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China's Outward Investment in Europe during the “Go Out” Policy Years: Trends, Drivers, and Strategies in the Automotive Industry, 2000–2018

This article examines China's outward investment in the European automotive industry since the late twentieth century. By mapping and analyzing the main investment operations, we argue that private companies played a key role in the internationalization of the Chinese automotive sector. Chinese state-owned enterprises took part, especially in the initial stages of international expansion. Our contribution also analyzes the pattern of internationalization followed by Chinese companies, arguing that it differed from the one followed by well-established automotive firms in advanced economies during previous decades. The findings reveal that achieving the most advanced technology was the key driver of outward investment decisions. However, Chinese investors' strategy was not uniform; it was flexible and varied significantly depending on the European country and the size of the company targeted. Furthermore, Chinese government industrial policies greatly influenced the international strategies of both state-owned and private companies, particularly the “Go Out” policy.

Keywords: automotive industry, outward direct investment, Go Out policy, China, Europe

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China emerged as the world's largest automobile producer in 2009, surging ahead of traditional manufacturers and leaving behind other emerging BRICS economies, such as Brazil, Russia, and India.¹ This primacy was achieved within a relatively short period that began with the economic reforms of Deng Xiaoping in the late 1970s. China's automotive industry development was fostered mainly through learning foreign companies' design and manufacturing techniques.² At the turn of the millennium, the Chinese government encouraged enterprises to invest abroad through its "Go Out" policy. The overall number of cross-border transactions by Chinese firms increased significantly, and the automotive industry is no exception. The Go Out, also known as the "Go Global," policy was part of the ninth Five-Year Plan (1996–2000), which encouraged the outward expansion of Chinese companies. The real boom began in 2009, following the 2008 global economic setback, when the Chinese government strengthened its Go Out policy. Outward investment grew so much that Peter Nolan (2012) stated that China was "buying the whole world," and that within a few years it would have bought up the entire global car industry.³

Europe, the "mother of the automobile industry," according to Mira Wilkins and Frank Hill, attracted attention from Chinese companies when the policy began.⁴ While the primary recipient of Chinese investment has consistently been Asia, the European Union (EU) emerged as the ultimate destination for China's automotive-related investments; one-third of the total number of transactions and 50 percent of total investment value were directed at the EU from 2005 to 2018.⁵ Although some literature examines Chinese foreign investment in the automotive sector, the internationalization trend of Chinese companies in Europe's automotive industry has not yet been exhaustively mapped or analyzed, and little attention has been

¹Organisation International des Constructeurs d'Automobiles (OICA), *2022 Production Statistics*, accessed 20 Sep. 2022, <https://www.oica.net/category/production-statistics/2022-statistics>.

²Yuan Jia-Zheng, "The Re-emergence of the Chinese Economy: Internationalization and Technological Catch Up in the Automobile Industry (1953–2018)," (Ph.D. diss, University of Barcelona, 2023).

³Peter Nolan, "Is China Buying the World?" *Challenge* 55, no. 2 (2012): 108–118; Michael Schuman, "China Is Trying to Buy a Car Industry," *Time Magazine*, 17 Mar. 2014, accessed 23 Aug. 2023, <https://time.com/26840/china-buying-foreign-car-makers/>.

⁴Mira Wilkins and Frank E. Hill, *American Business Abroad: Ford on Six Continents* (Cambridge, 2011), 92.

⁵Jia-Zheng, "The Re-emergence of the Chinese Economy."

dedicated to an examination of the preconditions, drivers, and business strategies behind these dynamics.⁶

This article's purpose is threefold. The first purpose is to investigate Chinese outward investment in the automotive industry in Europe from roughly 2000 to 2018. The second aims to enrich the business history literature on the automotive sector and the process of internationalization of its players, adding to the contributions of distinguished scholars and dynamic research groups such as the Permanent Study and Research Group on the Automobile Industry and its Employees (GERPISA) and the Center for Automotive and Mobility Innovation (CAMI). The third purpose is to explore the internationalization strategy of Chinese automotive actors in Europe with a historical prism so that, as scholars Geoffrey Jones and Tarun Khanna urge, "history can illuminate conceptual issues of interest to scholars of contemporary International Business."⁷

This article acknowledges the key role played by the Chinese government in encouraging the internationalization process of Chinese automotive firms and argues for the importance of private companies, especially in their joint partnerships with European companies. Chinese state-owned enterprises (SOEs) invested in Europe, but we claim this was largely in the initial stages of internationalization. In addition to emphasizing the role of private firms, our contribution sheds light on the particular internationalization pattern Chinese companies followed, showing how it differed from those of well-established automotive companies of advanced economies in earlier decades, especially in terms of investment motivations. Strategic assets related to technology and know-how were key drivers for Chinese investment decisions, but the *modus operandi* was flexibility in terms of entry strategies that were adjusted when targeting each European country and companies of different sizes. Private-sector automotive companies in China also demonstrated dynamic and rapid responsiveness to the government's guidelines by adopting total or partial acquisition entry strategies.

After providing an overview of the global automotive industry at the turn of the millennium and the formative years of the Chinese auto industry, the manuscript starts by examining overseas transactions to provide a picture of outward investment of the largest Chinese

⁶Alessia Amighini, "The International Expansion of Chinese Auto Firms: Typology and Trends," *International Journal of Automotive Technology and Management* 12, no.4 (2013): 345–59; Alessia Amighini and Chiara Franco, "China Economic Review A Sector Perspective on Chinese Outward FDI: The Automotive Case," *China Economic Review* 27 (2013): 148–61; John Child and Suzana B. Rodrigues, "The Internationalization of Chinese Firms: A Case for Theoretical Extension?" *Management and Organization Review* 1, no.3 (2005): 381–410.

⁷Geoffrey Jones and Tarun Khanna, "Bringing History (Back) into International Business," *Journal of International Business Studies* 37, no. 4 (2006): 453–68, 455.

companies in the European automotive industry. Second, it investigates these dynamics by focusing on the transformation of the automotive sector at the global and European levels, the impact of Chinese government policies on private companies and SOEs, and the car-makers' investment decisions based on historical relationships and collaborations with their European counterparts. It also looks at earlier European investments in China.⁸ Our empirical research ends with the year 2018 because the following period was characterized by new industry trends at a global level and by the COVID-19 pandemic and post-pandemic dynamics.

We reconstructed and studied the investment operations of the ten most prominent Chinese companies, representing around 90 percent of the cumulative Chinese investment in the EU between 2005 and 2018. We used primary sources and statistical databases, such as the Bulletin of China's Outward Foreign Direct Investment by China's Ministry of Commerce (MOFCOM), the China Global Investment Tracker by Heritage Foundation, Zephyr Bureau van Dijk (BvD), European think tanks, and reputable financial media (e.g., Bloomberg, Thomson Reuters). These sources provided data contrast, and trust-based criteria were applied; that is, we relied on published statistics, understanding that they might present inaccuracies or minor inconsistencies among themselves. We are aware that, with the global nature of the industry, acquisitions of firms are not straightforward; for example, Europe might be the hub for foreign acquisitions in North America or Latin America. To analyze these dynamics, we used primary sources such as China's Automotive Industry Yearbooks and historical corporate reports as well as secondary sources. We observed public media in China and Europe to better understand the drivers of investment decisions, how Chinese companies framed these decisions, and the effects of these investments on public opinion.

The following section presents the historical setting of the global automotive industry at the turn of the millennium. We then review the existing literature to assess the status of the Chinese automotive industry through the end of the twentieth century, focusing on the government's role in fostering the process of internationalization of Chinese players. Following that, we review the dynamics and transformation of Chinese companies' investment strategies in the European automotive industry. The final section compares the internationalization strategy of a private company (Geely) and an SOE (Donfeng), before concluding.

⁸We did not include activities by companies in Hong Kong.

The Global Automotive Industry at the Turn of the Millennium

In 1946, Peter Drucker defined the automotive industry as “the industry of industries.”⁹ It helped shape the industrialization of the world's largest economies in the twentieth century, for instance, through its links with other industries and its importance to national economies. China was no exception.

There is extensive research in business history literature on the importance of the automobile industry in the national economies of advanced nations. For example, Mira Wilkins and Frank Hill's seminal research on Ford was the first of several remarkable works that delved into the dynamics and strategies of Ford's foreign expansion. Other studies of Western automobile players include General Motors, Volkswagen, Fiat, and Renault.¹⁰ Since the 1980s, Asian automobile producers (e.g., Japan with Toyota and South Korea with Hyundai) have created innovative production systems and more energy-efficient and economical cars, forcing their global expansion process and disruptions in the industry.¹¹ Business history literature has revealed the

⁹Peter Drucker, cited in James P. Womack, Daniel T. Jones, and Daniel Roos, *The Machine That Changed the World: Based on the Massachusetts Institute of Technology 5-Million Dollar 5-Year Study on the Future of the Automobile* (New York, 1990), 9.

