Business History

ISSN: (Print) (Online) Journal homepage: www.tandfonline.com/journals/fbsh20

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To cite this article: Yuan Jia-Zheng & Carles Brasó Broggi (11 Sep 2023): The metamorphosis of China's automotive industry (1953–2001): Inward internationalisation, technological transfers and the making of a post-socialist market, Business History, DOI: 10.1080/00076791.2023.2247366

To link to this article: https://doi.org/10.1080/00076791.2023.2247366

Published online: 11 Sep 2023.

BUSINESS HISTORY
https://doi.org/10.1080/00076791.2023.2247366

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The metamorphosis of China's automotive industry (1953–2001): Inward internationalisation, technological transfers and the making of a post-socialist market

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ABSTRACT

While the literature on business internationalisation has tended to focus on the outward movement of companies, internationalisation in business history may also be inwardly oriented. This paper studies the metamorphosis of China's automotive industry from 1953 to 2001 as a long process of inward internationalisation. The main argument is that the internationalisation of this industry started before automotive enterprises were encouraged to take dynamic actions abroad. This process relied on technology transfers to develop indigenous capacity and accumulate learning, while government policies regulated the entry of foreigners and the market conditions. The interactions of national and foreign players are examined during the Maoist period and the first two decades of the reform to determine when and how foreign automotive manufacturers were given access to China. The results confirm that inward internationalisation laid the basis for China's industrial modernisation and market development.

ARTICLE HISTORY
Received 10 June 2022
Accepted 2 August 2023

KEYWORDS
Chinese automotive industry; joint ventures; inward internationalisation; technology transfers; foreign direct investment

1. Introduction

Mao Zedong's dream of a national automotive industry came true in 1953, when the First Automotive Works (FAW) was founded with the aid of communist allies. However, technology transfers from the Communist bloc reached a standstill at the end of the decade and Chinese car production remained symbolic. Domestic production only expanded significantly in the mid-1980s and accelerated above the global average in the 1990s. In 2009, China became the world's top automotive manufacturer and accounted for one-third of the world's total output in 2020 (OICA, 2020). Chinese automobile firms showed their maturity and global ambitions by investing abroad and exhibiting a technological upsurge in electric car manufacturing. China's automotive industry has thus experienced an outstanding metamorphosis over the last seven decades.

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Scholars have explored the development of this industry, focusing on institutional changes and government policies (cf. Harwit, 1995; Thun, 2004, 2006; Brandt & Rawski 2008; Donnelly et al. 2010); the role of multinationals in their joint ventures (Huang 2003; Thun 2006; Collis and Donnelly, 2012; Chin 2010; Hertenstein et al. 2017); the developmental state in comparison with other East Asian economies (Doner et al. 2021; Meier, 2018); and the geographical set up of major companies (Liu & Yeung, 2008; Sit & Liu, 2000). While the inward internationalisation of Chinese firms has been studied by Icksoo (2009) and Hertenstein, Sutherland, and Anderson (2017), this article seeks to expand this argument engaging the theoretical framework of the Uppsala theory and contributing to the existing knowledge about China's automotive industry with new primary sources and a long-term analysis. This article aims to study the long-term inward internationalisation process of China's automotive industry and its relationship with growth and technological upgrade.

The business literature defines internationalisation mainly as an outward movement of companies (Buckley & Casson, 1985; Dunning & Lundan, 2008). According to Rugman (2006, p. 13), internationalisation occurs when 'a firm engages in international production and distribution with at least one foreign nation'. These theories include market mechanisms (Hymer, 1976; Buckley, 2002; Donnelly et al. 2002) and the Dunning's eclectic paradigm, which combines the advantages of ownership, location and internationalisation (Dunning, 2001). The link between internationalisation and outward investment is also dominant in the business history of emerging economies like China (Young et al. 1996; Fletcher, 2001; Child & Rodrigues, 2005; Hertenstein, et al. 2017), where research has focused on analysing how ownership (cf. Cazurra et al. 2014; Li et al. 2018; Zhang et al. 2016) and government policies (Dunning & Lundan, 2008; Seaman et al. 2017) shape investment location decisions.

Less attention has been paid, however, to the process of 'inward internationalisation'. This may include irregular foreign transactions, joint ventures or other activities that occur when firms lack capacity to invest abroad. Inward internationalisation is not so much driven by market mechanisms as by the necessity of acquiring technological skills and foreign market knowledge (Johanson & Vahlne, 2009, 1990, 1977; Vahlne & Johanson, 2013, 2017). The scholars of the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Wiedersheim-Paul et al., 1978; Welch & Luostarinen, 1988) argue that there is an incremental path from inward and cooperative modes of internationalisation to outward international business activities (Welch & Luostarinen, 1993). The existing literature has not considered this inward-oriented dimension as a form of long-term internationalisation in China's automotive industry. This article attempts to fill this gap by identifying when and how this internationalisation process began and how it evolved.

The article hypothesises that inward internationalisation led the metamorphosis of China's automotive industry, underlining that the role of non-market mechanisms such as state support or knowledge acquisition, were crucial not only in the establishment of joint ventures since the 1980s (Collis and Donnelly, 2012), but also in the Maoist period, when the automotive industry and the 'backbone companies' were born with the help of other Communist countries.[1] When, in 2001, Chinese enterprises were encouraged to invest abroad following the 'Go Out' policy and China's accession to the World Trade Organisation, the Chinese automotive industry had accumulated decades of experience of inward internationalisation, aspiring to reach international quality standards and global competitiveness.

Following recent attempts to include Maoist enterprises in the core of the business history research (Scranton, 2019), and taking into account major historical divides like 1978 or 2001, this article aims to consider the metamorphosis of the Chinese automotive industry from its beginnings to 2001, as a continuous process of inward internationalisation and technological catch up. Several scholars have already suggested that some of the roots of China's 'reform and opening up' period (*gaige kaifang*), officially starting in December 1978, may be found in earlier transitions and processes (Kelly, 2021; Scranton, 2019; Teiwes & Sun, 2007; Westad, 2010). This article seeks to find new evidence of these continuities between the Maoist and the reformist periods in the field of inward internationalisation process of the Chinese automobile industry.

The articles gathers new datasets and archival evidence: quantitative data comes from the trade records of the *Dangdai zhongguo duiwai maoyi* (Contemporary China Series Editorial Committee, 1992) and production datasets of the *Zhongguo qichegongye nianjian* (China Automotive Industry Yearbooks, various years, henceforth CAIY).[2] Regarding the Chinese backbone companies, evidences have been sourced from the historical reports of the First Automotive Works (FAW, 1991, henceforth FAW), Second Automotive Works (Dai , X., Wang, X., Wang, Y., & Qiao, J, 2001, henceforth SAW) and the China's Automotive Industry History (China Automotive Industry History Editorial and Review Committee, 1996; CAAM & CAAM Advisory Committee, 2014). This article also uncovers new archival material from the protocols of the meetings of the Board of Managers of Volkswagen from 1978 to 1990 (Volkswagen Corporate Archives in Wolfsburg, Germany, hereafter VCA) and the negotiations of the Sino-French joint ventures of Peugeot (1981-1995), held at the French Centre d'Archives de Terre Blanche in Hérimouncourt (hereafter PCA). Additional evidence is obtained from compilations of oral histories of former managing directors, engineers and Chinese Communist cadres from the Essay collection of the 100th anniversary of the birth of Comrade Rao Bin (Dong & Tao 2013), and the documents about the development of China's automotive industry by the People's Political Consultative Conference (Culture, History & Study Committee of the Chinese People's Political Consultative Conference, 2007).

This introduction is followed by three more sections. Section 2 explains the surge of China's backbone companies in the Maoist years (1953-1978)[3] and its diverse processes of internationalisation; section 3 analyses the joint ventures between SOEs and foreign multinationals in the 1980s which became the pillar of China's internationalisation; section 4 discusses the acceleration of inward internationalisation in the 1990s and the diversification of actors in an emerging domestic market. The paper concludes in section 5.

2. A socialist internationalisation. The Maoist years (1953-78)

The Maoist period (1949–1976) saw the birth of the backbone companies which have led China's production of cars until today. Whereas foreign collaboration was short-lived and erratic, it was essential in the creation of China's main domestic producers. This chapter shows how the early development of China's automotive industry was led by an inward internationalisation process that took place in the context of the Cold War, mainly but not exclusively between Socialist countries.

