Editorial

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1 The 'Chinese miracle', a challenge to economic research

The 'Chinese miracle' of economic growth, mainly driven by the fast-speed growth of industry, can be illustrated by the impressive achievements of Chinese automotive industry. After China's opening up to the outside world in 1978, shifting from a fully planned economy towards a regulated peculiar market economic system, the Chinese automotive industry progressively built its value chain based on mass production.

The real take off took place in the 2000s, after China's accession to the World Trade Organisation (WTO) in 2001. Since 2009, China became the world biggest market for automotive production and sales, overtaking the USA. The annual vehicle sales in 2011 was more than 18.5 million units. Such an impressive growth has been achieved in less than 30 years. However, the supply side is still highly fragmented, while the corporate governance and ownership pattern of automotive companies are very complex. All these aspects make this industry an extremely stimulating and challenging case for study and analytical interpretation.

Crucial research questions may be addressed. Among the emerging countries, including Brazil, Russia, India, and China (BRICs), why the pace of growth of Chinese automotive industry has been much faster and sustainable? What have been the engines of its growth? Which role has been played by foreign direct investments (FDIs) from multinational corporations (MNCs), for technology transfer and spill over? How is China endogenously building its industrial clusters and supply chain? What is the role of government and industrial policy?

From the theoretical perspective, different theories and approaches can be applied, including technology catching up theories, MNC and FDI theories, theories of multinational inter-firm cooperation and of joint ventures (JVs), institutional theory and theories of economic transition, among the others.

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2 The Chinese automotive industry: patterns and trajectories of growth

There is a rich literature on industrialisation, especially in the 1980s and 1990s. By taking into account the mega trend of globalisation, we wish to analyse the growth of the Chinese automotive industry through a new approach. An original feature of this industry, which represents a big difference with the automotive industries in other developing or emerging countries, is its *dual internationalisation trajectory*.

On the one hand, foreign multinational OEMs entered, developed, and consolidated their market position and their brands in China during the last three decades, attracted by the size and by the growth rate of the domestic market. For them, the main way to access the market was through sino-foreign equity JVs with Chinese companies, under the obligation of Chinese government regulation, even after the WTO accession.

On the other hand, Chinese carmakers and suppliers, both state-owned and private, have jointly built sound industrial value chains. In the early 2000s, these firms took early but very significant moves to expand abroad, via exports, foreign assembly plants and acquisitions of foreign firms. This move represents a remarkable strategic change. Till the new century, this industry was much less export-oriented than other Chinese industries, as the huge domestic market has been the powerful driving force for its growth.

This dual internationalisation trajectory goes along with, and may be mainly explained by, the process of technological catching up, the creative absorption and assimilation of knowledge and the building of innovative capabilities by Chinese carmakers.

If the international JVs have been a major instrument for achieving the catching up, via the transfer of new technologies, Chinese carmakers have developed also other instruments and strategies for the same goal, including technology imitation and reverse engineering, original product architecture innovation (Wang, 2008) and asset-seeking acquisitions abroad of foreign carmakers or component suppliers.

The corporate governance and ownership patterns include, beside international JVs, Chinese state-owned enterprises (centrally controlled, municipality or province-controlled enterprises), and private companies. Some of them are listed in the stock markets. Moreover, Chinese brands compete with the multinational brands of cars produced by JVs on the domestic market, and in perspective on the global markets, while some JVs, especially in innovative segments, are introducing their own brands.

We cannot ignore three additional actors of this industry: Chinese institutions (central and regional governments, and industrial policy makers), and international institutions (mainly WTO), and the foreign countries recipient of Chinese exportation and outward FDI). Institutions and policies matter, and should carefully be taken into account by researchers analysing China's automotive market (Thun, 2006). It is crucial to understand the complex articulation between central industrial policies and the local ones, at province and municipality level. MNCs, Chinese companies, and those institutions are collectively shaping the Chinese automotive industry.

The dynamics of Chinese automobile industry can also be examined by the point of view of the significant strategic changes of MNCs that took place since the 1980s. In the early stage, MNCs followed a product-life-cycle approach, as well as a strategy of maximising economies of scale (Dunning, 1993), producing and selling car models that were out-of-date in their home country, to serve the Chinese market. In the last decade, the simultaneous launch of new car models (both in developed markets and in China) became a popular practice. From the perspective of value chain, in the 1990s, China was

identified as the site of assembling plants, while in recent years more and more R&D centres have been established in China, not only for car model adaptation, but also for the design of new cars for Chinese consumers. In terms of components, carmakers have experienced a quick evolution from components exportation, to localising production, to the integration of Chinese suppliers into their global sourcing platform.

Chinese companies, including new comers in the late 1990s like Geely, BYD, or Chery, have demonstrated their astonishing capability of catching up. Without any automobile manufacturing experience, these companies took the strategic move to this complex industry. Few industrial experts or scholars could imagine some years ago the acquisition of Volvo by Geely in 2010, or the JV between BYD and Daimler in 2011 for the production of joint-branded new energy vehicles.

Meanwhile, many challenges and contradictions characterise the Chinese automotive industry. Foreign OEMs have to cope with the second best choice of JVs imposed by Chinese regulations, while accelerating the introduction of cars with cutting edge technology. JVs themselves are evolving from the traditional model based on the exchanges of mature technologies against the access to the domestic market ('old technologies vs. new market') towards new car models and innovative technologies (e.g., in the new energy vehicle sector) (Balcet and Ruet, 2011). Local OEMs are highly innovative in building intrinsic brands, while they are increasingly dependent towards foreign tier-one suppliers when targeting medium to premium sedans. Central government set up industrial policies to rationalise a highly fragmented industry, while regional governments are competing each other to build local automotive clusters. Chinese consumers are becoming more exigent, while talent shortage in distribution network is affecting brand value of cars.