¹⁰Wilkins and Hill, *American Business Abroad*. For Volkswagen and Fiat in Brazil, see Helen Shapiro, “Determinants of Firm Entry into the Brazilian Automobile Manufacturing Industry, 1956–1968,” *Business History Review* 65, no. 4 (Winter 1991): 876–947. For direct investment in Spain by French and German automakers to open production subsidiaries in Spain, see Núria Puig and Rafael Castro, “Direct Investment in Spain by French and German Automakers to Open Production Subsidiaries in Spain,” *Business History Review* 83, no. 3 (Autumn 2009): 505–537. For the presence of Peugeot Citroën, Volkswagen, and Renault in Spain, see Veronica Binda, “Strategy and Structure in Large Italian and Spanish Firms, 1950–2002,” *Business History Review* 86, no. 3 (Autumn 2012): 503–525. Jacob Anbinder, “Selling the World: Public Relations and the Global Expansion of General Motors, 1922–1940,” *Business History Review* 92, no. 3 (Autumn 2018): 483–507; Andreas Fricke, *Markteintritt und -bearbeitung in der Automobilindustrie: Volkswagen in den USA—Eine empirische Untersuchung auf Basis von Dunning's Eklektischem Paradigma* (Bern, 2007); Bernard Rieger, *The People's Car* (Cambridge, 2013); Chiara Casalino, “Italian Big Business and the Italian Automotive Industry: Fiat Internationalization in the Vittorio Valletta Era and Its Ongoing Reorganization (1946–1972),” *Jahrbuch für Wirtschafts-geschichte/Economic History Yearbook* 51, no. 1 (2010): 89–106; Giuseppe Berta and Chiara Casalino, “From Turin to Detroit,” in *Sustaining Industrial Competitiveness after the Crisis: Lessons from the Automotive Industry* (London, 2012), 159–172; Tomás Fernández de Sevilla, “Renault in Spain: From Assembly to Manufacture, 1961–72,” *Business History* 52, no. 3 (Autumn 2010): 471–492; Patrick Fridenson, “Le projet de création par Renault d'une banque industrielle et son rejet par l'État (1971–1973),” *Entreprises et Histoire* 95, no. 2 (2019): 86–110.

¹¹Mark Mason, *Europe and the Japanese Challenge: The Regulation of Multinationals in Comparative Perspective* (Oxford, 1997); Michel Freyssenet, Koichi Shimizu, and Giuseppe Volpato, eds., *Globalization or Regionalization of the American and Asian Car Industry?* (New York, 2003); James P. Womack, Daniel T. Jones, and Daniel Roos, *The Machine That Changed the World: The Story of Lean Production—Toyota's Secret Weapon in the Global Car Wars That Is Revolutionizing World Industry* (New York, 2007); Nicole Biggart, Nicole Woolsey, and Mauro F. Guillén, “Developing Difference: Social Organization and the Rise of

transformative dynamics of the global automotive industry. It highlights how this evolution was driven by the spread of groundbreaking productive processes (from craft production to mass production, and then lean production) and the adoption of new business strategies based on the varying approaches of home and host economies, especially regarding industrial policies.¹² For example, Japan attempted to increase its world market share through direct investment in the United States and Europe rather than growing exports of finished units of vehicles. Honda was Japan's first significant foreign investment (in Marysville, Ohio, in 1982). This was followed by investments by eleven other Japanese automakers, including Toyota, which established engine and manufacturing plants in the United States. American policies welcomed the arrival of both capital and innovative production processes to revitalize their manufacturing operations. As for South Korean automobile companies, Hyundai was compelled to invest in a production plant in response to US government pressure in 1988, which required the Korean government to reduce its trade surplus by 50 percent. This was a clear strategy by Korea to protect its market share.¹³

To understand the internationalization process of Chinese automakers in Europe, it is necessary to emphasize the turbulence of the global automotive industry at the end of the twentieth century. The global success of the traditional Western automakers was damaged by the 1970s oil shock and the emergence of competitors from East Asia, especially Japan, with their innovative production system and fuel efficiencies.¹⁴ The second wave of globalization that began in the 1980s

the Auto Industries of South Korea, Taiwan, Spain, and Argentina," in *The Sociology of Economic Life*, ed. Mark Granovetter and Richard Swedberg (London, 2018), 474–502; Alice Milor, "Ownership Matters: French Governments and Automotive Industrialists Facing the Japanese Challenge, 1974–1986," *Business History Review* 96, no. 4 (Winter 2022): 833–855.

¹²Alain Verbeke and Liena Kano, "The New Internalization Theory and Multinational Enterprises from Emerging Economies: A Business History Perspective," *Business History Review* 89, no. 3 (Autumn 2015): 415–445; Freyssenet, Shimizu, and Volpato, *Globalization or Regionalization*; Wilkins and Hill, *American Business Abroad*.

¹³Womack, Jones, and Roos, *The Machine That Changed the World: The Story of Lean Production*.

¹⁴Alice Milor, "Ownership Matters: French Governments and Automotive Industrialists Facing the Japanese Challenge, 1974–1986," *Business History Review* 96, no. 4 (Winter 2022): 833–855; Ingo Koehler, "Overcoming Stagnation: Product Policy and Marketing in the German Automobile Industry of the 1970s," *Business History Review* 84, no. 1 (Spring 2010): 53–78; Jordi Catalan Vidal, "The Stagflation Crisis and the European Automotive Industry, 1973–85," *Business History* 59, no. 1 (2017): 4–34; Nicola Meier, *China—The New Developmental State? An Empirical Analysis of the Automotive Industry* (Singapore, 2018); Markus Diehl, *International Trade in Intermediate Inputs: The Case of the Automobile Industry*, Kiel Working Paper no. 1027, 2001; Joanne Roberts, "Global Shift: Mapping the Changing Contours of the World Economy," *Critical Perspectives on International Business* 8, no. 1 (2012): 93–95.

played a key role in reshaping an industry that needed novel solutions to the recession in the automobile industry, particularly in the United States, and new growth opportunities.¹⁵ Several takeovers occurred within Europe, for example, when Peugeot absorbed France's Citroën and when Volkswagen Group acquired the Spanish company SEAT.¹⁶ Many factors, including reductions in transport and communication costs, favorable geopolitical environments, and liberalization policies (e.g., deregulation and privatization), became popular worldwide, especially in the last decade of the twentieth century. These prompted new flows of foreign investments in multiple industries besides automobiles, such as pharmaceuticals, telecoms, and public utilities.¹⁷

Starting in the late 1970s, when economic reforms began, China gradually liberalized its domestic market and integration into world markets. In the 1980s, European automotive manufacturers began investing in emergent China in search of new markets, creating a win-win situation in which Chinese companies could take advantage of foreign manufacturing in China to access Western know-how. Japanese automakers entered the Chinese market in the early 1990s because they were concerned about enforcing market competition in neighboring Asian markets.¹⁸ Since 2001, with the country's admission into the World Trade Organization (WTO), China's economy has become more relevant in the global value chain with increased exports of intermediate and finished industrial products.

Automotive companies were in the midst of redesigning their strategies in a new global and competitive landscape when two major shocks occurred. The first shock had immediate effects: the global financial crisis in 2007 and 2008 did not spare the automotive industry.¹⁹ Even so,

¹⁵Joel Cutcher-Gershenfeld, Dan Brooks, and Martin Mulloy, "The Decline and Resurgence of the U.S. Auto Industry," *Economic Policy Institute*, no. 399 (2015).

¹⁶Jordi Catalan, "La gran metamorfosis de SEAT, 1977–1988: de la crisis con FIAT a la recuperación con Volkswagen," in *La industria del automóvil de España e Italia en perspectiva histórica*, ed. Rafael Villajo and Margarita Vilar (Alicante, 2019): 105–148; Patrick Fridenson, "Étendue et limites de l'Europe automobile," *Entreprises et histoire* 33, no. 2 (2003): 91–100.

¹⁷For an in-depth discussion on these factors and their impact on international business in different sectors, see, for instance, Veronica Binda and Andrea Colli, *Globalization: A Key Idea for Business and Society* (Oxon, 2024); Teresa da Silva Lopes, Christina Lubinski, Heidi J. S. Tworek, ed. *The Routledge Companion to the Maker of Global Business* (Oxon, 2020); John Dunning and Sarianna Lundan, *Multinational Enterprises and the Global Economy* (Northampton, MA, 2008); Robert Fitzgerald, *The Rise of the Global Company* (London, 2015); Geoffrey Jones, *Multinationals and Global Capitalism* (Oxford, 2005).

¹⁸Eric Harwit, E. *China's Automobile Industry: Policies, Problems, and Prospects* (Oxon, 1995).

¹⁹Christophe Midler and Marc Alochet, "When Regulations Shape the Future of an Industry: The Case of the High-Voltage Battery," *International Journal of Automotive Technology and Management* 23, no. 4 (2023): 343–382; Richard F. Doner, Gregory W. Noble, and John Ravenhill, *The Political Economy of Automotive Industrialization in East Asia* (New York, 2021).

China played a vital role in this transformative process. During the recession, the automotive sector experienced increased investment in research and development (R&D) and competitiveness, transforming it from an emerging automobile country to the world's largest manufacturer. In contrast, established players in the European automotive industry underwent further reorganization and consolidation into a handful of major groups: Volkswagen, Stellantis (PSA and FCA), Daimler, BMW, Renault, Volvo, and Jaguar.²⁰ The second shock, with a long-term impact, began a technological revolution that profoundly changed the industry's organization.²¹ This involved, for instance, the growing use of robots and artificial intelligence in the production process as well as augmentation in electric vehicles.

