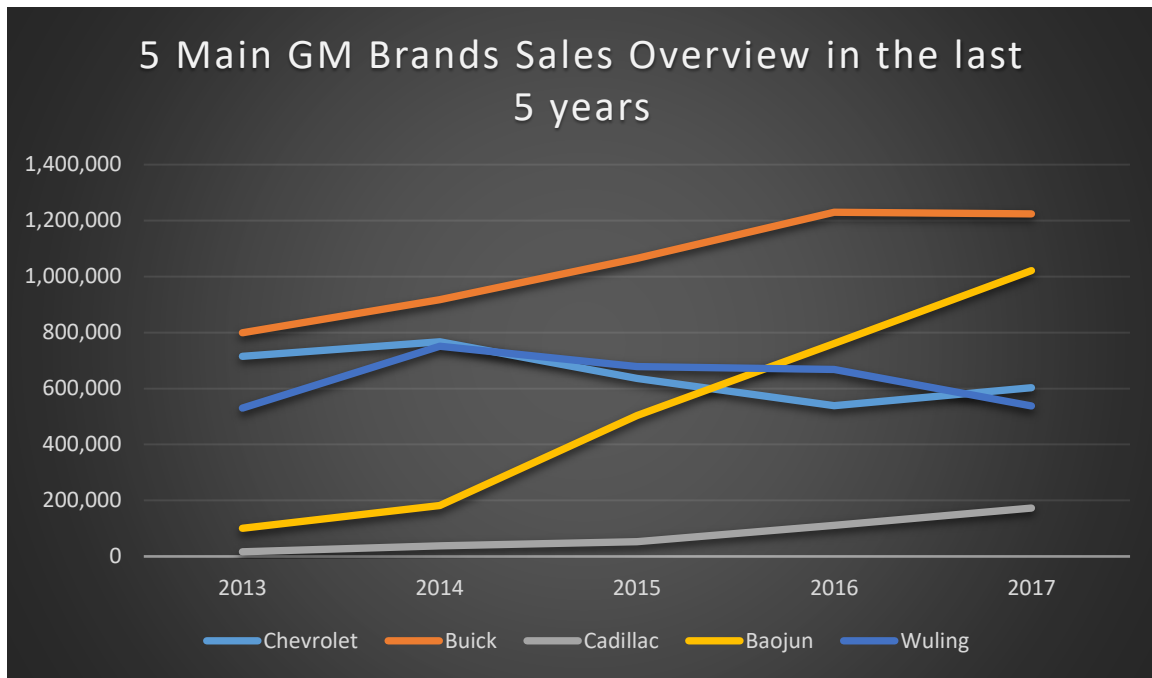
6.3.5 Wuling

The GM Wuling JV was established in 2002 between SAIC-GM-Wuling, who also makes the Baojun. Wuling also have a JV with Dragon Hill Holding, who also produce cars under the Wuling name. The sales of the Wuling brand are back to 2013 levels on 500.000 cars annually, after it peaked in 2014 with 750.000 sold cars. We can thus see that the Chinese brands are increasing in popularity among the Chinese consumers (SAIC-GM-Wuling (SGMW), no date).



Figur 6.3.5 - (Wuling China auto sales figures, no date)

As evidenced in the graph below, GMs two biggest Chinese brands were selling more than 1.5 million cars in China in 2017. Especially the Baojun have been performing well, since 2014 it increased sales from 200.000 a year to over 1 million in 2017. Of the American produced cars especially Buick is doing well, having sold more than 1,2 million vehicles two years in a row (Figure 6.3.6.) The Buick brand being so strong can be related to its early market entry as GMs first JV car, whereas it also seems that local cars are increasing in popularity. This could indicate that the Chinese consumers are starting to trust local brands more, where they as previously mentioned had preferred foreign cars due to a belief that foreign brands were of superior quality.



Figur 6.3.6 - (Buick China auto sales figures, no date; Cadillac China auto sales figures, no date; Chevrolet European sales figures, no date; Baojun China auto sales figures, no date; Wuling China auto sales figures, no date)

6.4 Competitor analysis

6.4.1 HONDA

Founded in the 1948, HONDA is the world's leading vehicle manufacture. Honda has its headquarters in Tokyo, Japan, which includes 70 factories in 27 countries (*Honda in Italia*, no date).