Since the proclamation by Mao Zedong of the People's Republic of China (PRC) in October 1949, the economy of China was gradually controlled by the Chinese Communist Party (CCP) and the Socialist system of five-year plans (Bernstein et al. 2010). Following the Stalinist

orthodoxy, heavy industry was emphasised against agriculture and light industry (Kong, 2010). In 1952, the Ministry of Heavy Industry and its First Machinery Industry unit was set up to expand production of capital-intensive goods (China Automotive Industry History Editorial and Review Committee, 1996). The government paid special attention to strategic sectors such as mining, metallurgy, and the automotive industry. These were considered pillar industries and received higher allocations of public investment in the first Five-Year Plan (FYP) 1953-1957, when the Sino-Soviet collaboration reached its peak.

The quantity and category of automobiles produced by China during this period were determined by the state which established production quotas for every given category of goods: commercial or industrial vehicles (trucks and SUVs for military use) were given priority at the expense of passenger vehicles (China Automotive Industry History Editorial and Review Committee, 1996). Until the early 1970s, the yearly average production of passenger cars was below one thousand units, representing less than one percent of China's total car production (see Table 1). During the Maoist period, all automotive companies were state-owned, although only three, the First Automotive Works (hereafter, FAW), the Second Automotive Works (hereafter, SAW) and Sinotruck were directly managed by the central government through its First Machinery Industry Unit. Other companies—Guangzhou Automobile Corporation (hereafter, GAC), Shanghai Automotive Industry Company (hereafter, SAIC), and Beijing Automobile Industry Company (hereafter, BAIC)—, (see Table 2) were controlled by the local governments (China Automotive Industry History Editorial and Review Committee, 1996).

China's First Automotive Works (FAW) was founded in 1953 with Soviet assistance. It was located in Changchun (Jilin), in Northeast China. This location was chosen not only on economic criteria—Manchuria was the only industrial region of China that had not been destroyed by the war (Hirata, 2021)—, but also on operational criteria, as it was near the Soviet Union. Indeed, FAW was a mirror of the Zanov Imeni Likhachyova (ZIL) factory in the Soviet Union (Guang, 2020). The Soviet collaboration was materialised in a massive flow of imports of industrial equipment and the training of Chinese engineers in Soviet factories.[4] While the machinery was not only imported from Moscow and Leningrad but also from Kharkov, Prague and East Berlin (FAW, 1991), the blueprints and the intellectual property (not the machines) were basically free of charge (Kirby, 2006). Five hundred Chinese technicians were trained in Soviet manufacturing plants, and 200 Soviet specialists assisted in the construction of FAW and its production activities. The first vehicle assembled in China was a copy of the light-duty truck (up to four tonnes) ZIS-150, named Jiefang [Liberation] CA10. This became the main production model for decades, as shown in Table 3 (FAW 1991, p. 354; Siegelbaum 2011).

Table 1. China's automobile production by Five-Year plans (yearly average).

Five-year Plan	Period	Total (units)	Passenger cars (units)	Commercial vehicles (units)	Others (units)
1st FYP	1953-1957*	3,206	–	2,648	559
2nd FYP	1958-1962	14,301	54	11,351	3,154
Restructuration	1963-1965	29,728	81	24,611	5,036
3rd FYP	1966-1970	48,322	217	40,056	8,049
4th FYP	1971-1975	116,013	1,136	90,498	24,379
5th FYP	1976-1980	163,530	3,430	122,949	37,151

Source: Author's elaboration based on CAIY (various issues).

Notes: *1st FYP yearly average from 1955, 1956 and 1957; from 1955-1959 national total output is equivalent to FAW's production; commercial vehicles include SUVs for military use; others include chassis productions and other special vehicles.

Table 2. China's backbone automotive companies.

Company	Complete name	Year foundation	Location	Property *	Main product category
FAW	First Automotive Works	1953	Changchun (Jilin)	Central government	Commercial Vehicles
GAC	Guangzhou Automobile Group	1955	Guangzhou (Guangdong)	Local government	Light commercial
SAIC	Shanghai Automotive Industry Corporation	1955	Shanghai	Local government	Passenger car
Sinotruck	China National Heavy Duty Truck Group	1956	Jinan (Shandong)	Central government	Commercial Vehicles
Yuejin (former NAC)	Nanjing Automobile Corporation	1947[a]	Nanjing (Jiangsu)	Local government	Commercial Vehicles
BAIC (BAW)	Beijing Automotive Industry Corporation	1958	Beijing	Local government	Commercial vehicles
DFM (former SAW)	Second Automotive Work or Dongfeng Motor Corporation	1969	Shiyan (Hubei)	Central government	Commercial vehicles
CCAG or Chang'an	China Chang'an Automotive Group	1983	Chongqing	Local government	Commercial vehicles and passenger cars
Hafei	Hafei Motor Company	1982	Harbin (Heilongjiang)	Local government	Commercial vehicles and passenger cars
JAC	Anhui Jianghuai Automobile Group	1999	Hefei (Anhui)	Local government	Commercial vehicles

Source: Author's own elaboration based on CAIY (various issues) and (China Automotive Industry History Editorial and Review Committee, 1996). Notes: Current company name is used to avoid being misleading. For instance, FAW, SAIC, Yuejin, BAIC, GAC and DMC were formally constituted groups in 1992–2000 and SAW changed into the Dongfeng Motor Group. BAIC was also formally constituted from 172 affiliated companies. a. Nanjing Automobile was founded earlier than FAW but did not start making light-duty trucks until 1958; b. In 1987, Beijing Automobile Works merged with the Beijing Motorcycle Manufacturer to form the Beijing Automobile and Motorcycle Association Manufacturer (BAM). *At the moment of foundation.

Table 3. First automotive Works: Output by model, 1955–1973.

Year	Total output	Jiefang (解放)	SUV	Hongqi (红旗)
1955	61			
1956	1,654	1,225		
1957	7,904	6,227		
1958	14,322	11,919	33	
1959	16,469	10,876	221	47
1960	17,407	10,678	613	61
1961	1,146	960	121	1
1962	7,602	6,017	258	6
1963	17,665	14,052	1	11
1964	23,251	–	–	307
1965	34,155	32,545	1,580	30
1966	46,605	42,419	4,104	82
1967	15,068	13,062	1,953	33
1968	16,638	14,668	2,008	22
1969	37,267	33,057	4,185	25
1970	50,303	44,185	6,078	40
1971	60,010	50,605	9,303	102
1972	–	–	–	–
1973	58,005	49,864	8,039	113

Source: adapted from (Guang, 2020, p. 120).

Furthermore, the Cantonese GAC, the Shanghainese SAIC and the Pekinese BAIC appeared in the mid-1950s as a result of the socialist transition period. Between 1953 and 1956, local governments enhanced mergers of former private companies that were transformed into public-private corporations, following Mao's directives for a comprehensive socialist transition of the economy (Feng, 2009). In 1955, SAIC emerged from the fusion of the Shanghai Automobile Manufacturer and Tractor Industry and Shanghai Automotive Limited, which were, at the same time, mergers of former private transportation, component and car repair firms (Shanghai Automobile Industry Committee, 1992). Similarly, the Beijing Second Automotive Works and Beijing Motorcycle Manufacturers were founded in 1955 and 1958, also as a result of the socialist takeover of private firms. In 1958, these two companies became the Beijing Automotive Industry Company Group (BAIC). The same could be said of GAC (see Table 2).

These companies, however, had no experience in car or truck manufacturing and developed a very limited production capacity, while Western brand models were copied for assembly as passenger cars. In 1958, the first car copying the French Vedette (Simca) with was assembled in China with a Daimler Benz-190 engine: it was known as the Dongfeng CA71, produced by FAW and it was followed by the Hongqi [Red Flag] model, which was a luxury limousine imitating the Daimler Benz 220 (China Automotive Industry History Editorial and Review Committee, 1996). Passenger cars in China were produced as a symbol of national pride and were only consumed by the small elite of high-ranking Communist cadres.

Indeed, the bulk of production went into commercial vehicles, especially trucks that were badly needed for the transportation of goods. In July 1954, the Transportation Party Committee of Shanghai announced the confiscation of the 1,200 cars that were in private hands. That was the stock of cars available in the most industrialised city of China. Following with Mao's directives of socialist transition, these cars (old models of Dodge, Nissan and Studebaker) were incorporated in a public transportation company that would obtain a transport capacity of 5 million ton per year, partially alleviating the problems of distribution that were inherited from the previous period of war and turmoil.[5] China's weakness in

transportation and infrastructure was one of the main objectives of the Sino-Soviet technical agreements and the first five-year plans. However, this collaboration was short-lived and only carried out partially during the 1950s.