The Formative Years of the Chinese Automotive Industry

While the process of international expansion of Chinese automotive companies is just now being explored, distinguished scholars have studied this sector's historical development within China, highlighting especially the attention the Chinese government has paid to the automotive industry since the foundation of "New China" in 1949.²² Some studies examined the attempts by Chinese leaders to promote "national champions" that they believed would lead other economic sectors to develop through multiplier effects on employment and economic growth.²³ The Maoist period (1949–1976) witnessed the birth

²⁰ For details of the merger operation of PSA (Peugeot, Citroën, DS, Opel, and Vauxhall) and FCA (Fiat Chrysler Automobiles), completed in 2021, see Stellantis, accessed 16 Feb. 2024, <https://www.stellantis.com>. RNM (Renault-Nissan-Mitsubishi), Volvo, and Jaguar have a strong production and R&D footprint in Europe and are thus treated as European OEMs (original equipment manufacturers). See David Brown, Michael Flickenschild, Calo Mazzi, Alessandro Gasparotti, Zinovia Panagiotidou, Juna Dingemans, and Stefan Batzel, *The Future of the EU Automotive Sector*, ITRE Committee, European Parliament, Oct. 2021.

²¹ Mina Ahmadi, Mostafa Pahlavani, Armin Karimi, Mahmoud Moradi, and Jonathan Lawrence, "The Impact of the Fourth Industrial Revolution on the Transitory Stage of the Automotive Industry," in *Sustainable Manufacturing in Industry 4.0: Pathways and Practices*, ed. Hamed Gholami, Georges Abdul-Nour, Safian Sharif, and Dalia Streimikiene (Singapore, 2023): 79–96.

²² Eric Harwit, "The Impact of WTO Membership on the Automobile Industry in China," *The China Quarterly*, 167 (2001): 655–670; Eric Thun, *Changing Lanes in China: Foreign Direct Investment, Local Governments, and Auto Sector Development* (Cambridge, MA, 2006); Loren Brandt and Eric Thun, "The Fight for the Middle: Upgrading, Competition, and Industrial Development in China," *World Development* 38, no.11 (2010): 1555–1574; Loren Brandt and Thomas G. Rawski, eds., *China's Great Economic Transformation* (Cambridge, MA, 2008).

²³ Weidong Liu and Peter Dicken, "Transnational Corporations and 'Obligated Embeddedness': Foreign Direct Investment in China's Automobile Industry," *Environment and Planning A* 38, no.7 (2006): 1229–1247; Henry W. Yeung, Weidong Liu, and Peter Dicken, "Transnational Corporations and Network Effects of a Local Manufacturing Cluster in Mobile Telecommunications Equipment in China," *World Development* 34, no. 3 (2006): 520–540.

of the core state-owned enterprises that have led China's automotive production through to the present: First Automotive Works (FAW), Dongfeng Motor (formerly Second Automotive Works [SAW]), Shanghai Automotive Industry Corporation (SAIC, formerly Shanghai Tractor and Automobile Corporation), Sinotruck, and Beijing Automotive Industry Company (BAIC).²⁴ Despite the SOEs' attempts to access foreign technology through collaboration agreements, China did not develop a competitive automotive industry, at least for internal combustion motor vehicles. Within a framework of technological shortfalls, in which the state's role was all-determining and a real market for cars was absent, Chinese passenger car production was negligible at the end of the Maoist period and suffered from severe shortages of capital and technology.²⁵

The industry experienced a significant change with the reforms led by Deng Xiaoping when the new leader emphasized collaboration with European partners to modernize China's industry. In 1979, the first Law on Sino-Foreign Equity Joint Ventures was issued and then updated in 1983 and 1988. During the 1980s and 1990s, foreign carmakers were allowed to form joint ventures (JVs) only with SOEs chosen by the Chinese government, in what was known as "obligated embeddedness."²⁶ The first wave of Sino-foreign JVs was dominated by European automobile companies, including Volkswagen, Peugeot, Citroën, Fiat-Iveco, and Mercedes-Benz (Appendix 1). In 1994, China's first specific policy for the automotive industry (Policy on the Development of the Automotive Industry) stated that JVs could only be established between a foreign and a Chinese partner, and that the latter had to own a stake of at least 50 percent in the venture. Furthermore, foreign partners could

²⁴ Jim Mann, *Beijing Jeep: A Case Study of Western Business in China* (Westview, 1997); Eric Thun, "Industrial Policy, Chinese-Style: FDI, Regulation, and Dreams of National Champions in the Auto Sector," *Journal of East Asian Studies* 4, no. 3 (2004): 453–489; Eric Thun, *Changing Lanes in China Foreign Direct Investment, Local* (Cambridge, MA, 2006); Clive Collis and Tom Donnelly, "Joint Ventures and the Development of the Chinese Automotive Industry," *International Journal of Automotive Technology and Management* 19 12, no. 4 (2012): 318–329; Yunping Guang, *Zhongguo qichegongye fazhanshilun 1920–2008* (Shanghai, 2020); Doner, Noble, and Ravenhill, *Political Economy of Automotive Industrialization*; Zejian Li, "Foreign Technologies and Domestic Capital: The Rise of Independent Automobile Makers in China, 1990s–2000s," in *Organizing Global Technology Flows*, ed. Pierre-Yves Donzé, (London, 2013), 169–193; Zejian Li, "The Role of International Technology Transfer in the Chinese Automotive Industry Manufacturing," *Management Research Center* (2009): 1–22; Zejian Li, "Eco-Innovation and Firm Growth: Leading Edge of China's Electric Vehicle Business," *International Journal of Automotive Technology and Management* 15, no. 3 (2015): 226–243; Yuan Jia-Zheng and Carles Brasó Broggi, "The Metamorphosis of China's Automotive Industry (1953–2001): Inward Internationalisation, Technological Transfers and the Making of a Post-Socialist Market," *Business History*, advanced online publication, accessed 18 Oct. 2024, <https://doi.org/10.1080/00076791.2023.2247366>.

²⁵ Jia-Zheng, "The Re-emergence of the Chinese Economy."

²⁶ Liu and Dicken, "Transnational Corporations."

not engage in more than two joint ventures to assemble the same model and had to guarantee the transfer of technology and know-how to the Chinese partner.²⁷ Given its crucial aim of ensuring the transfer of foreign technology, the government favored companies with their own R&D centers and proposals to jointly create new centers.

Along with gradual market liberalization, private property rights also began to emerge, and Independent Chinese Automotive Manufacturers (ICAMs) appeared in the mid-1980s.²⁸ These young companies—Great Wall Motor, Geely, Lifan, BYD, and Youngman—struggled to compete in a highly protected market dominated by large SOEs and Sino–Foreign JVs because they had no opportunity to form joint ventures with foreign companies.

China's admission to the WTO inaugurated a new phase in the automotive industry: non-SOEs were now allowed to establish joint ventures, and the government issued over 3,000 laws and regulations that aimed (mostly) to reduce tariffs and facilitate FDI. Requirements regarding local content, foreign exchange, and technology transfer were (provisionally) eliminated for new projects, and investments of over USD 30 million in technology-intensive sectors and industries promoted by the Chinese Foreign Investment Catalogue would obtain tax reductions of 15 percent.²⁹ These policies, combined with the attractiveness of the growing domestic market, favored a new wave of joint ventures. (Appendix 1).³⁰

The severe impact of China's admission to the WTO on its automotive sector prompted the government to partly reconsider inward FDI restrictions to avoid foreign domination of its domestic market.³¹ In 2004, the government updated the Foreign-Invested Industry Guidance Catalogue for foreign investment projects, deciding which industries to encourage, permit, or restrict. Any new project with a total investment above USD 100 million required authorization by the National Development and Reform Commission. The 2004 automotive industry policy replaced the 1994 policy and maintained restrictive foreign equity participation and stringent conditions for technology transfer.³² The new regulations did not, however, discourage foreign

²⁷ See more about 1994 Automobile Industry Policy in Bingjin Xu and Ouyang Min, *Zhongguo qiche shihua* [China's automobile industry history] (Beijing, 2017); China Automotive Industry History Editorial and Review Committee, ed. *Zhongguo qiche gongyeshi 1901–1990* (Beijing, 1996).

²⁸ Li, "The Role of International Technology Transfer"; Li, "Foreign Technologies and Domestic Capital."

²⁹ WTO, *Report of The Working Party on the Accession of China*, Ministerial Conference, Fourth Session, Doha (9–13 Nov. 2001).

³⁰ Harwitt, "The Impact of WTO Membership."

³¹ Meier, *China—The New Developmental State?*

³² NDRC, *Qiche gongye fazhance 2004* (2004).

carmakers from entering the Chinese market, and earlier Sino–foreign joint ventures were renewed; for example, in 2002 the Volkswagen Group renewed its contracts with SAIC and FAW for twenty years.³³ In addition, new European carmakers and other competitors from the United States, Japan, and South Korea also established joint ventures with local partners, mostly SOEs.

Over the last two decades of the twentieth century, China's domestic production of cars rose from 205,654 units (average) per year in the sixth Five-Year Plan (1981–1985) to 4,161,060 units (average) per year in the tenth Five-Year Plan (2001–2005).³⁴ The “Big Three” (that is, FAW, SAIC, and Dongfeng) led the domestic market from 2002 to 2018, while new manufacturers, especially privately owned and independent carmakers (e.g., Geely, BYD, and Great Wall), gained a larger share of the market in terms of production volumes and launching new car models. However, around 70 percent of passenger car production came from Sino–foreign JVs.