The first moves of HONDA in the Chinese market occurred in the 1970s. Its main market was the motorcycles and in this market Honda opened two JVs in 1992. With the experience from the motorcycles market and joint ventures, Honda knew that the only way to obtain the rights to produce and sell cars in China was to invest in a JV. The first vehicle JV Honda partnered up with was Guangzhou municipality, established in 1998, with a registered capital of RMB 1.16 billion (\$140 million). The joint venture called Guangqi Honda Auto Company Ltd. was (and still is) a 50-50 shared company (Hinata, 2002).

HONDA has eight Joint Ventures in China, two of them, the Guangzhou Automobile Honda Automobile Co., Ltd and the Dongfeng Honda Automobile Co., Ltd are in the automotive industry ("Production and Sales Volume of Dongfeng Motor Group for

December 2017,” 2017). These two Joint Ventures only produce vehicles for the national market, Honda sold 1.42 million cars in 2017, placing the automotive manufacture at the 3rd position in the Chinese market (Hildebrandt, 2018).

According to the declarations made by (*Summary of Honda CEO Speech at Honda Meeting 2017*, 2017), the President & CEO of Honda Motor Co., Ltd, the company strive to electrify two-thirds of Honda’s global automobile unit sales in 2030, focusing on hybrid-based models utilizing a high-efficiency plug-in hybrid system unique to Honda. In addition to this, a new battery model scheduled to go on sale in 2018 in the Chinese market (*Summary of Honda CEO Speech at Honda Meeting 2017*, 2017),.

6.4.2 VOLKSWAGEN

The Volkswagen Group, is a major German automobile manufacturer, founded by the German government in 1937, headquartered in Wolfsburg, Germany. (*Volkswagen Group | Overview, History, & Facts |*, no date). The Group operates 120 production plants in 20 European countries and a further 11 countries in the Americas, Asia and Africa (*Portrait & Production Plants*, no date)

The Volkswagen group, in the 1983 oversaw the possibility to enter in the Chinese market, and in the 1984 decided to open its first Joint Venture with Shanghai municipality with an equity share of 50% (Harwit, 1994).

In the 2018, the group, placed at 1st position in the Chinese market, had 30 production plants in China, selling 3.14 million cars in 2017 (Hildebrandt, 2018).

6.4.3 FORD

The Ford Motor Company, is one of the oldest car makers in the world, founded by Henry Ford in 1903 in Detroit. Today the company has offices in 10 countries, including the United States (*La storia di Henry Ford*, no date).

Ford has been exporting cars to the Chinese market since 1913. In the 1995, Ford decided to open a Joint Venture in China, producing mainly trucks and pick-ups. In the same year, Ford entered in competition with GM. Both companies were competing to set up a Joint Venture with Shanghai Automotive Industry Corporation (SAIC). In 1997

GM won the competition, beating Ford, and opened its first passenger-vehicle joint venture. This defeat for Ford in the bid, delayed Ford's entry into a JV partnership with six years. In 2003 Ford entered into a joint venture partnership between Ford, Mazda and Changan in the joint venture Changan Ford Mazda Automobile Co., Ltd., the first passenger-vehicle joint venture of Ford. This Joint Venture, however was not equally shared between Changan (50%), Ford (35%) and Mazda (15%) (*关于福特-福特中国 | About Ford*, no date).

The entrance of China in the WTO in December 2001 (*WTO | China - Member information*, no date), and the decreasing of the import duty fees from 150% to 25%, brought Ford to use the direct export of cars produced in other countries, mainly in USA, as main entry mode into the Chinese market (Dunne, 2011). This entry mode has been used until 2012. In 2012, the asset of the Changan Ford Mazda Automobile Co., Ltd changed, the Joint Venture was split in two different new joint ventures, giving Ford the 50% of shares in the new Changan Ford Automobile Co., Ltd.. Since that moment, the before mentioned Joint Venture, and the Jiangling Motors Corporation in which Ford hold 32% of the shares (*Jiangling Motors Corporation, Ltd*, no date), are producing the majority of Ford cars currently sold in the Chinese market. In the 2017 the total of Ford cars sold in China was roughly 1,200,000 (*Ford Motor Company sales in China totaled nearly 1,200,000 vehicles in 2017, Ford Escort Set Record Monthly Sales in December*, 2018) and more of 97% were made in China (Fusheng, 2017).