The Great Leap Forward caused a sharp downfall of China's production of cars that coincided with the Sino-Soviet split (see Figure 1). The sinkhole in production in the early 1960s can not only be attributed to domestic policies (the Great Leap Forward, 1958–1960) but also to the Sino-Soviet split (cf. Schaufelbuehl et al. 2018; Zhang, 2001), which resulted in the cessation of technical assistance, machinery supplies and advisory services from the Soviet Union. Trade data indicate that the Sino-Soviet tensions of the late 1950s and early 1960s halted trade between China and the Soviet Union while Eastern Europe saw a drop of 50% of its total trade with China (Contemporary China Series Editorial Committee, 1992). China's average car and truck imports were already low because the state protected its nascent domestic industry with import tariffs of 200 and 250% during the 1950s and the 1960s (China Customs, 2018). Furthermore, protectionist policies were common, not only among Socialist countries, but also in other late-industrialising countries like Brazil or South Korea. In 1956, for instance, the automotive plan of the Brazilian government restricted the import of complete vehicles (Shapiro, 1994) while imports of assembled vehicles were banned in Korea in 1962 (Doner et al. 2021).

However, in the mid of the 1960s, despite the Soviet pressures to cut ties with China and Mao's autarchic claims, some Eastern European countries resumed exports of trucks and cars to China: In 1959, Czechoslovakia signed a long-term trade agreement with China which was praised by Chinese premier Zhou Enlai as a hallmark in China's modernisation effort. It would provide buses (Skoda) and trucks (Tatra), in exchange for foods and fibres (Adamec, 2018); in 1965, Poland sold around 6,000 vehicles to China and Romania exported 1,000 Carpati (three-ton trucks) (Business China, 1983). Between 1950 and 1957 China imported 67,500 vehicles—81.3% of which were heavy-duty trucks—the import of truck cars resumed in the 1960s after the Great Leap Forward (see Figure 2). In the third and fourth FYP (1966–1975), the total quantity of imported vehicles grew significantly to 139,000 units, particularly

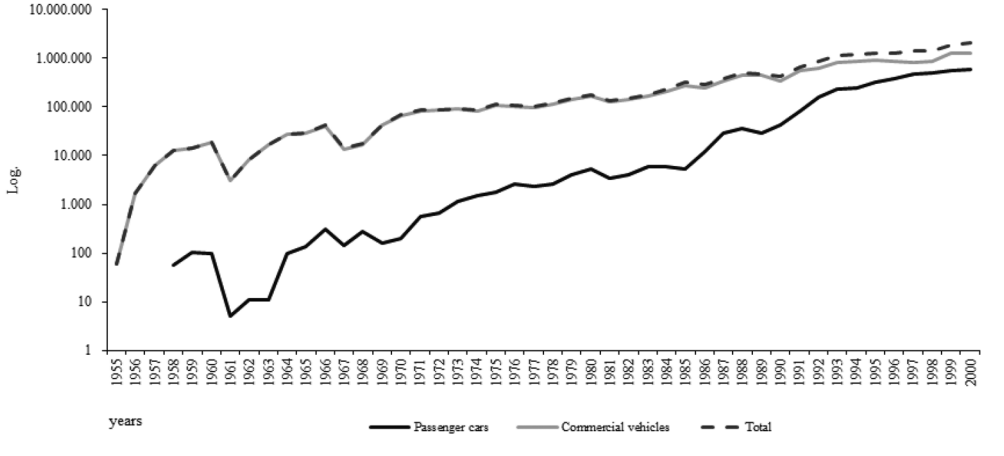

Figure 1. China's total automotive industry output, 1955–2000.
Sources: Author's elaboration based on CAIY (various issues) and OICA (2020).
Note: SUVs were included in commercial vehicles until 2001.

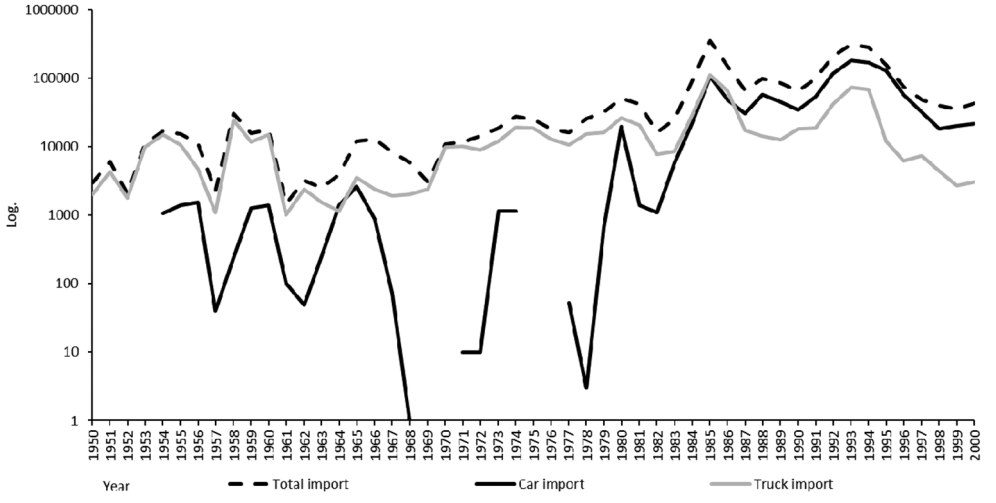

Figure 2. Imports of china's automobile industry (total and main categories), 1955–2000.
Source: Author's own elaboration based on CAIY (various issues).

for heavy-duty trucks, while imports of passenger cars remained meagre, only 3,300 units (CATARC, 1994, pp. 269–270). After the Sino-Soviet split China exported a symbolic number of vehicles, including SUVs, special vehicles, and trailers, to Albania, Cuba, Vietnam or North Korea (Baranson, 1969; CNAIC, 1984).

In a similar way to Eastern European countries facing the Sino-Soviet split, Western European countries also tried to develop trade with China, circumventing the pressures of the United States and its trade embargo against the PRC. During the Geneva Conference of 1954, the Chinese delegations had started contact with Western Europeans to purchase commercial vehicles and, since then, Switzerland became a platform for contacts between the PRC and Western European business interests (Knüsel, 2022). These contacts did not materialise in significant business operations until years later, when the Sino-Soviet split opened the door for China to collaborate with Western Europe (Zanier, 2017).

In 1965, China signed an agreement with the French truck producer Berliet for technical assistance, licence transfer and industrial designs. Furthermore, cars and trucks became the main export item of France to China, receiving the support of full diplomatic relations between both countries, since 1964 (Zhou, 2018). Italy also undertook business deals with China in the oil and petrochemical industries as well as in the automotive industry, mainly with the Italian company Fiat (Zanier, 2017; Capisani, 2013). Fiat had been a close partner of the Soviets and Eastern European countries (with production subsidiaries in Poland and Romania) and also engaged in business with other socialist countries who had abandoned the Soviet sphere of influence, like Yugoslavia—where the company signed an agreement with Crvena Zastava in 1954 (Fava & Gatejel, 2017; Miljković, 2017)—, or China, after the Sino-Soviet split.

As a result, China consolidated diverse sources of truck suppliers from Eastern and Western European and also from Japan. This trade was organised according to the types of trucks purchased: 4 to 5 ton trucks (Rumania, Hungary, and Eastern Germany), 7 to 8 tons (Italy, Japan), 10 to 15 tons (Czechoslovakia and France), 12 tons (Sweden) and tractors (Japan) (Zhou, 2018, p. 110). The Czechoslovak delegates complained that instead

of a longer commitment as expected between Communist countries, the Chinese were placing orders on a year-by-year basis as they were planning to produce or copy Czechoslovak goods (Adamec, 2018). Meanwhile, China had to export primary goods (foodstuffs and fibres) which were needed by the Chinese population to pay for their imports. In the early 1970s, however, after the worst years of the Chinese famine (where exports of edible goods continued) and the Cultural Revolution, the 'petroleum faction' in charge of the Ministry of Petroleum enhanced oil production in Northeast China as an export good (Zanier, 2017), easing China's foreign trade tensions and enhancing both the domestic production of cars and the imports of technological equipment from Western European countries (Chen, 2008).

In 1969, the second company controlled by the central government, SAW, was created in the remote town of Shiyan (Hubei), following Mao's idea of spreading industrialisation in the interior of China for defensive strategic purposes (Meyskens, 2020). After several delays, SAW started production in 1969 and, despite claims of technological independence and autarchy, the industrial plant followed the FAW designs and copied the Soviet manufacturer of commercial vehicles. The first models were a 2.5 ton truck called GAZ51 and the military models SUV Y20 and Y25. Moreover, it was FAW's technical personnel, trained by the Soviets, who assisted in the creation of these first truck prototypes (Meyskens, 2020). Given the fact that both FAW and SAW were controlled by the central government, there was an interindustry transfer of technology from the previous Soviet assistance (SAW History Journal, 2001; Xu & Ou, 2017; CNAIC, 1984).