Inward foreign investments continued in the 2000s and 2010s, along with a significant surge in Chinese foreign investment. The international expansion of Chinese automotive companies proceeded alongside state guidelines. During the “Go Global” 1.0 phase (1996–2012) (Appendix 2), Chinese domestic enterprises went abroad to establish sales networks and engage in low-end international trade. This outbound investment strategy complemented the state's efforts to promote foreign capital inflows. It is worth noting that China and the EU became mutually complementary economies. Diplomatic relations between China and the European community had been established in 1975, with both parties establishing full partnership in 2001. In 2003, the first Sino-EU Policy Paper, which recognized the EU as the “major force in the world,” was issued.³⁵ The Planning for the Restructuring and Revitalization of the Automobile Industry was issued in 2009 to stabilize automobile consumption, accelerate industrial restructuring, strengthen innovation capacity, and (most importantly) upgrade the quality of the automotive industry to international standards. This plan was formulated on industrial policies and regulations of China's automotive industry (Appendix 2). The government supported the development of new energy vehicles and international production cooperation, which coincides with the slogan *zuoqiang qudai zuoda* (strong instead of large).³⁶ The Go Out

³³ *Zhongguo Qichelishi 1991–2010*, ed. China Automotive Industry Advisory Committee (Beijing, 2014).

³⁴ Jia-Zheng and Broggi, “The Metamorphosis of China's Automotive Industry.”

³⁵ China Org., “China Issues First EU Policy Paper,” Xinhua News Agency, 13 Oct. 2003, accessed 19 Dec. 2022, <http://www.china.org.cn/english/international>.

³⁶ CATARC and CAAM, *Zhongguo qichegongye nianjian 2010* (Beijing, 2010).

Table 1
China's OFDI in the Automobile Industry by World Regions
(2005–2018)

<i>World region</i>	<i>Number of transactions</i>	<i>Share (%)</i>	<i>Total investment (million USD)</i>	<i>Share (%)</i>
Europe	50	33	34,835	50
East Asia	29	19	13,620	20
North America	32	21	10,053	14
West Asia	17	11	6,190	9
South America	18	12	3,743	5
Sub-Saharan Africa	4	3	1,120	2
Total	150	100	69,561	100

Source: Authors' own elaboration based on *China Global Investment Tracker*, Heritage Foundation, accessed 10 Dec. 2019, <https://www.aei.org/china-global-investment-tracker/>; Bureau van Dijk's Zephyr, accessed 5 Dec. 2019. Note: All European (EU) countries that received Chinese foreign direct investment are EU members.

policy was emphasized once again for developing the automotive industry.³⁷

The prominence of automotive-related investment transactions is particularly noteworthy. As Table 1 shows, 33 percent of these transactions and 50 percent of the total investment value were directed toward the EU, while only 14 percent was directed toward North America and 20 percent to East Asia.

In 2013, during the twelfth Five-Year Plan (2011–2015), the “One Belt, One Road” (OBOR) program was announced. This was one of the major geopolitical expressions of “Go Global” 2.0 (Appendix 2) and sought to consolidate trade, investment, and human links across Eurasia through a “Silk Road Economic Belt.”³⁸ Additional financial support was given to outbound investment transactions to expand the new Silk Route.³⁹ China's state-driven investments were geared toward establishing new production facilities, both overseas and at home, thereby enhancing its position in global production networks. The program provided more flexibility on across-the-board investment transactions, helping Chinese companies to increase exports and make foreign investments.

³⁷ *Zhongguo Qichelishi 1991-2010*, 2014, 264.

³⁸ See China Policy, *China Going Global: Between Ambition and Capacity* (Beijing, 2017); Zhiqun Zhu, “Going Global 2.0: China's Growing Investment in the West and Its Impact,” *Asian Perspective* 42, no.1 (2018): 159–182.

³⁹ The Economist Intelligence Unit, “One Belt, One Road: An Economic Roadmap” (The Economist Group, 2016).

The launch of the “Made in China 2025” program inaugurated the “Go Global” 3.0 policy. The program aimed to transform China into a leading manufacturer; it identified nine crucial tasks, which included improving innovation, integrating technology, and strengthening the country’s industrial base. In this context, private enterprises proved to be protagonists when they invested in foreign markets to set up factories, employ local labor, and acquire foreign companies. The State Council recognized two outstanding acquisitions through private initiatives: Geely’s acquisition of Volvo in 2010, and Lenovo’s acquisition of IBM in 2015. The government provided direct support by financing the Geely–Volvo operation, which required a total amount of USD 2.7 billion. According to an official source, CNTV, the ratio of domestic and foreign financing sources was 1:1, with half the bank credit provided by the Hangzhou and London subsidiaries of the Bank of China (USD 1 billion) and some by the Export-Import Bank of China (EXIM; amount unknown).⁴⁰

Institutional support proved crucial to understanding the capitalization of large operations. Evidence of the increasing Go Global policy materialized through support from bodies such as the State Administration of Foreign Exchange (SAFE), People’s Bank of China (BOC), EXIM, and investing funds, including China’s CITIC Dicastal. While EXIM is one of the two institutional banks in China whose mission is to implement state policies in industry and foreign trade and to provide financial support for exports of Chinese products and services, with the launch of OBOR in 2013 and the Silk Road policy in 2017, complementary investing funds provided further financial assistance in FDI deals. In summary, financing by Chinese state-owned banks was a widespread practice, with SOEs receiving preferential treatment compared to their private competitors.

State ownership was another key factor in this framework. SOEs had accumulated ownership advantages for decades and received sufficient institutional support to begin inward internationalization during the 1980s and 1990s, whereas non-SOE carmakers had been excluded from the process. Our empirical investigation allows us to assert that although outward internationalization was state-guided within a planned economy, it eventually involved both SOEs and non-SOEs. This might have been due to at least two complementary dynamics, one direct and one indirect. As for the direct dynamic, the Chinese government directly supported the internationalization of the automotive sector (SOEs and non-SOEs) in the new millennium. More

⁴⁰See Shubin Cao, “The Source of Funds for Geely’s ‘Mortgage’ Purchase of Volvo Was Revealed for the First Time,” 31 Mar. 2010, accessed 16 Feb. 2024, <http://jingji.cntv.cn>.

indirectly, government policies allowing only SOEs to access foreign knowledge in the previous phase intensified the internationalization of private enterprises. The government now urged private companies to catch up by adopting more aggressive internationalization strategies and obtaining access to foreign technology and know-how.

The following sections will detail the kinds of FDI and motivations that led Chinese companies to expand abroad in the automotive industry.

Strategic Changes and European Partnerships

As previewed in the previous section, Chinese companies adopted aggressive international expansion strategies in the early 2000s. This section details significant Chinese automotive investments in Europe. We perform a kind of “3Ws” analysis to investigate: (a) What kind of transactions took place? (b) Who were the main investors and targets? (c) Why did they decide to enter the European market? Drawing from primary and secondary sources, we compiled comprehensive information on the international operations of the ten largest Chinese automotive companies between 2005 and 2018: Zhejiang Geely (Geely), China National Chemical (ChemChina), BAIC, Ningbo Joyson Electronic, Ningbo Dongfang Yisheng, Luxshare, Great Wall Motor, Dongfeng Motor, SAIC, and Aviation Industry Corporation (AVIC). These companies together represent approximately 90 percent of China’s cumulative investment in the EU during the period under consideration.

Tables 2 and 3 provide an overview of our main findings. They include details such as the year when an investment was made, the name and ownership of the Chinese investor, the name and nationality of the European target company, the entry mode, and the motivation for the investment. For entry modes, we distinguish between greenfield investments and mergers and acquisitions (M&As) and the creation of a new company with a local partner (i.e., JVs). In the M&A category, the pattern of Chinese investment in Europe includes complete acquisition, partial acquisition, or minority ownership if the investor acquired a stake of less than 10 percent. To explain the motivations for investment, we followed Dunning’s framework of market-seeking, resource-seeking, efficiency-seeking, and strategic asset-seeking strategies.⁴¹ A market-seeking strategy refers to multinationals entering

⁴¹John H. Dunning, “The Eclectic (OLI) Paradigm of International Production: Past, Present and Future,” *International Business and the Eclectic Paradigm: Developing the OLI Framework* 8, no. 2 (2003): 21–39; John H. Dunning and Sarianna M. Lundan, *Multinational Enterprises and the Global Economy* (Cheltenham, 2008).

Table 2
Internationalization of Chinese State-Owned Companies in the EU, 2005–2018

<i>Year</i>	<i>Chinese investor</i>	<i>Target company</i>	<i>Nationality</i>	<i>Entry mode (stake %)</i>	<i>Motivation</i>
2005	Nanjing Automobile	Powertrain Ltd (MG)	UK	ca	Asset
2007	SAIC	Ricardo 2010	UK	ca	Asset
2010	Zhejiang Geely	Volvo AG Cars	Sweden	ca	Asset and Market
2011	China's CITIC Dicastal*	KSM Group	Germany	ca	Asset and Market
2011	BAIC Hainanchuan Automotive Parts	Inalfa Roof Systems	Netherlands	ca	Asset and Market
2012	Weichai Power	Kion Group KSM	Germany	pa (25)	Market
2014	BAIC Beijing Borgward	Borgward	Germany	ca	Asset and Market
2014	Dongfeng Motor	PSA Peugeot Citroën	France	pa	Asset and Market
2014	Aviation Industry Corporation	Hilite	Germany	ca	Asset and Market
2014	SAFE/BOC	Fiat	Italy	minor	Asset
2015	Lingyun Industrial	Waldaschaff Automotive	Germany	ca	Asset and Market
2015	ChemChina and SAFE	Pirelli	Italy	pa (26)	Asset and Market
2016	Zhejiang Asia-Pacific Mechanical & Electronic	Groupe Mécanique Découpage	France	ca	Market
2016	Aeolus Tyre	Pirelli	Italy	pa (26)	Asset and Market
2016	China International Marine Containers	Retlan Manufacturing	UK	ca	Market
2018	Tsinghua Holdings	Manufacturing Telit Communication	UK	ca	Asset

Source: Authors' elaboration based on Bureau van Dijk's Zephyr, accessed 5 Dec. 2019, Amadeus, accessed 15 Dec. 2019, China Global Investment Tracker, Heritage Foundation, accessed 10 Dec. 2019, <https://www.aei.org/china-global-investment-tracker>, MOFCOM, Outward Investment Project, accessed 15 Dec. 2019, <https://project.mofcom.gov.cn>. Notes: Complementary sources for detailed information are Thomson Reuters, Bloomberg, and China Daily. Investing funds are, for example, China's Dicastal and Silk Road Fund. Note: ca is complete acquisition; pa is partial acquisition.