In December 2017, the Ford Motor Company announced its "China 2025 Plan". The main goal of this plan was to introduce more than 50 all-new vehicles by the end of 2025, including eight all-new SUVs and 15 all-new electrified vehicles from Ford and Lincoln. The plan also includes continued investment in design and engineering in China following the opening of the company's new Nanjing Test Center in 2017 ("JANUARY 2018 SALES," 2018).

6.4.4 TESLA

Tesla, Inc. founded in 2003 in California, is an automotive company operating only in the electric car market, and in other scalable clean energy segments and storage

products. Tesla has no JVs in China, and the only entry mode used until now is the direct export. The main reason is the unwillingness of Tesla to share core technologies with a JV partner (Lambert, 2018).

In 2017 Tesla exported around 20.000 cars to China (Lambert, 2018), representing roughly 2% of the total EV Chinese Car market (*EV Sales: China December 2017, 2018*). Currently Tesla is waiting for the opportunity to open a fully owned subsidiary in China, in order to start to produce its cars directly in the Chinese land. The company was recently registered in China, hoping to soon be able to manufacture vehicles from a WOFE in China, as the first foreign automotive company ever.

During the Q1 2018, Elon Musk announced that Tesla has in plan to build a Gigafactory in China. The goal with the Gigafactory is manufacturing whole vehicles for the Chinese market (Alvarez, 2018).

6.5 General Motors analysis based on OLI

6.5.1 Ownership advantages

Using exporting as an entry mode, as argued by (Denisia, 2010), has provided GM with ownership advantages but not with location and internalization advantages since, OLI framework works best for FDI modes. GM has been exporting some luxurious cars to China on regular basis. The entry modes of JV and wholly owned subsidiary are the best fits for OLI paradigm. According to (*About GM China*, no date), GM has 10 joint ventures in China. In addition, it has two wholly owned subsidiaries in China. But, due to Chinese policy on JVs, there ownership share is restricted to 50%. However, larger volume sales of cars in China through all these joint ventures has helped GM generate considerable revenues over the years. On the other hand, the two wholly owned subsidiaries are meant only for R&D activities in China. Hence, they are not involved in the production and distribution of GM products in the Chinese market and are thus not so related to the with the OLI paradigm.

The following framework for innovation process has also helped GM be more competitive in Chinese market and gain the ownership advantage.

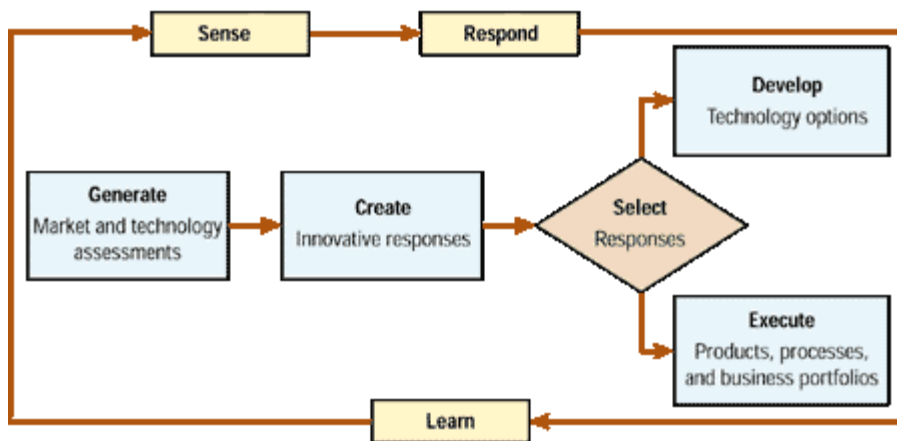


Fig. GM R&D's sense-respond-learn model (Howell, 2000).

According to (Howell, 2000), based on this model, GM has been emphasizing the importance of innovation for ownership advantage in the Chinese market. GM's innovative processes are based on "sense-respond-learn" approach instead of the "forecast-make-sell" business model that has been traditionally used in the industry. It is based on the foundation of 'learning by doing'. The idea is to focus on R&D activities, develop new technology and new products to capitalize quickly on new opportunities. Utilizing the full benefits of this model, GM has so far been very innovative. The important examples of this, as argued in (*Generations of GM*, no date), are the introduction of Cadillac with self-starter engines, OnStar satellite technology which made possible the tracking of a vehicle in case of an emergency or theft, bio-fuel and hybrid cars, electric and network vehicles have increased the goodwill of the company with its attempts to address consumer preferences, environmental issues and global dependence on fuel with its operations in China and thus, better defining its ownership abilities to gain competitive advantages (*Generations of GM*, no date).