To sum up, the metamorphosis of the Chinese automotive industry started when the market of cars was absent and the role of the state was all-determining. The Chinese central and local governments were not only the main acquirers and distributors of all automobiles, including imported units, but had total ownership of the industry. However, foreign-oriented activities were important since the beginning, first, through international collaboration agreements on both sides of the Cold War and, second, through trade. Although the industrial growth during the Maoist period, consisting of more commercial vehicles than passenger cars, was modest, it was essential in the configuration of backbone companies which led China's production of cars.

3. Joint ventures in protected markets

The Chinese automotive industry suffered its major metamorphosis after 1978. International technology transfers increased substantially through international joint ventures between Chinese backbone companies, owned by the central or local governments, and foreign private multinationals. At the same time, China allowed Independent Chinese Automobile Manufacturers (ICAMs) to appear and compete with the backbone companies and their international collaboration projects. This was the period of the economic reforms led by Deng Xiaoping, when a domestic market for automobile consumption gradually emerged. Meanwhile, protectionist policies were not unleashed until China's entrance to the World Trade Organisation (2001). As Deng put it in his speech of October 1986 at the Second Plenary Session of the 20th Central Committee of the Communist Party, 'we keep our doors open, but we are selective, we do not introduce anything without a purpose and a plan' (Deng, 1993).

Indeed, the automotive sector continued to be a 'pillar industry' in the 6th FYP (1981-1985) and 7th FYP (1986-1990). However, in contrast with the Maoist period, passenger cars, ICAMs and

private consumption were brought into play. In 1979, the Chinese output of passenger cars was negligible and suffered from severe shortcomings of capital and technology. In the short term, domestic production could not fulfil the expected boom of the domestic demand. Therefore, the Chinese government encouraged international joint ventures to transfer mass production facilities to supply the domestic market with various types of automobiles and a selective importation of finished cars in small quantities, especially the so-called 'Complete Knock Down' cars (hereafter CKD): a complete car delivered in parts to be assembled at destination.[6]

The conditions to establish joint ventures were restrictive to ensure international technology transfers and, ultimately, the completion of an inward internationalisation process. First, joint ventures could only be established between a foreign and a Chinese partner, where the latter owned, at least the 50% of participation. Second, the foreign partner should not engage in more than two joint ventures in China to assemble the same model of vehicle. Third, the foreign partner should guarantee technology and know-how transfers—including human capital training—to the domestic partner. Fourth, the joint venture should produce newly designed cars specific to the Chinese market. And last but not least, local suppliers should be given priority and the national content of auto parts should increase gradually from the original CKD, where China only assembled an imported car (China Automotive Industry History Editorial and Review Committee, 1996; SDPC, 1994). This was the normative framework which affected the first round of joint ventures (see Table 4) until the formalisation of an Automobile Policy in 1994 (cf. Nam 2011; Tang 2012).

In 1979, multinationals like General Motors and Isuzu started negotiations to launch new production facilities in China.[7] But the first endeavour of this kind took place in 1983, after thirty years of the establishment of FAW. It was a joint venture between BAIC and American Motors Company (AMC) (FAW, 1991). AMC had been an important producer in the US market in the 1950s and 1960s but was experiencing financial difficulties while its market share was declining against the US Big Three (General Motors, Ford and Chrysler) and the massive entry of cheaper Japanese cars. In 1983, AMC agreed to have a minor stake (31.35%) in a joint venture with BAIC that would be called Beijing Jeep Corporation. AMC invested USD 16 million, half of which was in a technological package of industrial machinery and equipment (CAAM & CAAM Advisory Committee, 2014). Interestingly, the new joint venture produced two models: BJ212, using the technology that BAIC had acquired from the Soviet Union, and the Jeep Cherokee XJ, with the American technological package. But the process was slow and the next model, the Grand Cherokee, was only produced in 2001, after the AMC had been purchased by Chrysler (Hu et al., 2008, p. 318).

Volkswagen Group was the second firm to reach a joint venture agreement in China and it became the most successful. Since 1979, automobile expert, Rao Bin met several times with the Chairman of Volkswagen Group, Carl H. Hahn. Rao Bin was invited to visit the Volkswagen production plant in Brazil, with a capacity of assembling 300,000 units annually.[8] Brazil had made use of the state intervention to establish joint ventures and other forms of inward internationalisation. In 1956, the Kubitschek administration designated the automobile industry as a strategic sector and attracted foreign investment and technology to develop domestic industrial capacity (Shapiro, 1991, p. 893). With the largest Latin American market, international automobile players were eager to participate in various ways, through joint ventures dominated by local capital (Willys-Overland or Vemag), 50:50 joint ventures (Mercedes Benz and Simca), or wholly owned by foreign firms (Ford, General Motors, or Volkswagen). The Brazilian Executive Group for the Automobile Industry was responsible

Table 4. Sino-Foreign joint ventures, 1983–1992.

Partners						Participation	
Domestic	Foreign	Foreign country	Joint Venture	Year	Location	Domestic (%)	Foreign (%)
BAIC	Jeep American Motors Corporation (AMC)	USA	Beijing Jeep Corporation (BJC)	1983	Beijing	68,65	31,35
SAIC	Volkswagen	Germany	Shanghai Volkswagen (SVW)	1984	Shanghai	50	50
GAC	Peugeot	France	GAC-Peugeot	1985	Guangzhou (Guangdong)	66	34
Nanjing Automtoive	Fiat-IVECO	Italy	Nanjing-Iveco (NAVECO)	1985	Nanjing	50	50
Chongqing Qingling Automotive	Isuzu	Japan	Qingling Isuzu	1985	Chongqing	77	27
FAW	Volkswagen	Germany	FAW-VW	1991	Changchun (Jilin)	60	40
Dongfeng	Peugeot Citröen	France	Shenlong Limited	1992	Wuhan (Hubei)	50	50

Source: Author's compilation is based on CAAM & CAAM Advisory Committee (2014), CATARC (various issues), Li (2018), Wang (2003), Harwit (1995).

not only for accepting the investment projects but also for setting production targets. The Brazilian industry also started with CKD or semi-knocked-down cars but by the early 1960s, total output and the local content had significantly increased (Shapiro, 1991; Shapiro, 1994).

In May 1982, Rao Bin became the Chairman of the newly created China National Automotive Industry Corporation (CNAIC) a public agency with the mission to introduce the mass production of passenger cars in China, through joint venture operations with foreign multinationals, in collaboration with research and design institutes. China adopted the industrial standardisation procedures of Western Germany, in collaboration with the Deutsches Institut für Normung (DIN), and some aspects of the patent laws. The economic diplomacy of Bonn, while avoiding sensitive political issues, was well-received by the pragmatist reformers of Beijing, setting the base for an enduring alliance (Albers, 2016, 197-98).

It took nearly six years of negotiations (from June 1979) until the final contract of a joint venture agreement for 25 years was signed between Volkswagen and SAIC in October 1984.[9] This joint venture called Volkswagen Shanghai was such a big deal that it was recognised as the most important industrial project of 7th FYP. German chancellor Helmut Kohl travelled to China to side with Carl H. Hahn in the signature ceremony. The joint registered capital summed RMB 160 million, with the following equity: Volkswagen owned a 50%, while the Chinese half was shared between SAIC (25%), Bank of China and Shanghai Trust and Consultancy Company (15%), and CNAIC (10%). Volkswagen would invest USD 60 million in cash at the very beginning, increasing to USD 300 million in a second stage in the 1990s.[10]

In a first stage, yearly production capacity was set at 30,000 cars of the model Santana, which was no longer in the Western markets. In a second stage, the productive capacity of the Shanghai plant would grow to 150-200 thousand cars per year. SAIC and, ultimately, the Shanghai government, guaranteed the purchase of Santana vehicles (for instance in Shanghai's taxis), whilst Volkswagen ensured the technology transfers through CKD imports and training programs for workers. Chinese authorities emphasised the importance of training Chinese workers mid-to-long term, in order to be able to manufacture the auto parts that had been imported. While around 60 German experts were expatriated to Shanghai, 2,500 Chinese workers were trained, some of them in Germany, to guarantee the correct assembly of CKDs.[11]

Volkswagen had ambitions to lead China's domestic market of cars. In February 1991, the company announced a new joint venture with FAW, with a whole new production plant in Changchun. According to a feasibility study, both joint ventures could give Volkswagen a lead in China's car market for 25 years.[12] Volkswagen and FAW agreed to invest RMB 1.7 billion (or USD 320 million) in a new joint venture called FAW Volkswagen: 40% corresponding to Volkswagen and 60% to FAW. At the beginning, however, Changchun was only an assembly plant; FAW Volkswagen would purchase 150,000 CKDs from Volkswagen to be assembled in China. While the contribution of FAW was in land, workers (more than 40 thousand in the mid-1980s) and facilities, Volkswagen gradually moved its industrial equipment and installations from Westmoreland (United States) to China as part of its investment. Yearly capacity was set to reach 150 thousand cars in 1996 of the models Golf and Jetta.[13]

Volkswagen also transferred technical documentation and know-how (prototypes, production blueprints, and industrial drawings) and organised start-up training courses involving 1,600 workers per month. Like the former Joint Venture with SAIC, technology transfers were paid up by FAW Volkswagen with a flat fee for ten years of DM 126 million (USD 60 million), including licencing and consulting fees. In 1993, a huge training plan of industrial

workers started operations in a formation centre with an additional investment of RMB 200 million. During the following 10 years, a total of 363,969 workers received different kinds of training courses, while around 150 German experts were expatriated to Changchun.[14]

According to the 'Project China' plan of Volkswagen, 85% of the production in China would be sold in the domestic market, while 15% would be exported, primarily to Southeast Asia and the Arab countries.[15] The second joint venture was more detailed in terms of payment terms of technology transfers, separating royalty payments and licence fees.[16] The conditions negotiated in these joint ventures would lay the foundations for similar transactions in the future.