Table 3
Internationalization of Chinese Private Companies in the EU, 2005–2018

<i>Year</i>	<i>Chinese investor</i>	<i>Target company</i>	<i>Nationality</i>	<i>Entry mode (stake %)</i>	<i>Motivation</i>
2007	Fuyao Glass	FüMo Tec GmbH	Germany	ca	Asset and Market
2009	Great Wall Motor	Litex Motors	Bulgaria	JV (n.d.)	Market
2011	Ningbo Joyson Electronics	Preh	Germany	pa (75)	Asset and Market
2011	Wolong	ATB Group	Austria	ca	Asset
2012	Liaoning Dare	Carcoustics (Alpinvest)	Germany	ca	Asset and Market
2012	Guanxi Liugong Machinery	Huta Stalova Wola	Poland	ca	Asset
2012	Youngman Automobile	Viseon Bus	Germany	pa (75)	Market
2013	Zhejiang Geely	Emerald Automotive	UK	ca	Asset and Market
2013	Youngman Automobile	Spyker NV	Netherlands	JV (30)	Asset
2014	Zhuzhou Times New Material Technology	ZF Friedrichshafen AG's Rubber and Plastic	Germany	ca	Asset and Market
2014	Zhejiang Geely	Manganese Bronze	UK	ca	Asset and Market
2014	Chanzhou Xingyu Automotive Lighting Systems	NEUE I&T	Austria	pa (70)	Asset and Market
2015	Ningbo Joyson Electronic	Quin GmbH	Germany	ca	Asset and Market
2015	Anhui Zhongding	Wegu Holding	Germany	ca	Asset and Market
2016	Ningbo Dongfang Yisheng *	Punch Powertrain	Belgium	ca	Asset and Market
2016	Anhui Zhongding	AMK Holding	Germany	ca	Asset and Market
2016	Anhui Zhongding	Druckguss & Co KG	Austria	ca	Asset and Market
2016	Mew Long March	Smith GT Bentley	UK	pa	Market
2017	Luxshare Precision Industry	ZF Friedrichshafen AG's Body Control System Unit	Germany	ca	Asset and Market

(Continued)

Table 3 (Continued)

<i>Year</i>	<i>Chinese investor</i>	<i>Target company</i>	<i>Nationality</i>	<i>Entry mode (stake %)</i>	<i>Motivation</i>
2017	Zhengzhou Coal, Renaissance Capital	Robert Bosch	Germany	ca	Asset and Market
2018	Zhejiang Geely	Daimler AG	Germany	minor (10)	Asset and Market
2018	Zhejiang Geely	Volvo AB Trucks	Sweden	minor (8)	Asset and Market
2018	Great Wall Motor	H2 MOBILITY	Germany	minor (n.d.)	Asset
2018	Ningbo Jifeng Auto Parts	Grammer	Germany	JV (26)	Asset and Market
2018	Loncin Motor	CMD Costruzioni	Italy	pa (67)	Asset and Market

Sources: Authors' elaboration based on Bureau van Dijk's Zephyr, accessed 5 Dec. 2019, Amadeus, accessed 15 Dec. 2019, China Global Investment Tracker, Heritage Foundation, accessed 10 Dec. 2019, <https://www.aei.org/china-global-investment-tracker>, MOFCOM, Outward Investment Project, accessed 15 Dec. 2019, <https://project.mofcom.gov.cn>, Notes: complementary sources for detailed information are Thomson Reuters, Bloomberg, and China Daily; Investing Funds are, for example, China's Dicastal or the Silk Road Fund. Notes: ca is complete acquisition; JV = joint venture; n.d. = no date; pa = partial acquisition.*Investing fund, for example, China's Dicastal or the Silk Road Fund.

foreign countries to access new markets for their goods and services. Resource-seeking refers to the need to procure natural resources and raw materials. Efficiency-seeking refers to companies entering a foreign market for reasons such as accessing a lower cost structure in countries with lower wages, reducing tax burdens, or spreading risk. Strategic asset-seeking refers to pursuing key assets such as updated technology, know-how, or a consolidated brand.

As Tables 2 and 3 show, Chinese automotive companies performed forty-two foreign investment operations within the timeframe considered in this work. However, only a tiny percentage of these transactions occurred in the initial part of this period (2005–2008), while 97 percent took place after 2008.

In terms of ownership of the Chinese investors, our data indicates that while SOEs led investment transactions in Europe in 2005 and initially received more institutional support, their dominance was surpassed by private initiatives after 2008. In this sense, China progressively converged toward the pattern followed by Western countries and Japan, in which the main players that actively pursued internationalization strategies were predominantly private companies (e.g., Ford, Toyota, Volkswagen). During the peak phase of internationalization, most acquisitions were made by private firms, accounting for 62 percent of total transactions and 60 percent of investment deals. Investor size varied, with some being part of larger holdings while others were companies that emerged with the opening of the Chinese market. ChemChina, for example, is one of the world's largest chemical groups, with activities ranging from seeds for crops to the manufacture of auto parts. AVIC, specialized in airplane manufacturing and expanded its activities to include automotive accessories. Notably, fourteen Chinese firms were among the global top 100 suppliers in 2022.⁴²

The main target for both SOEs and private Chinese investors were German companies, followed by the United Kingdom and Italy (45 percent, 17 percent, and 10 percent of the total number of transactions, respectively). These three countries, along with France, account for 96 percent of both the total number of transactions and the amount of investment in the EU. While SOEs focused mainly on the largest European economies, private firms have been much more diversified in terms of host economies, making investments also in Central, Eastern, and Northern Europe (Figure 1). With regard to investment size, Germany, Italy and Sweden are in the leading positions due to four huge investment deals: Geely's acquisition of 10 percent of Daimler Chrysler

⁴² Automotive News, *Top Suppliers*, accessed June 6, 2024, <https://www.autonews.com/suppliers/heres-automotive-news-2022-list-top-suppliers>.

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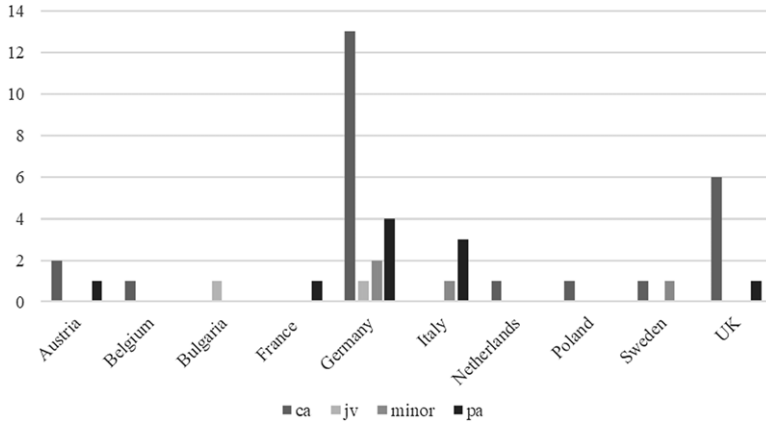


Figure 1. Entry strategies and host countries of Chinese investors in the EU, 2005–2018. (Source: Authors' own elaboration based on Tables 2 and 3.)

(USD 9 billion); Geely's complete takeover of Volvo Cars (USD 2.7 billion); Geely's acquisition of a controlling stake (8 percent) in Volvo Trucks (USD 3.27 billion); and ChemChina's acquisition of a 26 percent stake in Pirelli (USD 7.86 billion), which was considered the largest outward investment deal made by a SOE in the manufacturing sector up to 2015.⁴³

When looking at the entry strategies of Chinese companies in Europe, no important differences can be noted among the different owners. Across the period under study, both private and state-owned companies generally preferred complete acquisition to partial acquisition. Specifically, 67 percent of SOEs and 58 percent of non-SOEs favored complete acquisition. This was followed by partial acquisition, minor acquisition, and joint ventures. Figure 1 illustrates that complete acquisitions were more prevalent than other entry modes. Partial acquisitions were also common, with Chinese investors increasing their stake in a European company over time. For instance, privately capitalized Ningbo Joyson Electronic initially acquired 75 percent of Preh GmbH in 2011 for USD 100 million, followed by full purchase of Quin GmbH (formerly Preh) for USD 280 million in 2015.⁴⁴ It is worth noting that the amount of foreign exchange reserves (USD and euro) accumulated from international trade was a significant factor in

⁴³Ministry of Commerce of People's Republic of China, *2017 Statistical Bulletin of China's Outward Direct Investment*, accessed 5 Sept. 2022: <https://www.mofcom.gov.cn/>.