6.5.2 Localization Advantage

In 1997, GM made a Joint Venture with Shanghai municipality, the so called, SAIC GM. The reasons that brought GM to make a deal with the Shanghai municipality can be analyzed under different aspects: - economical; - political; social/cultural.

The economical reason of this choice can be related to the fact that Shanghai Auto Industry Corporation (SAIC) was the largest automotive producer in China in 1990's. In 1997, SAIC generated RMB 40.4 billion in revenue, while FAW, the second largest, generated RMB 34.1 billion (Richter, 2000).

The Shanghai municipality position played an important role; an important factor to mention is that the city is located by the sea, which means that the import and export of goods are easy. This was especially important considering that at the beginning GM was exporting parts of the cars directly from Detroit. Today they are exporting fully operational cars the other way, which is also dependent on the infrastructure of the municipality. Thus, the financial liquidity, the developed car market, advanced infrastructure (compared to other Chinese cities) was making Shanghai the fittest Chinese city for GM. Shanghai is also home to one of 11 Free Trade Zone. GMs Shanghai operations are located in this free trade zone, providing them with tax breaks and other advantages (Shira, 2017).

The main political advantages for GM to open a JV is the opportunity to obtain a license, and in this way have the possibility to produce and sell cars in China without the 25% import duty applied to foreign produced cars.

The social and cultural advantages deriving from the opening of a JV are several. As mentioned Guanxi or access to decision makers, is not easily obtainable in China for new companies entering China, but due to entering through a JV, GM was able to make use of the Guanxi the JV partner SAIC had, through their connections with the municipality of Shanghai and the central government. Local knowledge and Guanxi was thus obtained by GM through the JV partner. Due to the easy access to cheap labour, production in China is cheaper than in the U.S, why GM is even producing cars in China and exporting them back to the U.S where GM is originated.

6.5.3 Internalization advantage

General Motors has gained a competitive advantage over its competitors through foreign direct investment, and their generous sharing of intellectual property to ensure that their vehicles from the joint venture is competitive and is of equal quality as vehicles produced in north American plants. As General Motors import a sizable quantity of vehicles to north America (Zwin, 2017).

General Motors relies on a vast number of suppliers to keep the efficiency up, and they seek to further restructure the supply chain for it to be more streamlined (Ludwig,

2016), this stems from GM's current management to take on a raised material cost, in an effort to lower the overall logistics cost (Ludwig, 2016).

Most internalization theory would have companies to invest in wholly owned enterprises and to avoid joint venture, since they are regarded as inferior (Beamish and Banks, 1987). This is because in most cases the local partners assets will not be enough to offset the risk and transaction costs (Beamish and Banks, 1987), however in GM's case as all other foreign automotive manufactures, they do not currently have an option to make a wholly owned enterprise, as the industry is restricted through policies by the Chinese government. Thus, GM's only current option is to operate with joint ventures, which they have excelled at in comparison to their competitors, when looking at GM's overall market share of the Chinese automotive market. GM is able to avoid buyers uncertainty by transferring a lot of intellectual technology to their Chinese JV partnerships, in conjunction with GM's brand recognition leading to a higher market share than their competitors.

6.6 Entry mode of GM

6.6.1 Export

China has been the largest market for most foreign business and the automotive industry is not an exception to it. GM's history in China dates back more than 8 decades. According to (Dunne, 2011) GM Export's first Far Eastern branch office was moved from Manila to Shanghai in 1922. In 1926, GM China was established with headquarters in Shanghai China in 1926. In the beginning the only possible way to enter the Chinese markets was exports, which GM used up until forming their first JV in 1997. The export entry mode of GM came with lots of problems and issues like shifting regulations of China, culturally, geographically and politically different business environment. Therefore, GM found it easier to enter the Chinese market through joint ventures. Forming the JVs provided GM with local knowledge, which was also beneficial when promoting exported cars, since they got a bigger understanding of consumer needs and wants. The knowledge of the Chinese automotive market and preferences of people assisted GM in delivering U.S manufactured cars in China for a long time. Although today, the vast majority of the cars sold by GM in China today, are also produced there.

