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Final Thesis

Establishing an automotive spare parts Joint Venture in China: the case of Huzhou Metelli-Taixin.

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前言

在企业实现国际化的所有方法中，当目标国家是中国时，大多数外国公司决定选择合资企业作为进入中国的方法。

中国已成为瞬息万变的全球汽车产业中的关键角色，不仅是世界上最大的汽车市场，也是主要的制造和创新中心。随着汽车行业的不断发展，对零配件的需求也随之增加。这种增长是由中国道路上不断增加的汽车数量以及汽车行业对技术创新的不断追求所推动的。事实上，在过去二十年里，中国汽车市场已成为全球最大的汽车市场，无论从汽车销量还是在全球供应链中的地位来看，都已成为全球汽车工业的增长引擎。

本论文旨在研究汽车零配件行业备受关注的一个战略方向：在中国组建合资企业。作为一种合作性的商业安排，合资企业越来越受欢迎，成为外国公司试图在复杂的中国市场上进行谈判的一种有用策略。

通过这一战略，外国公司可以从本地知识中获益，减少监管障碍，并与国内公司发展伙伴关系。

对于在中国建立合资企业的企业来说，汽车零配件行业因其复杂的供应链和严格的质量标准，既是机遇也是挑战。在中国汽车零配件市场的背景下，本研究试图通过批判性地分析与合资企业合作相关的激励因素、优势和困难，深入探讨推动合资企业成功的要素。

论文第一章首先分析了中国和意大利的汽车零配件行业，尤其关注售后市场。售后市场的定义是 "为维护或改进原产品而提供备件、配件和组件的市场"。售后市场行业涵盖广泛的领域和产品，包括电子产品、计算机硬件、汽车、家用电器等。在本论文中，重点将放在汽车零配件的售后市场，也被称为 "汽车行业的二级市场"。

汽车行业领域的售后市场涵盖广泛的活动，所有这些活动都与汽车首次销售后直至其生命周期结束前的维护有关。这些活动也被称为售后市场零部件和服务，包括轻型和重型汽车首次销售后购买的所有零部件和服务。它们包括替换零件、配件、润滑油、外观产品和服务维修，以及任何有助于优化车辆使用的附加创新服务。售后市场产品也被称为 "二级市场产品"，因为它们通常是在原装产品之后购买的。

然后，论文将介绍合资企业，以及中国对这类企业的管理规定。

合资企业是指两家或两家以上的公司联合起来就某一特定项目进行合作，共享资源、利润、损失和费用的合同。由此产生的合资企业是一个独立于各公司其他商业利益的法律实体。在中国，合资企业有两种类型：合资股权企业和合资合作（或合同）企业。合资企业（EJV）是由一个或多个外国投资者和一个或多个中国投资者共同组建的独立法人实体，其组织形式为有限责任公司。2005 年 11 月 30 日颁布的《中华人民共和国中外合资经营企业法》对在中国建立合资企业合同做出了规定。合作合资企业（CJV）在目标上与股权合资企业相似，但在利润和风险划分上不同。事实上，利润和风险与各方的投资份额并不成正比，而是通过协议确定，协议规定了每个合作伙伴的责任和利润。与中外合资经营企业类似，直到 2020 年，中外合资经营企业

也受专门法律《中 华人民共和国中外合资经营企业法》的管辖。最后，将概述中国的关税、关税和劳动力成本。

本研究将首先对合资企业进行文献综述。首先将对中国汽车行业合资企业的历史进行概述，然后将讨论选择这种类型公司的原因、创建合资企业的障碍、合作伙伴的优势以及有关合资企业的规章制度的历史。在最后一章中，前两章的所有理论内容都将应用到一个实际案例研究中，即位于布雷西亚的意大利汽车零配件公司 Metelli SpA 最近与一家中国水泵制造公司签订了合资协议，成立了合资企业湖州美泰利-泰信公司。

作为一家欧洲知名的汽车零部件制造商，Metelli Group （美泰利集团）成立于 1962 年，迄今已拥有 56 年的悠久历史，并未欧洲本土负有盛名的有乘用车品牌供货。
通过自身发展和并购，Metelli （美泰利）在意大利拥有 6 个工厂，具有 4 个产品线，包括汽车冷却水泵；制动系统部件（刹车分泵、总泵，刹车盘、片，离合器分泵、总泵）、转动系统部件（球笼、修理包及转动轴）和发动机部件（气门座、气门导管）等，主要覆盖欧系乘用车和商用车型。

Metelli （美泰利）集团十分重视研发和新技术，每年把营业额的百分之七直接应用于此。这一投资致力于两种主要的奖励措施。首先，公司把它当做一种为日益增长的客户群创造价值的方式；其次，公司把它视作更新通往行业最前沿道路的方式。

Metelli （美泰利）水泵及套装产品在欧洲售后市场占有率第一。水泵主要元件（机械密封、轴承、叶轮等）均采用欧洲制造高品质材料。加之 Metelli 多年精湛的机械加工经验，保证了产品的最佳性能。此外，Metelli 还开发了旨在提升水泵工作效率的可切换水泵并获得欧洲专利。

2022 年 7 月 15 日，梅泰利股份公司（Metelli S.p.A.）签署协议，收购中国公司湖州泰鑫的大部分股份。新成立的公司名为梅泰利-泰鑫，总部位于上海西南部的浙江湖州。湖州泰鑫公司是国际公认的乘用车和重型车优质水泵制造商，多年来积累了丰富的技术知识和对供应链的深入了解。