⁴⁴See corporate information in Marklines, accessed 15 Sept. 2022, <https://www.marklines.com>.

outbound FDI.⁴⁵ This starkly contrasted to when, before the 1990s, there was tight foreign exchange control over trade transactions. Some patterns of Chinese OFDI could be associated with periods of internationalization in Japan and South Korea in the 1970s and 1980s, respectively.⁴⁶

Figure 1 illustrates the different entry modes adopted in various geographical contexts. As noted, complete acquisition was generally the favored entry strategy, especially for takeovers in Germany or the UK. The same figure shows that in some countries (i.e., France and Italy), Chinese investors used partial acquisitions, perhaps because of the size of the target company in comparison with the turnover of the investing company. For instance, both France's PSA Group and Italy's Pirelli are national champions with a long history, global networks, and extensive distribution channels. Related to the stake augmentation strategy, Chinese investors also opted to completely acquire multiple divisions of the same holding group. For example, in 2014, Shanghai Zhuzhou Times New Material Technology completed the acquisition of ZF Friedrichshafen AG's rubber and plastics division for USD 380 million. In 2017, Luxshare Precision Industry acquired ZF Friedrichshafen AG's Body Control Systems unit for USD 1 billion.⁴⁷ ZF has more than 100 years of history and served as a supplier for favorite cars like Ford Capri and Peugeot 504.

Automobile companies from advanced economies used diverse strategies depending on the industry policies of the host country, expansion goals, and historical period. For instance, Ford and Volkswagen undertook distinct expansion strategies in Latin America, Europe, and China.⁴⁸ Both companies established fully owned subsidiaries in Brazil but were forced by host institutions to create equity joint ventures with local companies to meet local industry policies. This was particularly true for the Chinese case as the industry policies restricted foreign stakes as we mentioned above. In Europe, Ford acquired Volvo AB as part of its strategy to address the fall in sales and market share in the United States. Ford also took over Land Rover

⁴⁵Lee Branstetter and Nicholas Lardy, "China's Embrace of Globalization," in Loren Brandt and Thomas G. Rawski, eds., *China's Great Economic Transformation* (Cambridge, MA, 2008), 633–682.

⁴⁶Mark Mason, *Europe and the Japanese Challenge: The Regulation of Multinationals in Comparative Perspective* (Oxford, 1997); Meg Rithmire, "Varieties of Outward Chinese Capital: Domestic Politics Status and Globalization of Chinese Firms," Harvard Business School, Working Paper no. 20-009, 2019.

⁴⁷According to investment transactions registered in Zephyr BvD in 2014 and 2017, respectively.

⁴⁸Wilkins and Hill, *American Business Abroad: Ford on Six Continents*; Helen Shapiro, "Determinants of Firm Entry into the Brazilian Automobile Manufacturing Industry, 1956–1968," *Business History Review* 65, no. 4 (1991): 876–947.

(now part of the Tata Group), Jaguar, and Aston Martin in the following years.⁴⁹ Chinese entry modes partly differed from the strategies traditionally adopted in this sector during the twentieth century because the structure of the industry, the competition dynamics, and the policies adopted in host countries were different when Chinese companies started their process of internationalization.

Automobile multinationals from the United States, Japan, and Europe historically sought new markets where relatively cheap labor would be an additional incentive for investment. Asset-seeking and market-seeking strategies appear to be the lead motivations that drove Chinese investors to enter EU countries. This aligns with the existing literature on Chinese outward investment as a whole, which emphasizes the importance of M&As involving non-Chinese companies in providing access to key strategic assets (e.g., advanced technologies, established brands, organizational expertise) in developed regions.⁵⁰ ChemChina's investment in Pirelli was, for instance, asset-seeking to enhance both its domestic and global competitiveness. With no significant tire expertise and no recognized Chinese tire brand, ChemChina benefited from Pirelli's premium tire manufacturing and 140-year heritage. This partnership allowed ChemChina to enter the premium tire market and strengthen export-oriented production. Despite not fully taking over Pirelli, ChemChina gained access to Pirelli's technology and supply-chain networks, exemplified by the acquisition of Pirelli Industrial SRL and a joint venture in China.⁵¹

Our empirical investigation of the process of international expansion in Europe by the major Chinese carmakers yielded some important findings. First, we found that the European expansion of the Chinese automakers took place through a significant number of operations for a total of USD 35 billion. These transactions were quite heterogeneous in size—considerable in some cases—and most of these operations were carried out through M&A entry strategies aimed at achieving, if possible, majority or total control over the target firm or the new joint venture. As noted above, partial acquisition was frequently

⁴⁹Jordi Catalan Vidal, "The Stagflation Crisis and the European Automotive Industry, 1973–85," *Business History* 59, no. 1 (2017): 4–34.

⁵⁰See, for example, Ping Deng, "Investing for Strategic Resources and Its Rationale: The Case of Outward FDI from Chinese Companies," *Business Horizons* 50, no.1 (2007): 71–81; Eunsuk Hong and Laixiang Sun, "Dynamics of Internationalization and Outward Investment: Chinese Corporations' Strategies," *China Quarterly* 187, no.1 (2006): 610–634; Huaichuan Rui and George S. Yip, "Foreign Acquisitions by Chinese Firms: A Strategic Intent Perspective," *Journal of World Business* 43, no. 2 (2008): 213–226; Peter J. Buckley, "Internalisation Theory and Outward Direct Investment by Emerging Market Multinationals," *Management International Review* 58, no. 2 (2018): 195–224.

⁵¹Pirelli Online Repository, *Annual Report 2018*, accessed 20 Sep. 2022, <https://corporate.pirelli.com/corporat>.

followed by a progressive increase in the Chinese investor's ownership and control of the target company.

Second, regarding the timing of the investments that we found, most transactions occurred relatively recently—after 2008—and were concentrated across a decade, with a further acceleration starting in 2012. China saw the 2008 global economic crisis as an opportunity to expand globally, adding European companies to its list of target acquisitions. This is evident from the timing of investments designed to inject capital, whether for complete or partial acquisitions, as exemplified by Geely–Volvo Cars, Dongfeng–Peugeot, and Youngman–Vison Bus. Chinese car producers were starting to achieve competitiveness abroad, and their financial resources made it possible for them to enter the European market by acquiring struggling companies with liquidity problems (in some cases teetering on the verge of bankruptcy). This was true for some of the large players and several component manufacturers. In particular, those operating in the largest European economies, such as Germany, had accumulated valuable knowledge that appealed to Chinese investors, who were now in urgent need of financial resources due to the turbulence in the industry. It was relatively easier for a Chinese investor to acquire majority or total ownership of shares in smaller European target companies.

Third, concerning the identity of the main players, our database clearly indicates relatively young private companies played leading roles, although some SOEs were also important, especially in the pre-2008 phase. We found many countries when analyzing the geographical focus of Chinese investment in Europe. Nonetheless, as previously noted, the greatest number of transactions occurred in the largest European economies (i.e., Germany, the UK, Italy, and France), with the most established and consolidated players in the automotive industry. Last, our investigation sheds light on the motivations that drove Chinese companies to invest in the EU. In particular, we observed how market-seeking and, to an even greater extent, strategic asset-seeking strategies drove the internationalization of Chinese companies. In the next section, using case studies, we examine the emergence of an outstanding private actor.

Geely and Dongfeng

An in-depth comparison of the international expansion strategies of two major players, Dongfeng Motor and Geely, enables a better understanding of the dynamics mapped in Tables 2 and 3. We chose these companies because of their representativeness and distinctiveness.

Dongfeng was established by the Chinese government in the 1960s and received state support to host FDI and make investments abroad. Geely was founded decades later and was not granted a production license until 2001. Nonetheless, Geely achieved the highest level of internationalization among its peers and became the only non-SOE automotive company ranked in the top 100 nonfinancial multinationals from developing and transition economies.⁵²

Geely, founded in the late 1980s, became China's largest investor in the European automotive sector, accounting for around 44 percent of China's total OFDI. In its early years, the company had no JVs in China with foreign partners; its lack of direct access to strategic assets made it reliant on subcontracting technical consultancy and design services until internationalization opportunities enabled it to enact international M&As and takeovers of foreign advanced intellectual property. The first step in Geely's expansion into Europe was in 2006, when it established a JV with London taxi manufacturer Bronze Holdings. This operation, however, was much less important than its 2010 acquisition of Volvo Cars for USD 2.7 billion and its acquisition of 8 percent of the capital of Volvo Trucks (USD 3.27 billion) in 2017. In the same period, this "Young Tiger" also became Daimler's largest stakeholder by acquiring 9.7 percent of its capital (USD 9 billion). Although no one had expected an unknown Chinese carmaker to become the final acquirer of a consolidated brand owned by Ford, Geely Chairman Li Shufu was conscious of the necessity to acquire advanced technology and had been monitoring Volvo's performance since early 2000. When the global financial crisis hit in 2008, he seized the opportunity.⁵³ This operation allowed Geely a huge scale-up because it became the owner of vast strategic assets—tangible and intangible—that were progressively transferred to China.⁵⁴

With the acquisition of Volvo, Geely gained access to what it perceived as the "eight magnificent assets" [*badabaogui zichan*].⁵⁵ Firstly, these assets included all intellectual property rights and the right to use and transfer the Volvo trademark worldwide. Secondly, Geely gained access to ten ongoing product lines, comprising complete vehicles, accessories, and environmentally-related projects. Thirdly, the design of the Volvo SPA platform assembly plans. Fourthly, Geely gained

⁵² Hua Wang, Giovanni Balcet, and Wenxian Zhang, *Geely Drives Out: The Rise of the New Chinese Automaker in the Global Landscape* (Singapore, 2021); UNCTAD, *World Investment Report 2022*, accessed 15 Dec. 2022, <https://unctad.org/es/publication>.