3 Filling research gaps: the contribution of this special issue

In-depth academic research on China's automotive industry is lacking. A deeper understanding of these crucial dynamics and the related interactive processes requires to fill an empirical and theoretical gap in current economic and managerial research. That is why this special issue on the dynamics of Chinese automotive industry focuses on such issues as the strategies of foreign MNCs in China, with a special reference to international JVs; the internationalisation and multinational growth of Chinese carmakers; technological catching up, imitation and innovation processes; institutional and labour issues.

All the papers selected for this special issue of *IJATM* have been first presented and deeply discussed in three Sessions on Chinese Automotive Industry at the GERPISA 19th International Conference on 'Is the Second Automobile revolution on the Way?', held in Paris in 8–10 June 2011. The editors warmly thank all the participants to these Sessions for their valuable contribution.

The paper by Clive Collis and Tom Donnelly highlights the growth trajectory of China's auto industry, with a focus on inward FDIs and international JVs as an entry mode of special importance in this country. Relevant theories, drivers and strategies are discussed, as well as the relationship with domestic Chinese carmakers. The important relation between partnerships and technology transfer, acquisition and assimilation emerges, while policy implications affecting the future perspective of growth of this industry are pointed out.

A fast changing strategy of MNCs in China can also be observed in the electric mobility segment. Heike Proff analyses the possible strategic shift and its challenges during the structural transition to the e-mobility industry. The author demonstrates that MNCs are using China as the laboratory of e-mobility technology. This strategy can possibly help MNCs keep their technology leadership. Meanwhile, decentralised R&D for radical innovation and the development of new technology poses challenges. This includes internal resource allocation, corporate governance between subsidiaries and the headquarter of the MNC, and risky environment on intellectual property protection in China.

Alessia Amighini's paper, on the contrary, highlights the dynamics and the drivers of outward FDIs by Chinese automotive firms, in the context of the recent wave of outward Chinese FDIs. The paper first provides an overview of this trend, based on original data, followed by an interpretation, based on the assessment of most relevant host country factors, and comparing different typologies of investing companies, i.e., SOEs vs. private companies, and OEMs vs. suppliers. Finally, the paper is enriched by the discussion of some case studies of Chinese carmakers investing abroad.

A specially stimulating case study, that of Geely, is analysed by Giovanni Balcet, Hua Wang and Xavier Richet. After a survey of the most relevant literature on emerging multinationals, their paper deepens the relationship between catching up processes and asset seeking international acquisitions, as a peculiar multinational strategy developed by this private Chinese company. The acquisition of Volvo in 2010 represents a milestone in this process. As the paper points out, it is a stage of a trajectory, developed with a clear long-term strategic view. Problems, implications and future perspectives of Geely's twin trajectories, of catching up and of multinational expansion, are also discussed.

As demonstrated by Robert Pauls and Ludger Pries, institutional factors cannot be neglected if we wish to understand the complexity of China's automotive industry. Curiously, when China transformed from the planned economy with socialist ideology, the current labour regulation institution went to another extreme, i.e., strongly favoured the interest of capital. What makes the institution more complex is the presence of party-state's political control on the top of corporate management. Further investigation on the future possible labour conflicts, and their impact on the sustainable development of this industry are desirable.

4 Future perspective: complexities, opportunities and challenges

It would be too ambitious to cover all aspects of Chinese automotive industry. In this special issue, we try to demonstrate the dynamics of this industry through its dual internationalisation trajectory. This special issue is also a call for international joint research linking with the Chinese automotive industry, especially via the platform of Gerpisa. Besides the topics that have been covered in this special issue, we think that some other research fields need to be explored.

From the perspective of large MNCs, what are the opportunities and challenges connected to the new form of JV? For example, according to the new regulation, the central government has imposed sino-foreign JVs to create Chinese indigenous brands. Will this be the opportunity for MNCs to compete with low cost cars from Chinese counterparts? At the same time, will this regulation generate risk of intellectual property

protection, not only in terms of technology, but also in terms of critical management knowledge, including branding strategy?

From the perspective of recipients of Chinese exportation and outward FDIs, such as Brazil, Mexico, Russia, what will be the new relationship and interaction between host government, well established MNCs, and newly arrived Chinese players? Accordingly, will regulations and industrial policies be changed? Will some kind of protectionist reaction take place?

Also the inter-firm relationship between carmakers and suppliers in China too need to be further explored. Innovation in the triple helix (quality, cost, delivery) is the permanent challenge. It is even more critical when foreign carmakers are stretching their product line from luxury to low-cost cars. Will at least one new production model emerge, among Chinese carmakers?

Chinese automobile industry is also an excellent case to understand institutional complexity. There are central-regional government policy conflicts, because of a decentralised governance. In particular, central government wishes to consolidate the industrial structure by creating a limited number of automotive giants, while provincial governments wish to have new automotive projects, so as to boost local economy. On the other hand, new energy vehicle has been identified as a national strategy in aims of leapfrogging western carmakers. However, regional governments and local players have not yet developed enough R&D capabilities and industrial infrastructure to successfully follow this strategy.

The research agenda is very rich and stimulating. We hope it will not be missed by scholars, who have significantly contributed in the last decades to analyse and understand patterns, trajectories and problems of the automotive industry in newly emerging countries, including Japan and Korea.

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