The conditions set by the Chinese government to foster technological spill-overs from the original CKD became a reality. Local contents of Shanghai produced cars increased from a meagre 5% in 1990 to 81% in 1996.[17] Expert Rao Bin stressed the hardships of Chinese producers to fulfil German quality standards that were monitored for the first Santana model, but this process of adaptation became the main test of quality progress for the Chinese automotive industry.[18] According to Rao Bin, 'a joint venture with foreign company requires importing continuously foreign technics and it takes time. Additionally, not only technics are important but also it is crucial to capture managerial and organizational methods'.[19] When the output of cars became massive in the late 1990s, the model Jetta, with a yearly production of 150 thousand cars, had already a local content of 84% (Harwit, 1995; Nam, 2011).[20] The joint ventures of Volkswagen became a hallmark of China's inward internationalisation process, where Chinese firms learned from foreign partners, first, through CKD assembly and, gradually, integrating domestically the production of auto parts (Johanson & Vahlne 1990, 1977; Johanson & Wiedersheim-Paul 1975).

Deng Xiaoping, who had worked in a French automobile factory in 1925, emphasised the collaboration with European partners to modernise China's industry, preventing China to appear too dependent on both the United States and Japan which were, themselves, struggling in the US market of cars. Furthermore, Japan's 'voluntary restraints' on automobile exports to the United States (1982-1994) created an opportunity for Korea to fill the gap in the low-end segments, which resulted in a remarkable increase in Korean exports to the US market in the 1980s. Since the mid-1960s, Korean manufacturers Hyundai and Asia Motors had sought joint ventures with Ford and Fiat, respectively, with the government's approval. However, the production activity and the local content remained low, due to limited size of its domestic market. In the 1970s, the initial import-substituting strategy was abandoned and the Korean government instructed the four major automobile companies to submit expansive business plans (Cho et al. 2014), under the Long-Term Plan for the Promotion of the Automobile Industry (Doner et al. 2021, p. 159). As a result, car exports led Korea's 'golden age' of the 1980s, but without a sensitive impact on China.

Furthermore, while Germany took the lead, Italy and France also made their presence felt in China. Since 1975, Giovanni Agnelli, as Chairman of Fiat, had been negotiating with Chinese parties a joint venture for light-duty commercial vehicles, but it was not until 1985 that Fiat Iveco and the SOE Nanjing Automobile Corporation (NAC) signed an agreement to produce light commercial vehicles. The joint venture between NAC and Fiat Iveco was the most important regional project in the automotive industry during the 7th FYP (1986-1990).

According to Rao Bin, after the visits to Italy in 1983, the negotiations went fast. The process of technology transfer was planned for 15 years, where technical document, patents and know-how would be transferred to the Chinese partner. The newly constituted NAVECO

received an investment of USD 446 million in cash (and a loan of 210 million), and a commitment to improve the already successful Yuejin truck while the new Italian models were in progress (FIAT S.p.A. 2006). In 1985, NAVECO imported 1,000 units of semi knocked down cars and began the assembly activity as a trial period. Next year, however, the planned mass production of 60,000 units was not achieved and, in the following years, Fiat announced a new joint venture with Yuejin Automotive Group (former NAC) to assemble light commercial vehicles and passenger cars. For instance, the models Siena and Palio became quite popular in the middle segment market (CATARC and MOFCOM, 2014), but the two models designed and produced in China (Encore and Unique) received poor results. Finally, the model Deyi [Delightful] reached 10,000 units in the first year of production in 1997. The learning process took long, but it was finally profitable.

But not all collaboration projects went smooth. In 1985, Peugeot signed a joint venture with GAC in Guangzhou. The French parties (Automobiles Peugeot and Banque Nationale de Paris) had a minor stake of 34%, investing USD 170 million (or FF 62.4 million), mainly through manufacturing equipment and production licence: the lump-sum of the industrial property and know-how licence contract was valued in FF 23 million, while industrial engineering service fees at FF 17 million. The technology transfers of Peugeot were classified in six items: industrial property and technical know-how; engineering and technical assistance; plant renovation; a research and development centre; the state of technology; and IP protection. The Chinese side, GAC and China International Trust and Investment Corporation held 66% of the new company stake equivalent to FF 120 million.[21]

As it happened with the joint ventures of Volkswagen, there was an exchange of skilled workers. Chinese engineers were trained at Peugeot's main industrial plant at Montbéliard and French expatriates came to Guangzhou. However, in contrast to Volkswagen, the negotiations emphasised the wage conditions of the French expatriates in China (including payments in kind, salaries, travel expenses, and housing facilities) while the training process of the Chinese staff received less attention.[22] Furthermore, in the industrial plants, each department was jointly managed by two persons, one from Peugeot and another from GAC.[23] Comparing the archives of the negotiations of Peugeot and Volkswagen the perception of mistrust is more visible in the former.

The supply contract of CKD cars imported from Peugeot to China would be deployed in three phases.[24] During the first phase, yearly production of the model Peugeot 505 was set at 15,000 units, mostly assembled; in a second stage the Peugeot 505 was to reach a yearly production capacity of 30,000 units, that would be increased to 50,000 in a third phase. However, the introduction of locally produced auto-parts was not as clear as in other joint ventures, perhaps because Guangzhou did not have a tradition of automobile and auto-parts production like Shanghai or Changchun: in the early 1990s, local content reached 60%, not enough to satisfy the Chinese authorities (Harwit, 1995; Nam, 2011). Be as it may, the joint venture incurred in losses and was dissolved in 1998 (CATARC and MOFCOM, 2014).

During the first decades of the opening up and reform, China did not open its domestic market to the foreign trade of automobiles, but rather allowed foreign companies to reach agreements with China's backbone SOEs to establish joint ventures to produce in China, with precise instructions of how technology transfers should be carried out. The two joint ventures of Volkswagen adapted to these requirements and were highly backed by both the Chinese and German governments. They succeeded in leading the Chinese market consumption of cars and trespassing the German know how to local manufacturers, allowing

to increase the local share of suppliers. But this process of inward internationalisation also originated problems and conflicts between companies and other stakeholders, and not all joint ventures were successful, like the case of Peugeot demonstrates.

4. Internationalisation and the consolidation of a domestic market

Since the mid-1980s non-state companies with Chinese capital were allowed to compete in the automobile business, breaking with the monopoly of the SOEs. These companies like Geely, Great Wall, Lifan and BYD were classified as Independent Chinese Automobile Manufacturers (ICAMs). Whereas some of them retained some kind of state participation, their purpose was to create Chinese indigenous brands that could compete against multinationals and their 'backbone' partners (Li, 2014). Geely was founded in 1986 in Hangzhou (Zhejiang) and it is considered the first privately owned automotive company. In 1984, Great Wall was registered in Baoding (Hebei), and it was originally an SOE, but it was later privatised (CAAM & CAAM Advisory Committee, 2014). During the first half-1990s, the private firms Lifan and BYD were founded in Chongqing and Shenzhen (Guangdong) respectively. In addition, private auto part firms were allowed to sell to both SOEs and non-SOEs. Thus, international technology transfers were still controlled by SOEs, but non-SOEs were encouraged to compete and help to increase the market supply (FAW, 1991; Dai , X., Wang, X., Wang, Y., & Qiao, J, 2001; Shanghai Auto Industry Committee, 1992).