⁵³ Ziliang Wang, *Jili Shougou Woerwoquanjilu* (Beijing, 2011).

⁵⁴ Ramsin Yakob, H. Richard Nakamura, and Patrik Ström, "Chinese Foreign Acquisitions Aimed for Strategic Asset-Creation and Innovation Upgrading: The Case of Geely and Volvo Cars," *Technovation* 70–71 (2018): 59–72.

⁵⁵ Wang, *Jili Shougou Woerwoquanjilu*.

ownership of Volvo's modern manufacturing facilities located abroad, such as Gothenburg and Udevalla (Sweden), Ghent (Belgium), and Malaysia. Fifthly, Geely became the primary shareholder of one engine and three accessory companies. Sixthly, 83 years of accumulated expertise in developing complete vehicles, parts, and accessories, along with a wealth of data and a highly qualified workforce of 3,800 researchers, engineers, and technicians. Seventhly, Geely benefitted from access to over 2,325 distribution points across over 100 countries. Last but not least, Geely gained access to and ownership of the 10,963 patents that Volvo had accumulated up to 2010.⁵⁶

Therefore, access to foreign technology allowed the company to enhance and reshape its global production strategy, which it did by establishing a JV with Volvo in Daqing (Heilongjiang Province) and two additional production plants in Chengdu and Zhangjiajie (Hunan Province). Then, in 2017, the JV between Geely and Volvo produced a new brand—Lynk & Co—using Volvo–Geely technology. Even though Geely owned Lynk & Co, CEO Li intended to create a car brand targeting the global market instead of just China or Sweden. New car models (e.g., the Bo Rui SUV) were assembled in China with a Swedish engine. In addition, the Swedish investment enhanced the technology transfer from Europe to China by creating China-Euro Vehicle Technology in Gothenburg in 2013.

Dongfeng (formerly SAW) followed a different pattern starting in 1992. This SOE automobile company was intended to embody the concept of “self-reliance,” however, it was highly reliant on the technology and experience of other domestic Chinese manufacturers such as FAW, China's first automobile manufacturer.⁵⁷ Dongfeng's dependence on foreign technology intensified with its first JV with Citroën (PSA Group) in the early 1990s. This historical partnership was used to justify Dongfeng acquiring 14 percent of PSA (USD 1.1 billion), injecting liquidity to alleviate PSA's financial struggles in 2014.⁵⁸ PSA's annual financial reports included that the deal was considered a strategic operation to strengthen collaboration with Dongfeng, so it was important to safeguard its long-term interest in assembling cars in Wuhan and engines in Xiangfan (both in Hunan Province). The fiftieth-

⁵⁶ Wilkins and Hill, *American Business Abroad*; Jonathan Zeitlin, “Flexibility in the Age of Fordism: Technology and Production in the International Automobile Industry,” *Enterprise & Society* 1, no. 1 (2000): 4–8.

⁵⁷ Dongfeng Moror, *Dierqiche zhizaoguanzi dierqiche zhizaoguanzhi 1969–1983* (Shiyang, 2001).

⁵⁸ Jia-Zheng and Brasó Broggi, “The Metamorphosis of China's Automotive Industry (1953–2001),” 2023; Catherine Matacic, “Dongfeng takes \$1 billion stake in Peugeot,” *China Business Review* (21 Feb. 2014), accessed 20 Sep. 2022, <https://money.cnn.com/2014/02/18/autos/dongfeng-peugeot>.

anniversary celebration of diplomatic relations between France and China (1964–2014) further supported this investment decision.⁵⁹ However, this state-driven transaction was not well received in France. The French automotive sector, and popular opinion, interpreted it as a blow to national pride and an ambitious strategy by the Chinese government to pursue its own political interest by penetrating France's national market and draining technology.⁶⁰ The transaction was concluded just after President Xi's official visit to Paris in March 2014.⁶¹

These two case studies allow us to better understand the active role played by Chinese companies, their evolving needs and goals, and their principal motivating factors for investing in established European automotive economies rather than neighboring Asian nations. At least two relevant factors should be considered, although they differ in weight and importance according to the kind of company ownership.

The first factor is that SOEs could invest abroad despite the possible liability of foreignness also because they had familiarity with European companies via Sino-European JV in China. Taking over a former European partner, even partially, was a common first step for Chinese companies expanding abroad. Historical investment relationships carried significant weight in various scenarios. For example, European automakers that had established JVs with Chinese counterparts often sought to reinvest in China, as in the case of Dongfeng and the PSA Group. On the other hand, the presence of Chinese investors is particularly pronounced in countries where China has long-standing diplomatic and economic relationships or collaboration negotiations. Such as in the case of Italy, whose national champion, Fiat, kept negotiations for industrial collaborations with the Chinese government and state-owned automotive companies since the early 1970s.⁶²

The second factor is that international expansion, especially for private companies, was driven by the need to acquire key assets to compete on the domestic front. OFDI has had a significant impact on the technological advancement of the Chinese automotive industry, known in the literature as “reverse technology spillover” and exemplified by

⁵⁹Thilo Hanemann and Mikko Huotari, “Chinese FDI in Europe and Germany Preparing for a New Era of Chinese Capital,” *Mercator Institute for China Studies*, no. 6 (2015): 53.

⁶⁰Sophie Meunier, “Integration by Stealth: How the European Union Gained Competence over Foreign Direct Investment,” *Journal of Common Market Studies* 55, no. 3 (2017): 593–610; John Seaman, Mikko Huotari, and Miguel Otero-Iglesias, “Chinese Investment in Europe: A Country-Level Approach,” *Mercator Institute for China Studies* (2017); Sophie Meurier, Brian Burgoon, and Wade Jacoby, “The Politics of Hosting Chinese Investment in Europe: An introduction,” *Asia Europe Journal* 12 no. 1 (2014): 109–126.

⁶¹China Org., “China Issues First EU Policy Paper,” Xinhua News Agency, 13 Oct. 2003, accessed 19 Dec. 2022, <http://www.china.org.cn/english/international>.

⁶²China Automotive Industry History Editorial and Review Committee, *Zhongguoqiche gongyeshi 1901–1990* [China's automotive industry history 1901–1990] (Beijing, 1996).

Geely.⁶³ Through its acquisition of Volvo, Geely gained access to the earlier noted eight magnificent assets, paving the way toward the establishment of a new R&D center and opening a production JV in Chengdu.⁶⁴ Geely had struggled to bridge its technological gap with large domestic SOEs. Although Geely is exceptional in size—its substantial investment weight in the European automotive sector represents 44 percent of total Chinese OFDI—its strategy is not unique. Geely pioneered a new way for China's private automotive companies to embark on their European ventures. This is evident in the examples of Ningbo Dongfeng Yisheng and Ningbo Joyson Electronic, which supply Geely in China as they seek to expand their global production networks in Europe.

Chinese companies also had a strategic need to acquire consolidated brands. As made clear in the foregoing, European target companies were long established compared to Chinese automotive makers. Most of the European companies discussed in this article were founded in the late nineteenth century or first half of the twentieth century, whereas most of the state-owned automobile companies in China were founded in the 1950s and private automakers from the early 1980s. For example, Geely was founded in 1986 and it acquired Volvo, which was founded in 1927. BAIC Hainanchuan (specializing in auto parts production) was founded in 2010; it purchased Inalfa Roof Systems (producing automobile roofs), founded in 1946. These cases confirm that Chinese manufacturers sought access not only to technology but also to well-established brands and trademarks.⁶⁵

Conclusion

China became the world's largest car manufacturer in terms of production volume just after the global economic crisis of 2008–2009. During the formative years of the Chinese automotive industry, the Chinese government supported the formation of Sino–foreign joint ventures through industrial policies and a wave of market-opening reforms. The production of passenger cars grew rapidly starting in the 1990s, but Chinese carmakers greatly relied on foreign expertise. At the turn of the new millennium, they captured the further attention of

⁶³Yanyan Ouyang, "Zhongguo duiwaihijie touzhi nixiangjishu yinchude yingxiangyinsu fengxi," *World Economy Study* 4 (2010): 66–71; Shujie Yao, Pan Wang, Jing Zhang, and Jinghua Ou, "Dynamic Relationship between China's Inward and Outward Foreign Direct Investments," *China Economic Review* 40 (2016): 54–70; Liu Wenyong, "Duiwai zhijietouzi yanjiuxinjinzhan," *Jingjixue zhuangtai* 8 (2020): 146–160.

⁶⁴Wang Ziliang, *Jili Shougou Woerwoquanjilu* (Beijing, 2001).

⁶⁵Jia-Zheng, *The Re-emergence of the Chinese Economy*.

politicians, and these automotive enterprises became investors in the European automotive sector.

Our findings support that the internationalization pattern of Chinese automotive companies followed a partly different trajectory than earlier internationalization undertaken by automotive companies in advanced economies. The Chinese case reveals that state-owned actors started earlier than private actors, but the latter invested more dynamically in Europe. There were forty-two foreign investment operations between 2005 and 2018, especially after 2008, mostly involving partial or complete acquisitions in Europe. State interests and historical partnerships of joint ventures primarily drove investment decisions and capital transfers of SOEs. Private companies, meanwhile, demonstrated a proactive attitude toward government support for outbound acquisitions because they needed foreign expertise to address the knowledge gap previously filled by SOEs through Sino-foreign JVs. This allows us to assert that the growth of the largest Chinese companies occurred because of changes in their internationalization strategies, from being domestic players attracting foreign expertise and capital to becoming active captors in foreign markets.