According to (Jenkins, 2018), 25% tariffs on US auto exports to China have been considerably higher on 150% until 2001. Jenkins (2018) further claims that the US exported more cars to China than it imported from China in 2017. Jenkins (2018) argues that with a lower tariff, it would obviously be possible for foreign automotive companies to export more cars to China, the world's biggest consumer market that would benefit American workers. However, this will not have a great effect on GM since they produce the vast majority of the cars they sell in China locally through their Joint ventures (Sonenshine, 2018).

Jian (2018) states that with four decades of strong economic growth, Chinese consumers' demand for imported vehicles, especially SUVs and luxury brands, has remained strong. Hence, the reduction on import tariffs have certainly boosted the performance of foreign automakers entering in China through exporting modes. But, because of the current trade war between China and the U.S, the two largest automotive markets in the world, it could convince GM to purely focus on locally produced cars to the Chinese market. GM is making considerable profits in China through joint ventures and due to them having to share half of the total profit, exporting mode can be better option for GM. Since, GM has lots of local knowledge of the Chinese automotive industry, regional difference and consumer preferences, the export mode can be a good entry mode option, especially if they want to protect their IPR. According to (*China cuts car import duty to 15% in boost for BMW, Tesla, Mercedes and Porsche*, 2018), China will cut import tariffs for cars and components, opening up greater access to the world's largest auto market to lessen the rising trade tensions with the U.S. The decisions to decrease the tariffs to 15% on car imports from July 1, 2018 is expected to open China's markets to more imports, since it makes it cheaper for cars produced in other countries to enter China. However, this would certainly be luring foreign automakers to export domestically manufactured automobiles, GM with their big local presence may be the exception to this. Since they mainly have locally produced cars, the lower tariff is not so important for GM. However, there are always some uncertainties particularly associated with the legal environment that might create dilemma for bigger players like GM in the Chinese automotive industry. It should also be noted that it is impossible to say what the outcome of the

current trade war will be, which makes further investments in the Chinese automotive industry riskier.

On the other hand, as suggested by Gillespie, et. Al (2018), it can be more cost effective for companies to continue producing cars in the region where they will be sold. This can be done either through joint ventures or wholly owned subsidiaries and other forms of FDI modes. Automotive News China (2018) explains that as China has recently pledged to open up its auto market, announcing a timeline to remove long-standing caps on foreign ownership of automotive ventures, GM could benefit from it, since it can increase the degree of ownership in the JVs.

According to (Zwin, 2017), GM China has been exporting the most renowned Buick model called Buick Envision to the U.S. This is the car that is produced specifically for Chinese market, but GM China decided to export Buick to the U.S due to its growing popularity in the U.S market. Zwin (2017) clarifies that the export of Buick Envision has neither replaced any U.S based model nor eliminated any jobs in the U.S. This has, in fact, increased the sales of Chinese produced Buicks in the U.S market. Using JVs in China for production makes good sense for GM, since this has helped to lower production costs, so they can export manufactured cars back to the U.S. As stated by Szymkowski (2018), GM imported 29,878 Envisions to the U.S. from China in 2017, which made up 17 percent of Buick's total sales in the U.S. However, related to our research question of whether to convert JVs to wholly owned subsidiaries, it is not optimal for GM to export cars from China since they only retain 50 % profits from the JV, especially not back to their most profitable market the United States.

Zwin (2017) claims that U.S laws on import duty which is now 2.5% has best served GM China to export Buick to the U.S. However, due to the trade war going on in between China and the U.S regarding uneven and unfair tariffs could make it difficult for GM China to do further exports to the U.S in the future. As the U.S government has decided to fight back the tariff practices of China by increasing the tariffs on car imports from China to the U.S to 25%, this could hit the sales of GM China in the U.S. However, with the recent reduction of the Chinese import tariff to 15%, it appears that tariffs will be lower, albeit this is only speculation. However, the changes on tariffs would not affect the sales of GM in China because most of the GM cars are produced

domestically in China. If the tariffs are indeed lowered for good, this could increase the number of imported cars to China and have big impacts on new entry mode strategies.