The fact that non-SOEs were also highly commanded by the state was not exclusive to the automobile sector: during the reform era, private companies were allowed to exist only under tight conditions and following the state directives, something that has produced a rich scholarship about the adequacy of calling them 'private companies' (see Huang 2003). Whereas SOEs backbone firms were more bureaucratic and tightened to the strict regulations, not only from the government but also from the joint-venture agreements, ICAMs were more flexible and adaptable. At first, ICAMs were not allowed to form joint ventures and faced budget constraints, exchange rate limitations, trade barriers and less investment choices (Guang 2015; Li, 2014). Nevertheless, in the mid-1980s a specific production goal was fixed for ICAMs at 200,000 passenger cars per year, indicating that the state would allow private companies to compete and prosper, but to a limited extent (Li, 2009, 2014). In the 1990s, the top five SOEs, including their joint ventures with foreign partners, still accounted for more than half of China's total industrial output (CNAIC, 1984; China Automotive Industry History Editorial and Review Committee, 1996) (Table 5).

During the 8th FYP (1991–1995), the automobile industry was restructured with the Automobile Industry Policy [Qiche fazhan gonce] issued by the National Development and Reform Commission (NDRC) in 1994 (SDPC 1994), which coincided with the first general law on private companies. In short, the government kept a protectionist policy (tariff for imported finished vehicles was set to 110-150%), while enforcing foreign direct investment. However, all companies willing to enter the market of China had to ensure effective technology transfers, registering as joint ventures and committing to source a minimum of 40% of their inputs with local providers. These conditions, however, did not deter foreign multinationals: from a total of USD 880 million of FDI in the automobile sector in the 1980s, inflow of capital reached USD 60 billion in the next decade (Hu et al., 2008, p. 319).

While allowing private enterprises to enter the game, the government continued to favour SOEs and their joint ventures. The State Council and the NDRC encouraged the formation

Table 5. Independent Chinese Automobile manufacturers (ICAMs).

Company	Complete name	Year foundation	Location	Property	Main product category
Great Wall	Great Wall Motor Automobile Manufacturer	1984	Baoding (Hebei)	Private	Commercial and passenger cars
Geely	Geely Automotive Company	1986	Hangzhou (Zhejiang)	Private	Passenger cars
Brilliance	Brilliance Auto Group	1992	Shenyang (Liaoning)	State	Commercial and passenger cars
Lifan	Lifan Group	1992	Chongqing	Private	Commercial and passenger cars
BYD	BYD Automotive Company	1995	Shenzhen (Guangdong)	Private	Commercial (bus) and passenger cars
Chery	Chery Automobile Company	1997	Wuhu (Anhui)	State	Passenger cars

Source: Author's elaboration based on CAIY (various issues) and CAAM & CAAM Advisory Committee (2014).

of *qituan qiye* [business groups] to achieve economies of scale, which was essential in capital intensive sectors (Friedlaender et al. 1982). To accomplish this goal, the government supported the merger of intraregional enterprises, annexations and joint-stock operations. Other measures such as tax deductions, low-interest loans and preferential foreign currency access were granted to companies with a capacity of 300,000 cars per year. The objective was the consolidation of two or three large groups, plus six or seven state-controlled manufacturers as backbone companies. As a result, SAIC and BAIC became business groups owned by both the central and provincial governments. In 1995, NAC changed its name to Yuejin Automotive Group and merged with SAIC in 2007 (CAAM & CAAM Advisory Committee, 2014). Additionally, the central government encouraged an inter-regional competition to attract foreign capital, especially in new development zones of second-tier cities like Changsha, where the local government fixed better production costs and favourable conditions against the more consolidated areas (Coase & Wang, 2012). If these policies aimed at accelerating competition and market conditions, they also introduced duplicities and inefficiencies (Donnelly et al. 2010; Chin, 2010).

The successor of Deng Xiaoping, Jiang Zemin, who had worked at FAW's factory in Changchun in the 1950s, encouraged the establishment of new joint ventures while his main economic advisor, Zhu Rongji (which became premier in 1998), tried to rationalise what was perceived as an excessive weight of state-owned enterprises. While Deng Xiaoping made the famous southern tour of 1992, symbolising the deepening of the reform process, the liberal faction led by Jiang Zemin and Zhu Rongji established the policy of 'exchange technology for market access' (*yi shichang huan jishu*), where foreign companies would have better facilities to enter the Chinese market (Yue, 2018).

That year, Peugeot Citroën signed a joint venture agreement with Dongfeng (former SAW) in Wuhan (Hubei province), which became one of the most important 'motor cities' of China. The equity was established on a 50:50 basis between Dongfeng and Aeolus-Citroën Automobile Company for producing under the two brands of Peugeot and Citroën.[25] It seems that the French side learned some lessons from the previous joint venture and more attention was put to favouring local suppliers: local content should reach 75% in the first phase and 97% between the second and seventh year, of which around 45% were made by the joint venture and 55% by local manufacturers.[26]

The training program and the technical exchange were also described following the model of Volkswagen. The agreement included a list of technical documentation supplied by Citroën, and a training program involving 800 men per month (increasing to 1,200) with a total estimated cost of FF 68 million, payable by the joint venture to Citroën.[27] From January to December 1992, monthly billable hours amounted to 471,450 including engineers' assistance, quality control checks, and all other training services.[28] Under these conditions and, according to the French company, the production of the ZK Fukang model in 1992 was a total success.[29]

However, the second wave of joint ventures of the 1990s was led by Japanese companies (see Table 6). At first, multinationals from the neighbour country were wary to form joint ventures with the Chinese manufacturers to prevent potential Chinese competition in the Asian markets (Harwit, 1995). From 1992 to 2000, however, nine out of fifteen international joint ventures were Japanese. All key Japanese manufacturers—Toyota, Nissan, Honda, Isuzu and Suzuki—established production facilities in China in partnership with Chinese SOEs. The massive entry of Japanese capital was a response to the previous success of Volkswagen in terms of output and market share. However, if in the late 1980s the Japanese and Korean companies symbolised the shift towards Asian hegemony in the global production of cars (Catalan, 2017; Meier, 2018), Asian multinationals faced a harsher competition in China, especially from ICAMs like Geely and Great Wall Motors. This competition led to frequent intellectual property disputes with Japanese producers for unfair competition and copyright infringement (Hu et al., 2008, p. 319).

Volkswagen remained the main contributor of China's inward internationalisation. First, the German company headquarters imposed tight quality controls in collaboration with the government and the standard and quality agencies (Grieger, 2010; Grieger & Gutzmann 2008). Second, Volkswagen had the strong attraction power of other German companies: German suppliers disembarked in China and constituted joint ventures with local manufacturers of auto parts and components (Tilly, 2019). For instance, in 1997, following the FAW Volkswagen factory in Changchun, 49 joint ventures of auto parts were formalised at the same time in Jilin, Shanghai and Beijing. Thanks to the supply network created between Sino-German manufacturers of parts and accessories (Depner & Bathelt, 2009), the national content of the Santana (assembled by Shanghai Volkswagen) increased to 80–90%, while the national content for Passat and Jetta (assembled by FAW Volkswagen) exceeded 90% by the late 1990s (Harwit, 1995; Nam, 2011). Furthermore, some Chinese companies (both private and state-owned) were accepted as suppliers first to the Chinese joint ventures and then to the global activities of the Volkswagen group, becoming themselves multinational companies (Hertenstein et al. 2017).

Finally, being a first mover and setting ambitious targets in terms of investment, Volkswagen allowed a significant and rapid accumulation of production capacity and know-how. Hence the total output per worker increased from 6 units in 1990 to almost 30 units by 2000 (CATARC 1994, 2001). Since the beginning, the concerns of Volkswagen in China, which were merged into Volkswagen Group China in 2004, led China's market of automobiles, with a share in production of passenger cars of 40-50% during the 1990s and an overall investment of 6.8 billion euros in 2008 (Volkswagen, Annual Report, 2008) (Table 7).

The growing presence of foreign companies in the supply chain and China's negotiations to enter the World Trade Organisation brought some modifications to the conditions of technological transfers: the 'trade-related investment measures' (TRIMs) of the WTO

Table 6. Sino-Foreign joint ventures, 1993–2001.