Our findings reveal that the main investors were private companies; for example, Geely proved exceptional at international expansion. Its investment decisions in Europe attracted investment from its accessories suppliers in the same regions of China. Investment of SOEs also played a key role, especially in the first phase with historical partnerships, as we analyzed with Dongfeng–PSA Group. While market-seeking strategies occurred, our analysis of the motivations for Chinese investment found that investors' predominant interest was to acquire strategic assets, including technology and know-how, and this is especially true for private companies.

Furthermore, because the automobile industry was considered a key national industry to develop, it received consistent support from the Chinese government, such as more state intervention. This was similar to the telecommunications industry, which was considered equally as strategic as the automotive industry. However, the former might entail national security, so policies encompassing FDI or international expansion often go beyond business and history, such as the case of Huawei in North America and Europe.

During the height of COVID-19, Chinese outbound investment decreased, with a notable drop in Europe and in the automotive industry. Chinese transactions in the EU fell by 33 percent in 2019, reflecting a downward trajectory that began even before the pandemic. This pattern occurred across global automobile production. However, the impact was especially notable in China's automotive sector because

consumer products and services became the primary focus of Chinese investment. Geographically, Northern Europe became the top recipient of Chinese investment, surpassing traditional leaders (i.e., UK, Germany, and France). Additionally, investment by China's SOEs plummeted to 11 percent of the total Chinese investment in Europe. This decline was influenced by increasing administrative controls and financial constraints in China that worsened during the pandemic along with increasing protectionism of Europe toward Chinese capital, particularly state capital and state-related investments.

In 2021, Chinese outbound investments in Europe rebounded, yet the automotive industry lagged behind other sectors. With a decrease in acquisitions and equity investments, Chinese companies sought alternatives by increasing R&D collaborations, which were largely well received by European counterparts. The effects of COVID-19 highlighted the importance of strategic partnerships in addressing global challenges as the transition to sustainable energy continues to impact the automotive industry.⁶⁶ For instance, a new entry pattern has emerged: Chinese automotive companies established greenfield investments in East European areas for manufacturing plants (e.g., BYD in Hungary) and formed new equity JVs to strengthen their position against global competitors (e.g., Geely in Spain).

After COVID-19, the ongoing energy transition, turbulent energy geopolitics, and the New Auto Industry Revolution accelerated the deep transformation in the global automobile industry.⁶⁷ The pandemic represented a huge watershed moment for global automotive production. In 2020, world production experienced a staggering year-on-year decrease of 16 percent. In China, production in 2019 decreased by 8 percent and domestic sales of passenger cars decreased by 9.6 percent.⁶⁸ In Europe, Germany experienced a decrease of 9 percent. However, while China, the US, Japan, and South Korea recovered from the

⁶⁶ Agatha Kratz, Max J. Zenglein, and Gregor Sebastian, "Chinese FDI in Europe: 2020 Update," *Mercator Institute for China Studies and Rhodium Group* (16 June 2021); Agatha Kratz, Agatha Kratz, Max J. Zenglein, Alexander Brown, Gregor Sebastian, and Armand Meyer, "Chinese FDI in Europe: 2023 Update," *Mercator Institute for China Studies and Rhodium Group* (2024).

⁶⁷ Giuseppe Calabrese, ed. *The Greening of the Automotive Industry* (New York, 2016); Valentina Fava and Giovanni Favero, "From Transport History to History of Sustainable Mobility," in *The Green Transition of the Automotive Industry: From Technological Sustainable Innovation to Mobility Servitization*, ed. Anna Cabigiosu and Pietro Lanzini (London, 2023), 45–66. See Douglas Arent, Channing Arndt, Mackay Miller, Finn Tarp, and Owen Zinaman, ed. *The Political Economy of Clean Energy Transitions* (Oxford, 2017); Michel Freyssenet, *The Second Automobile Revolution: Trajectories of the World Carmakers in the 21st Century* (London, 2009).

⁶⁸ CATARC and CAAM, *Zhongguo qichegongye nianjian 2020* (Beijing, 2010).

negative shock, Germany's growth rate was lower than before the pandemic.⁶⁹

Chinese private players have proved resilient with an adaptative attitude regarding cross-border investment transactions, and showed innovation capability in the new era of EVs. For example, BYD led China's domestic market and, in 2022, proved its capacity when facing Tesla's dominant position. Interestingly, the number of new automakers that specialize in the production of new energy vehicles (that is, pure electric or hybrid) increased significantly, but few achieved relative success or global recognition. For instance, the start-ups Nio, Li Auto, and Xpeng seem to make a statement while traditional SOE automakers (e.g., FAW, SAIC, and Dongfeng Motor) compete by creating new brands for the electric era.

⁶⁹OICA, Production Statistics, accessed June 1, 2024, <https://www.oica.net/category/production-statistics>.

Appendix 1
Principal Sino–European Joint Ventures, 1984–2018

<i>Partners</i>				
<i>Domestic</i>	<i>Foreign</i>	<i>Foreign country</i>	<i>Joint venture</i>	<i>Year</i>
SAIC (Shanghai Automotive Industry Corporation)	Volkswagen	Germany	Shanghai Volkswagen	1984
GAC (Guangzhou Automotive Company)	Peugeot	France	GAC-Peugeot	1985
NAIC (Nanjing Automobile Industry Company)	Fiat-Iveco	Italy	Nanjing-IVECO	1985
FAW (First Automotive Works)	Volkswagen	Germany	FAW–VW	1991
Dongfeng Motor (formerly Second Automotive Works)	Peugeot Citroën	France	Shenlong Limited	1992
Nanjing Yuejin	Fiat	Italy	Nanjing Fiat	1995
FAW	Volkswagen	Germany	FAW–VW–Audi	1996
Jiangsu Yaxing Motor & Coach	Benz	Germany	Yaxing Benz	1997
Brilliance	BMW	Germany	Brilliance BMW	2003
BAIC (Beijing Automotive Industry Company)	Mercedes-Benz	Germany	Beijing Benz Automotive	2005
BAIC (Fujian Motors)	Daimler	Germany	Fujian Benz Automotive	2007
Chang’an	Peugeot Citroën	France	Chang’an Peugeot Citroën	2010
BYD	Daimler	Germany	Denza	2010
BAIC (Foton)	Daimler Chrysler	Germany	Beijing Foton Daimler Automotive	2010
GAC	Daimler Fiat Chrysler	Italy /Germany	GAC Fiat Chrysler	2010
Daqing	Volvo (Geely)	Sweden	Daqing Volvo Automotive Manufacturer	2013
Dongfeng	Renault	France	Dongfeng Renault	2013
Great Wall	BMW	Germany	Great Wall BMW	2018

Source: Adapted from Yuan Jia-Zheng, “The Re-emergence of the Chinese Economy: Internationalization and Technological Catch Up in the Automobile Industry (1953–2018),” (Ph.D. diss, University of Barcelona, 2023).

Appendix 2
Industrial Policies and Regulation in China's Automotive Industry

<i>Policy/Regulation</i>	<i>Year in force</i>	<i>Goals</i>	<i>Go Global phases</i>
Indicative plans for the auto industry	1986	To establish FAW (First Automotive Works), SAW (now Dongfeng, formerly Second Automotive Works), and SAIC (Shanghai Automotive Industry Corporation) as the "Big Three" and Tianjin Xiali, Beijing Jeep, and Guangzhou Peugeot as the "Small Three" to strengthen SOE dominance in the industry after first joint ventures.	1.0
Strict controls of sedan production plants communication by State Council and control of imports	1987	To control sedan production plants in China to protect domestic industry.	1.0
Measures for the Implementation of Industrial Policies in the Auto Industry	1990	To promote development of large automobile companies, establish production of sedans and SUVs as the industry's main categories; maintain strict control of trucks to eliminate duplication of models.	1.0
Communication on selecting a group of large enterprises for pilot projects	1991	To form large companies: SAW became Dongfeng; FAW Group; China National Heavy-Duty Truck Group; Yuejin Automotive Group; SAIC; BAIC; and Tianjin Automotive Industry Corporation.	1.0
Automobile Industry Development Policy	1994	To open up markets; promote large-scale production; concentrate industry to exploit economies of scale in readiness for membership in World Trade Organization.	1.0
Automobile Industry Development Policy	2004	To replace 1994 policy to eliminate exchange rate imbalance; require national	1.0

(Continued)


<i>Policy/Regulation</i>	<i>Year in force</i>	<i>Goals</i>	<i>Go Global phases</i>
		content level and export share to total output ratio; enforce domestic industry own-brand creation for international market.	
Planning for the restructuring and revitalization of the automobile -industry (2009–2011)	2009	To stabilize automobile consumption, accelerate restructuration, strengthen innovation capacity, and increase value-added upgrade 2009–2011.	1.0
Energy-saving and new energy auto industry development plan (2012–2020)	2012	In the 12th Five-Year Plan, technological and innovation strategies: to develop electrical and hybrid vehicles; improve general automobile technological levels; and increase production to 500.000 New Energy Vehicle units in 2015, 2 million in 2020, 5 million accumulated.	2.0
“Made in China 2025” plan	2015	To propose a “three-step” strategy to transform China into a leading manufacturing power by year 2049.	3.0

Sources: Authors’ own elaboration based on *Zhongguo qiche gongyeshi 1901-1990* (Beijing, 1996) and *Zhongguo qiche gongyeshi 1991–2010* (Beijing, 2014); China’s Automotive Industry Yearbook (various issues); Chinese Government policy repository, accessed 22 Oct.2019, www.gov.cn/zhengce/content.

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