6.6.2 Joint venture

GM has set up 10 Joint ventures and 2 Wholly owned enterprises since their initial partnership made with the SAIC Motor back in 1997 (*About GM China*, no date; *GM and SAIC Celebrate 20th Anniversary of First Joint Ventures*, no date).

The Chinese policy on the area of the automotive industry states that foreign companies cannot make a wholly owned vehicle plant. The only way to enter the Chinese market is through a JV partnership, where the foreign partner (GM) cannot own more than 50% stake in the JVs.

Michael Dunne, a former GM executive mentions that other foreign automotive manufacturers are taken aback by GM's generous technology sharing (Moss, 2017; Richter, 2017), as there is poor protection for intellectual property rights mention in chapter 4.2. Even if there is clear evidence that the foreign company's intellectual rights are stolen, it can according to Gassmann and Han be hard to do anything about it, since the Chinese government is often a stakeholder in these joint ventures, and legal proceedings can lead to unwanted problems or hinder future operations for the company (Gassmann and Han, 2004, p. 433).

GM had set its sight on SAIC as a partner when forming the joint venture, back when they first had to enter the Chinese market, the forming and choosing the partner of the joint venture is an important part, as there is an incentive to choose a partner that has operational and financial capabilities. GM saw SAIC as a fit partner to form the Joint venture with. This in conjunction with Porter's entry barrier for new entrants, and their need for access to a distribution channel, as mentioned in the previous chapter on entry barriers.

GM won the bid to form a partnership with SAIC, as it was the only viable option for partnership to produce large vehicles (Dunne, 2011, p. 82), and the best fit to gain access via SAIC's distribution channels. Furthermore, GMs promise to operate the JV like a WOFE, was in line with the Chinese strategy to obtain the technological know-how to create their own automotive industry.

Currently General Motors business in China are reporting increased sales due to a larger Chinese urban middleclass, the Chinese sales of passenger vehicles were 32% higher than in the U.S (Richter, 2017). General Motors sees the JVs as the best option to reach the Chinese mass market outside China's wealthiest cities (Moss, 2017). The JVs that produce Buicks, Cadillacs and Chevrolets, are losing market shares to Chinese brand manufacturers (Moss, 2017; Jian, 2018b).

GM's joint-venture that produce the car brand Baojun is on track to become GM bestselling vehicles in China (Moss, 2017). However, the profit margin on the Chinese JVs is low compared to GMs other operations in Europe and North America. This is because they must share the profits of the JVs with their partners and that the brands sold in China typically have smaller profit margins than in the U.S and Europe. Thus, despite being GMs biggest market, in 2016 only roughly 25 % of GMs earnings came from the JVs in China (Clover, 2017b).

Focusing on joint ventures and sharing technology more openly with their Chinese venture partners, GM have taken the spot as the top foreign automotive manufacture in China, even when they entered the first joint venture ten years later than their main competitor Volkswagen (Nelson, 2011).

6.6.3 Partial Conclusion

In this partial conclusion an answer to our first research question; 'Which entry mode strategy did GM make use of for entrance to the Chinese market, and how have this affected their performance?' will be provided.

Although GM had long been exporting cars to China, they were very keen on establishing a JV when this was allowed after the 'open door' policy was introduced. From then on GM mainly focused on producing their cars locally and kept creating new JVs. This meant that today nearly all cars sold in China are locally produced, excluding only some Luxury vehicles that is still imported from the U.S. A part of GMs strategy to gain market access to China was to treat their Chinese JVs as a wholly owned subsidiary with lots of technology and know-how sharing, even GMs core technology have been shared with their JV partners, mainly SAIC. This strategy has also been successful for GM, who now have a market share of 14,3 % of the Chinese market and made in \$2 billion equity income from their JVs last year. The profit margins on cars are though still lower in China, both because they buy cheaper cars but also

because GM shares the JV profits with their partners. Thus, the U.S is still GMs most profitable market, despite selling more cars in China.