Partners						Participation	
Domestic	Foreign	Foreign country	Joint Venture	Year	Location	Domestic (%)	Foreign (%)
Changan	Suzuki	Japan	Chongqing Changan- Suzuki	1993	Chongqing	51	49
Dongfeng	Nissan	Japan	Zhengzhou Nissan	1993	Wuhan (Hubei)	79	21
Chang'an	Suzuki	Japan	Chang'an Suzuki	1993	Chongqing	51	49
Nanjing Yuejin	Fiat	Italy	Nanjing Fiat	1995	Nanjing	50	50
Changhe	Suzuki	Japan	Changhe Suzuki	1995	Jingdezhen (Jiangxi)	51	49
Fujian Automotive	Yulon Taiwan		Fujian Yulon	1995	Fujian	50	50
FAW	Volkswagen	Germany	FAW-VW-Audi	1996	Changchun (Jilin)	60	40 (which 10 is Audi)
Dongfeng Motors	UD Trucks	Japan	Dongfeng Nissan Diessel Motor (DND)	1996	Guangzhou (Guangdong)	50	50
SAIC	GM	USA	Shanghai GM Wuling	1997	Shanghai	50	50
Jiangsu Yaxing Motor & Coach	Benz	Germany	Yaxing Benz	1997	Yangzhou (Jiangsu)	50	50
GAC	Honda	Japan	Guangqi Honda	1998	Guangzhou (Guangdong)	50	50
FAW	Toyota	Japan	FAW Toyota	1998	Changchun (Jilin)	50	50
Tianjin Xiali	Toyota	Japan	Tianjin Toyota	2000	Tianjin	50	50
GAC	Isuzu	Japan	Guangzhou Isuzu	2000	Guangzhou (Guangdong)	51	49
Chang'an	Ford-Mazda	USA, Japan	Chang'an-Ford	2001	Chongqing	50	50

Source: Author's compilation based on CAAM & CAAM Advisory Committee (2014), CATARC (various issues), Li (2018), Wang (2003), Harwit (2001, 1995) and other company sources.

agreement implied that China could no longer impose conditions regarding the local contents of auto-parts (or any other condition that create trade restrictions) in the future joint venture agreements (Branstetter & Lardy, 2008, 651-52). Even though these measures were not implemented after China's accession to the WTO in 2001, the joint ventures that were set in motion in the 1990s would not have to carry the burden of transferring the technology of the whole production process as Volkswagen did in the 1980s. These new policies allowed the diversification of models and a general lowering of the price of cars in a growing domestic market: for instance, from a prohibitive 120.000 RMB in 2001, the iconic Santana model was available for 80.000 RMB in 2003 (Hu et al., 2008).

The impact of the joint ventures in output growth was incremental, particularly thanks to the subsector of passenger cars. As shown in Figure 1 and Table 8, the production initiatives of the 6th FYP (1981-1986) had limited results: while total output grew by 16%, it was mostly due to the improvements in the production of commercial vehicles, while passenger cars increased by only 3%. It was not until the second half of the 1980s that the output of passenger cars took off, especially due to the success of the first joint ventures: production increased by 66%, whereas commercial vehicles only grew by 7%. In the early 2000s, China reached a yearly output of four million cars of which two million were commercial and two million passenger cars Table 8.

However, the growth of China's automobile industry was still not sufficient to fulfil the boom of domestic demand, especially in the years 1985-95 (see Figure 3). Thus, despite the protectionist policies and high price of imported cars, net import units were positive from 1981 to 2000, notably for high purchasing power consumers. Exports remained symbolic like in the Maoist years: around 3,000 commercial vehicles, especially light-duty trucks, were

Table 7. Output share of Sino-European joint ventures, 1990–2000.

	Passenger cars	SVW		FAW-VW		GAC-Peugeot		Dongfeng - Peugeot Citröen (Shenlong)	
			share		share		share		share
Year	Units	Units	(%)	Units	(%)	Units	(%)	Units	(%)
1990	42,409	18,537	44	na	na	3,415	8	na	na
1991	81,055	35,005	43	na	na	9,094	11	na	na
1992	162,725	65,000	40	8,062	5	15,666	10	na	na
1993	229,697	100,001	44	12,117	5	16,075	7	na	na
1994	250,333	115,326	46	8,219	3	4,805	2	na	na
1995	325,461	160,070	49	20,001	6	6,936	2	1,314	0
1996	391,099	220,222	56	26,864	7	2,522	1	9,158	2
1997	487,695	230,443	47	46,404	10	1,557	0	30,035	6
1998	507,861	235,000	46	63,922	13	2,246	0	36,240	7
1999	566,105	230,946	41	75,566	13	na	na	40,200	7
2000	612,376	253,120	41	50,932	8	na	na	23,839	4

Source: Author's elaboration based on OICA (2020), CAIY (various issues) and Harwit (2001).

Table 8. China's automobile production by Five-Year plans (yearly average).

Five-year Plan (FYP)	Period	Total (units)	Commercial vehicles (units)	Passenger cars (units)
6th FYP	1981-1985	205,654	183,344	4,944
7th FYP	1986-1990	416,839	365,414	30,038
8th FYP	1991-1995	1,027,854	754,245	209,854
9th FYP	1996-2000	1,608,727	1,068,944	511,340
10th FYP	2001-2005	4,161,060	2,148,803	2,012,257

Source: Author's elaboration based on CAIY (various issues).

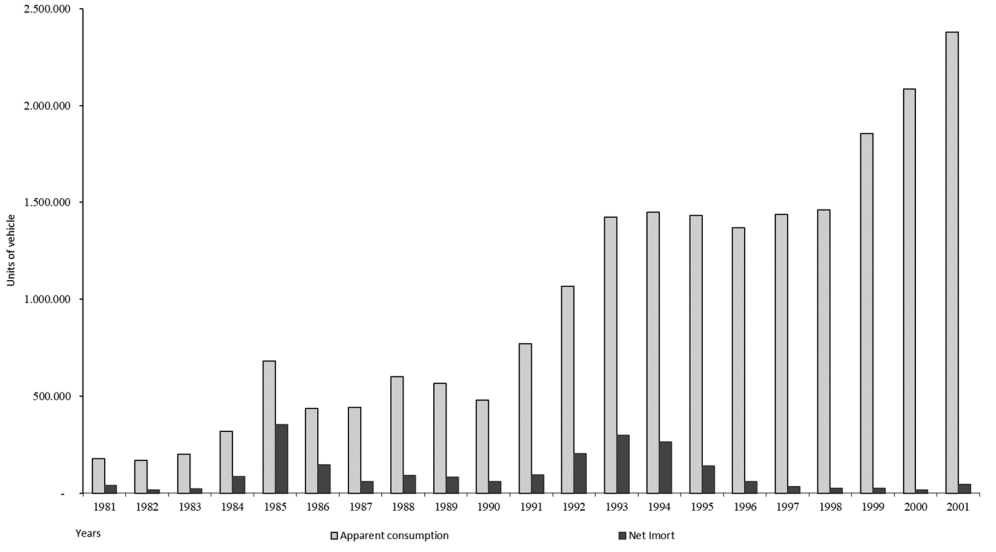

Figure 3. Apparent consumption of automobiles in China, 1981-2001.
Source: Author's own elaboration based on CAIY (various issues).
Note: Apparent consumption = total output + total imports – total exports of automobiles.

exported per year in the 1980s (13,000 in the 1990s) to developing countries in Asia, Latin America and Africa, (CAIY, various issues). In the 1980s and 1990s, main importers of passenger cars were Germany, Japan, the United States and France, which together accounted for around 90% of the value of total imported cars (UN Comtrade, 2019).

Thus, during the first decades of the opening up and reform, Chinese non-state companies were allowed to emerge and participate in a nascent domestic market of cars although with limited conditions, while the government encouraged the backbone companies and their joint ventures to become market leaders. In the 1990s, the inflows of foreign direct investment grew exponentially and expanded along the supply chain. While China was relatively closed to the foreign trade of cars, from the mid-1990s, the conditions for foreign investment were relaxed as domestic suppliers succeeded in substituting imports of auto parts. China was getting ready to open its restrictions to trade and to undertake a turn towards outward internationalisation.

5. Conclusions

China built the backbone of its automobile industry with large SOEs in the 1950s, under the spell of the Sino-Soviet alliance. Due to the Great Leap Forward and the Sino-Soviet split these endeavours were erratic and industrial output remained low, but different forms of internationalisation subsisted. Furthermore, these backbone companies led the next stage of inward internationalisation, which came in the reformist era of Deng Xiaoping, when they signed joint venture agreements with Western European multinationals. This article shows a continuous agency in the process of internationalisation, from the 1950s to the 1980s, adopting a 'longitudinal perspective' (Welch & Luostarinen 1993), which renders a more complete vision of China's inward internationalisation than the main academic literature, which tends to focus on the period after 1978.

This paper shows how the industrialisation in the Chinese automobile sector is consistent with the inward internationalisation theory (Johanson & Wiedersheim-Paul 1975; Wiedersheim-Paul et al. 1978), where technology transfers and know-how acquisition precede market conditions. The metamorphosis of China's automobile industry, which began in the 1950s when the automotive market was absent and the role of the state was all-determining, continued in the 1980s, when market conditions were still not ripe, due to the protectionist laws for foreign trade, the lack of private companies and the still meagre private demand.

