

OPENING CASE

Global automobile manufacturers have come to rely on China as a go-to and very sizable emerging country market for new car sales during the last three decades. Since 1990, the Chinese market has seen increased auto sales annually—that is, until 2018 when Chinese auto sales fell by 2.8 percent to 28.08 million units (passenger car sales fell by 4.1 percent, while commercial vehicle sales increased by 5.1 percent). Globally, China leads in both supply and demand in the auto sector. It is the largest auto market for sales of new vehicles, and also the largest auto market for manufacturing of vehicles. The country produces roughly the same number of vehicles that customers in the market buy annually (China's 28.08 million new vehicle sales are about 36 percent of the worldwide market of 78.7 million vehicles sold). Toyota, Volkswagen, and General Motors have been among the largest auto manufacturers for some time, and China is each of those companies' largest country market.

Toyota entered China before World War II when the company built plants in Tianjin and Shanghai and carried out local assembly in China. Toyota's initial foray into China was via the exporting of four G1 trucks to the northeastern part of the country in 1936. From the early 1970s, after China's return to the United Nations, Toyota also transferred technology, worked to develop the auto parts industry in the country, and actively trained Chinese personnel in order to contribute to the development of the Chinese automobile industry. Since 2000, Toyota has full-scale auto production and sales in China. For example, Toyota has engaged in a joint venture called Tianjin Automobile Xiali Corp, received approval for manufacturing operations from The Chinese Ministry of Foreign Trade and Economic Cooperation, and has established nine local production companies and four distributors in the country. Toyota sold 1.47 million vehicles in China last year, and the forecast is for year-on-year increases of 8 percent.

Volkswagen entered China in 1978, and did so via a joint venture with a state-owned partner as required by the Chinese government. The assembly contract signed in 1982 with the Shanghai Tractor and Automobile Corporation, the largest Chinese vehicle manufacturer at the time, was also an important early-on milestone. In the subsequent 10 years, riding a continual boom in the automotive industry, the sales of Volkswagen models in China increased tenfold. But Volkswagen also had to increasingly defend its strong market position against Japanese and U.S. carmakers who had significantly expanded their manufacturing capacity after China joined the World Trade Organization in 2004. Despite fiercer competition, China continued to grow into the largest single market for the Volkswagen brands, and last year VW sold 4.2 million vehicles in the country. This made VW overwhelmingly the top auto seller in China. Importantly, China today sets the automotive trend of the future, and VW has promised to deliver 40 new locally produced plug-in hybrids and electric vehicles by 2025 in the country, in addition to gas-driven vehicles.

General Motors has 11 joint ventures, two wholly owned foreign enterprises, and more than 58,000 employees in China. GM, along with its joint ventures, offers the broadest lineup of vehicles and brands among auto manufacturers in China. The company's products are sold under the Buick, Cadillac, Chevrolet, Baojun, and Wuling nameplates. But GM does not rest on its laurels. GM introduced more than 20 new and refreshed vehicles last year in China alone to maintain its growth momentum in the world's largest vehicle market and tap emerging opportunities in new energy vehicles. "China's vehicle market has entered a new era of high-quality development, in which product and service excellence will be the key to sustained growth," said Matt Tsien, GM executive vice president and president of GM China. "GM will continue to optimize our product mix, backed by our industry-leading technologies and adjacent services, and explore more opportunities in electrification and autonomous driving."^{*} China has been GM's largest market since 2012, and last year the company and its joint ventures sold more than 3.64 million vehicles in China.

^{*}Matt Tsien, General Motors China, 2019.

Sources: Daniel Shane, "Toyota Is Growing in China as Its Global Rivals Stumble," *CNN Business*, February 8, 2019; "Carmakers Scramble to Prepare for a Chilly Future," *The Economist*, January 19, 2019; "VW Predicts Rising China Sales, Bucking a Shrinking Market," *Bloomberg News*, January 7, 2019; "Carmakers to Face More Pain as Sales in China Keep Sliding," *Bloomberg News*, February 17, 2019; "GM Set for a Record of Over 20 Launches in China in 2019," GM Corporate Newsroom, January 17, 2019.



Introduction

This chapter is concerned with three closely related topics: (1) the decision of which foreign markets to enter, when to enter them, and on what scale; (2) the choice of entry mode; and (3) the role of strategic alliances. Any firm contemplating foreign expansion must first decide on