In the next section, we will discuss the possibility for GM to make a wholly owned subsidiary in China and thus keeping all the profit and IPR within their own organization

6.7 Discussion WOFE

So far we have analyzed the entry mode applied by General Motors to China. They started exporting cars from U.S to China, but after the 'open door' policy they started forming JVs with Chinese state-owned companies most importantly Shanghai or SAIC. Arguable GMs first JV with SAIC was a marriage more out of need than lust for GM. As already mentioned the strict regulations of foreign companies entering the Chinese automotive industry and the 150% import tariffs made JVs the most favorable entry mode at the time, not only GM but most international automotive companies made JVs in China. Now however, the Chinese are starting to relax the regulations on foreign ownership in the automotive industry and have promised to allow WOFEs by 2023 at the latest. In fact, they have already made a deal with the Electric Vehicle company Tesla to allow them to set up the first WOFE for car manufacturing in China. The fact that Tesla is only producing electric vehicles is why they can already start a WOFE in 2018, since China is aiming to become the leading manufacturer of NEVs as a part of their "Made in China 2025" plan. In the next part the pros and cons of converting their JVs into WOFEs or setting up a new WOFE in China will be discussed.

Since the opening of the Chinese markets FDI have been flooding to China, especially in the manufacturing industry. The main reason for this was access to cheap labour, which made it possible to produce products cheaper than in the developed countries. The manufactured goods were then typically exported back into develop countries, taking advantage of the cheap labour and low manufacturing costs. In the automotive sector, the main reason for creating JVs was to gain access to the huge Chinese market that was expected to continue growing. The opportunity to circumvent the big tariffs of 150% before 2001 and the 25% today was one of the main drivers of the many JVs in the Chinese automotive industry. One of the biggest problems with GMs JVs in China is that they cannot apply the same tactic as manufactures in other industries, by producing at lower cost and exporting them back into their host-country,

without losing 50% of the profits to the JV partner. The fact that GM can only keep 50% of the profits makes it less interesting for them to export cars from their JVs, since if they export cars from a WOFE in Mexico or Brazil they can keep all the profits within GM. Therefore, it is not really in the interest of GM to produce cars within China for exports to foreign markets. Despite this they have started exporting Chinese Buicks to the U.S market, although they do not retain all the profits themselves. Their JV produced Baojun that have increased rapidly in popularity in China is also meant for exports to developing markets. This could indicate that GM is aligning their global business with their Chinese partners. That being said, since 2009 China have been the biggest market for the automotive industry, they might be satisfied co-operating with their JV partners also in the future, since some profits are better than none.

From the beginning when they established the first JV, the JV partner Shanghai was also the biggest customer, buying more than 90 % of the vehicles allowing their first JV to be profitable. The Chinese market today is dominated by private buyers, and with the increasing middleclass in the Urban areas, demand for cars is expected to keep increasing albeit not as much. Therefore, simply having a big chunk of the Chinese market is good for any automotive company, since there are big profits to be made. One problem GM would have if they decided to leave one of their established JVs to instead create a wholly owned subsidiary would be the loss of Guanxi. Losing the favor of the Chinese authorities can be devastating for GM, since getting permissions to build new factories, licenses for new models and many more aspects must be approved by the Chinese authorities, why being on good terms with them is extremely important for success in the Chinese business environment. Thus if they wish to terminate one or more of the JVs and convert them into wholly owned subsidiaries they should make sure this is done without upsetting the JV partners so they can avoid losing Guanxi (Moss, 2017).

As mentioned the GM entry mode strategy, was one of sharing technological know-how and skills with the JV partner, running the JV almost as a WOFE. This also meant sharing of IPR and teaching the local labour force the skills required to build a car. This strategy proved beneficial to GM as it created more trust in their JVs which in turn contributed to increased profits (Dunne, 2011). In the coming years the automotive industry is facing huge disruptions in the industry relating to NEVs and autonomous cars. This has the potential to create new competitors in an already established