Thus, the specificities of China, as the potential biggest market from one side but remaining highly restricted and weak from the other (at least during the period under study), complicates further comparisons with other countries, although some parallelisms may be found with Brazil. Furthermore, the relevance of China's domestic market stands in sharp contrast with other Asian countries' late industrialising economies like South Korea. While in the 1980s South Korean car manufacturers followed the trend to rise foreign sales as an indicator of its internationalisation (Welch & Luostarinen, 1988), China went in the opposite direction and became a net car importer. However, this did not mean that China's automobile industry was less internationalised, but that this process was markedly inward oriented, in regards to the Korean case.

The joint ventures of Volkswagen were the most successful and representative example of this inward internationalisation. This article has examined some European joint venture as case studies, especially the cases of Volkswagen, Fiat and Peugeot, dealing with original corporate archives, and oral history compilations of engineers and party cadres, to highlight both the successes and the failures, the opportunities and the problems that appeared in these negotiations. From the Chinese perspective the essential point was the capacity to evolve from the assembly of an imported car in parts (the CKDs) to the manufacture of an automobile with auto parts made in China. That was the key issue of China's inward internationalisation through the first wave of joint ventures, which contrasts with the perspective of foreign multinationals who sought market access and IP protection. While the latter has been the focus of most of the literature, the former deserve further research in addition to this article, especially when more archives in China will become available.

If in the 1990s the acceleration in the supply side was evident although it was hardly catching up with the growing demand of private cars. Entry flows of foreign direct investment skyrocketed, looking for business opportunities as the economic growth of China (and its potential market size) attracted global attention. Despite the fact that the prime movers (especially Volkswagen) continued to lead the market, accumulating expertise and improving their collaborative methods, newcomers engaged in joint ventures that went beyond automobile manufacturing, extending to the supply chain of auto parts. Once the share of local supplies of these prime movers reached 90%, the inward internationalisation process was completed and China was ready to enter a new stage of outward internationalisation, with the integration to the World Trade Organisation, the Go-Out Policy and the deepening of market reforms.

Notes

1. The phrase 'backbone enterprises' [*gugan qiye*] refers to firms that receive aid and they are usually large SOEs (Huchet, 2014).
2. CAIY (Various Issues) refers to the following yearbooks: CATARC & CAAM 2001, CATARC & CAAM 2005, CATARC & CAAM 2006, CATARC & CAAM 2006, CATARC & CAAM 2009, CATARC & CAAM

2010, CATARC & CAAM 2012, CATARC & CAAM 2017, CATARC & CAAM 2018, CATARC & CAAM 2019, and China National Automotive Industry Corporation 1984.

3. Mao died in 1976, followed by a period of transition of Hua Guofeng until December 1978, when the reformist project of Deng Xiaoping was consolidated. For this reason, we consider the Maoist period until 1978.
4. See more in Ge Bangning: *Tuo Huang [openg up land]* (2015) and memories of Jiang Zemin collected in FAW development history by the Culture, History & Study Committee of the Chinese People's Political Consultative Conference, 2007, 10.
5. "Zhonggong shanghai shi weidui jiaotong yunshuju dangwei guanyu siying qiche yunshuye jinxing shehui zhuyi gaizao de yijian de pishi" ("Instructions of the Shanghai Municipal Committee of the Communist Party of China on the opinions of the Party Committee of the Transportation Bureau on the socialist transformation of the private automobile transportation industry), October 7, 1954, in Chinese Communist Party History Materials, 1993, 309.
6. Interview with Chou Ke collected by Editorial Committee of the 100th Anniversary of the Birth of Comrade Rao Bin, in Dong, et al., 2013, 162.
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9. Strassburger an Horst Münzner und Claus Milztrey betr. Kurzbericht China-Reise from 2. to 15.9.1979, in VCA, 373/220/2.
10. Letter from Qiu Ke (President of STAC) to Volkswagen (Mr. Muenzner) on June 20, 1983, in order to show production capacity and attitude towards the imminent joint venture, in VCA, 128/414/2; In 1983, both parties agreed to a trial production of 100 Santana in order to test production capacity and quality in Shanghai, see more in an interview with Chou Ke in Dong, et al., 2013, 162.
11. 'Shanghai Volkswagen AG Joint Venture Contract', Vorstandssekretariat Werner P. Schmidt from 13 August 1984 to 31 October 1984, in VCA, 366/79/1; 366/79/2.
12. 'First Automobile Works PRC und Volkswagen Aktiengesellschaft FRG, Economic Feasibility Study, 1989'. Vorstandssekretariat Werner P. Schmidt, from 28 January 1989 to 30 November 1990, in VCA, 366/99/1.
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14. Memories and interviews of Huang Jinhe collected by Culture, History & Study Committee of the Chinese People's Political Consultative Conference, 2007, 577-585.
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18. Interview to Zhang Xiaoyu as former worker in FAW and SAIC relates memories with Rao Bin, in the compilation of oral histories by Ge, 2015, 49-56.
19. Memories and interview with Zhang Changmou (former General Director of Shanghai Volkswagen Company) when he met Rao Bin, compiled in Dong et al., 2013, 165-166.
20. Memories and interviews Hang Yuling and Tai Shiang collected by Culture, History & Study Committee of the Chinese People's Political Consultative Conference, 2007, 571-575.
21. Contract of the joint venture between GPAC and Peugeot made on 15 of March, 1985, in PCA, DOS2008RE-30210; H11-3/H11-3.41/H11-3.40.14.
22. Transfer of Peugeot workers to Guangzhou in "Chine études-1ère phase: démarrage GPAC: in PCA, DOS2008RE-30210, H11-3/H11-3.41/H11-3.40. 14; follow up of expatriate worker wage conditions to Guangzhou: "Chine 2ème phase: AP 1986", in PCA, DOS2008RE-30211; H11-3/H11-

3.4I/H11-3.4I.14; Technical Annex of Joint Venture contract of GPAC and Peugeot -Item G-'Conditions concerning employment of Peugeot Expatriate Personnel', in PCA, DOS2008RE-30210; H11-3/H11-3.41/H11-3.40.14 .

23. Technical Annex to *Joint Venture contract of GPAC and Peugeot* -Item F-'Organization Chart of the Joint Venture', in PCA, DOS2008RE-30210; H11-3/H11-3.41/H11-3.40.14.
24. Technical Annex of GPAC and Peugeot joint venture contract, in PCA, DOS2008RE-30210; H11-3/H11-3.41/H11-3.40.14.
25. Contract of assembly and distribution: *Partenariat avec 'Second Automobile Works' sur le projet d'implantation en Chine, assemblage et vente de CKD* between SAW and Aeolus Citroën Automobile Company and Automobiles Citroën, in PCA, DOS2022ECR-00008; H11-1/H11-3.7F/H11-3.7F.15.
26. Article 9. 'Local Content' in the *Contract on the Establishment of the Joint Venture Company Aeolus-Citroen Automobile Company. LTD between the Second Automobile Works and Automobiles Citroen* signed in 19 of December 1990, in PCA, DOS2022ECR-00008; H11-1/H11-3.7F/H11-3.7F.15.
27. Training fees were set up to FF 500 per man/day. Article 10. 'License, Technical Assistance and Technical Training Supplied to the JVC by Citroen' in the *Joint Venture Contract*, in PCA, DOS2022ECR-00008; H11-1/H11-3.7F/H11-3.7F.15; Annex 1 to *Citroën Technical Assistance Agreement*, in PCA, DOS2022ECR-00008; H11-1/H11-3.7F/H11-3.7F.15 .
28. *Automobiles Citroën. - Marché chinois, intégration du modèle ZX par la société "Dong Feng Citroën Automobile Company"*: in PCA, DOS2022ECR-00049; H11-3/H11-3.7/H11-3. F14.
29. Resources and comments of technical implementation were examined according to main phases of production, see more in *Plan Qualité Totale Citroën, Objectives par Direction:* 'Procedures de Suivi de l'Expedition de la Documentation Technique Etude', in PCA, DOS2022ECR-00049; H11-3/H11-3.7/H11-3. F14 .

Acknowledgements

We would like to thank Patricia Garcia-Duran Huet, Gilles Guiheux and the peer reviewers and editors of this journal. Valuable insights were received from the participants in the Business History Conference Annual Meeting 2022 and the European Business Association Conference 2022.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

Jia-Zheng received support from Studies Center Jordi Nadal for Economic History and Research Group Economic History and Development (Industry, Business, Sustainability) (2021 SGR 00762). Brasó Broggi received support as a Ramón y Cajal fellow (RYC 2018-024078-I), funded by the Spanish Ministerio de Ciencia e Innovación and the European Social Fund, and as a researcher of the ALTER research group (project TACK: PID2019-108637GB-I00).

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