industry, since innovation will be the key driver of success in the future car market. Tesla is an example of a new company that managed to penetrate the market by delivering new technology, mainly better battery technology than had so far been seen. Thus R&D in electric and autonomous vehicles is crucial to competition in the future automotive industry. In this regard protection of intellectual property should therefore also be more important to GM in the future than when they initially entered the Chinese market with the combustion engine, which many companies and countries had the technological skills and know-how to build. Thus, creating a new WOFE in China, might be the best way forward with NEVs since the IPR is much better protected here than in a JV. This is as previously mentioned because it can be hard to retain IPR in JVs even if there is a contract, since the Chinese authorities are more interested in developing the local industry than respecting foreign companies IPR. So even though GM has historically had success in sharing IPR with their JV partners, this highly disruptive technology might be better to retain within the company, instead of sharing it with JV partners who are state-owned enterprises and have been accused of not protecting the IPR of the JV partners. On the other hand, the Chinese authorities are investing heavily in this area, as they have laid out in the “Made in China 2025” plan. Thus, co-operating with a Chinese partner could provide cheap access to government loans and reduce the financial risks in this new industry. But the “Made in China 2025” plan is also worrying for GM, as it lays out the plan raising domestic content of core components and materials to 40% by 2020 and 70% by 2025 (Wuebbeke *et al.*, 2016). The main driver of the plan is product substitution. Thus, if GM continue to share intellectual property with their JV partners, they risk their JV partner using their technology in their own cars and outcompeting GM in the Chinese market. However, since GM mainly have local production the “Made in China 2025” can also be an advantage since even more vehicles in the future should be locally produced according to the plan.

6.7.1 Partial conclusion

This partial conclusion will answer the second research question; ‘Would it be beneficial for GM to make a wholly owned foreign enterprise in China when this becomes a possibility by latest 2023?’

As we can see above there are many potential advantages for GM to convert some of the JVs into a WOFE. Firstly, they could get higher profit margins on sales in the

Chinese market, since they would not have to share profits with their JV partners. Secondly it would help retain their Intellectual property within the company, so local competitors will not catch up to their technology so quickly. As mentioned IPR protection is lacking in China, why GM could benefit from keeping their core technologies out of JVs. This is especially true in NEVs since the potential for future profits in this area is enormous, why protecting the intellectual property in these disruptive technologies is especially important. Creating a new or converting existing JVs into WOFEs could also be beneficial when exporting cars from China, so they do not have to share profits on cars sold outside China. However changing strategy can also be risky for GM. Creating a WOFE could upset the Chinese authorities which would lead to GM losing Guanxi and make it much harder to operate in the Chinese business environment. Furthermore, since R&D in these new technologies are very expensive, having a financially stable partner with access to cheap state guaranteed loans, might also help advance the R&D efforts of GM. However, cooperating with a company that is more trustworthy regarding IPR theft would diminish the risks of GM in this area. Finally, if GM can avoid their JV partners substituting their products they might gain an even bigger market share in the Chinese automotive market by cooperating in JVs. This is due to the “Made in China 2025” plan of mainly having domestic production of cars, since GM mainly have local production.

7 Conclusion

As mentioned in the partial conclusions GMs entry mode strategy to the automotive industry have been to treat their JVs as WOFEs, by sharing more know-how and core technologies than their competitors. This entry mode strategy has benefited the bottom line of GM greatly, however some observers fear being so open with technology sharing might lead to their Chinese JV partners making their own cars of similar quality that can substitute GMs brands in China. As mentioned their profit margin is also lower in China than elsewhere due to profit sharing with their JV partners. Nevertheless, the entry strategy of GM can be said to have been effective since their market share in China on 14,3% is significant. The inherent risks of this strategy could be avoided in the future by setting up WOFEs instead of JVs. This entry strategy as previously stated also have some risks, e.g. loss of Guanxi, greater financial risks and uncertainty of regulatory environment. The advantages of shifting to a WOFE would be; better IPR

protection, higher profit margins, full control, possibility to export from China retaining 100% profits.

For GM changing some JVs into WOFE can also be risky due to the risk of alienating their JV partners, with whom they have already shared their core technologies. Thus, this could make the Chinese partners increase competition by introducing models in direct competition with GM. Therefore, change of entry mode can be riskier for a company like GM that is already established in the country. A newcomer to Chinese market such as Tesla, would not risk upsetting their JV partners, and could thus more easily set up a WOFE in the China. Related to Tesla and NEVs it would also be beneficial for GM to create a WOFE for these new disruptive technologies including autonomous vehicles, to retain the IPR within the organisation.

Since the regulatory framework in China is quite unpredictable and the proposed regulatory changes are still to be implemented, it is difficult to make exact suggestions on new entry mode strategies. We would therefore suggest that further research on this topic focus on the changes in the regulatory environment once these have been fully implemented. This is also true for the current 'trade war' between China and the U.S since the optimal entry mode strategy relies heavily on tariffs and regulatory entry barriers.

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