梅泰利集团认为有必要与中国合作伙伴建立合资企业，原因有三：

1. 通过节约水泵生产成本来保持息税折旧摊销前利（EBITDA）。
2. 支持供应链。
3. 发展 ″以地换地 ″模式

案例研究的重点是合资企业的创建过程。特别是，分析将从对公司的描述开始，以便更好地了解公司的业务量和业务范围。 然后，通过对公司高层管理人员的访谈收集到的信息，本章将深入解释促使该公司与一家中国水泵制造商建立合资企业的原因。

本章还将更详细地分析选择中国作为目标国的原因、选择中方合作伙伴的过程以及双方的预期优势。最后，本章将介绍在创建和成立合资企业过程中遇到的主要障碍和预期障碍。从访谈中可以看出，意大利公司面临的主要困难是文化距离和语言差异问题。尽管如此，自

2022 年 7 月成立以来，该公司已在中国市场站稳了脚跟，并开始在生产和员工数量方面实现增长。

INTRODUCTION

Ever since the open-door policy of 1978, international companies have started to show interest in investing in China. Under the visionary leadership of Deng Xiaoping, China launched the Open-Door Policy in the late 1970s, marking a shift from its previous isolationist position. The program, which embraced market-oriented reforms and opened up to international investment, signaled the beginning of a new era of global participation and economic growth. It established the framework for a number of institutional changes intended to remove trade restrictions and create an atmosphere that encourages foreign investment in China's rapidly developing economy.

A few decades later, China's 2001 entry into the World Trade Organization (WTO) was a major turning point in the nation's economic integration and offered a plethora of chances for foreign businesses looking to expand into China. With the introduction of a complete framework of trade liberalization, institutional changes, and regulatory clarity brought about by WTO admission, the climate became more predictable and favorable for foreign investment. This resulted in improved market access, less trade obstacles, and increased legal safeguards for international businesses, all of which supported their expansion and growth plans in China.
Additionally, China's pledge to abide by WTO rules and regulations demonstrated its support for a trading system based on laws, which gave international investors confidence and strengthened China's reputation as a stable and trustworthy investment destination. Foreign businesses were therefore able to take advantage of the enormous potential brought about by China's rapid economic expansion and negotiate the difficulties of the Chinese market with greater certainty and clarity.

Ever since the entrance in WTO, China has become a key actor in the ever-changing global automotive industry, not only as the largest automobile market in the world but also as a major center for manufacturing and innovation. The need for spare parts has increased in tandem with the automotive sector's ongoing evolution. This growth has been driven by the increasing number of vehicles on Chinese roads as well as the industry's constant search of technological innovations.

Along with this view of continuous expansion of the automotive industries in China, foreign companies are still seeking opportunities in this country. Among all the methods that companies can choose in order to internationalize their business, when the target country is China the majority of foreign companies decide to select the Joint Venture as an entry method.

This thesis aims to investigate a strategic direction that has received a great deal of attention in the automotive spare parts industry: the formation of joint ventures in China. As cooperative business arrangements, joint ventures have grown in popularity as a useful tactic for foreign companies attempting to negotiate the complexities of the Chinese market.

By using this strategy, foreign companies can benefit from local knowledge, lessen regulatory obstacles, and develop partnerships with domestic companies.

For businesses entering into joint ventures in China, the automotive spare parts industry offers a distinct combination of opportunities and challenges due to its complex supply chain and strict quality standards. In the context of China's automobile spare parts market, this research attempts to provide insights into the elements that propel successful joint ventures by critically analyzing the advantages and difficulties connected with such cooperative efforts.

The first chapter of this thesis opens with an analysis on the automotive spare parts industry in China and in Italy, with a particular attention to the aftermarket. Then, it will deal with a description of joint ventures, and the rules regulating this type of

companies in China. Finally, there will be an overview on tariffs, duties and cost of labor in China.

The research will then proceed with a literature review on joint ventures. It will open with an excursus on the history of joint ventures in the automotive industry in China, then it will deal with the reasons for choosing this type of company, the obstacles in the creation of a joint venture, the advantages for the partners and the history of rules and regulations concerning joint ventures.

In the final chapter, all the theoretical aspects of the first two chapters are applied to a real case study of Metelli SpA, an Italian automotive spare parts company based in Brescia that has recently entered into a joint venture agreement with a Chinese water pump manufacturing company, establishing the joint venture Huzhou Metelli-Taixin.

The case study will focus on the process of the creation of the joint venture. In particular, the analysis starts with the description of the company, in order to better understand the volumes and dimensions of the business.

Then, thanks to the information collected through interviews with the top managers of the company, the chapter will go deeper into the explanation of the reasons that conducted the company to establish a joint venture with a Chinese water pump manufacturer.

More into detail, the analysis will also highlight the reasons for choosing China as a target country, the process of selection of the Chinese partner and the advantages expected from both sides.

Lastly, the chapter closes with a description of the main obstacles encountered and expected in the creation and establishment of the joint venture. As emerged from the interviews, the main difficulties that the Italian company faced were a matter of cultural distance and language differences.

Nevertheless, since its recent foundation in July 2022, the company has settled well into the Chinese market and has started to grow both in terms of production and in terms of people employed.

This thesis therefore aims to investigate which strategy is most effective for a foreign company wishing to internationalise its business in China through the joint venture contract. In order to answer this research question, an analysis of both the automotive industry and the history of joint ventures in China was carried out, with a particular focus on the benefits and obstacles that companies usually encounter when implementing this type of project. To give validity to the entire work, the case study of Huzhou Metelli-Taixin provides an illuminating example of how an Italian manufacturing company managed to conclude a joint venture contract with a Chinese partner, what were the reasons for undertaking this project, the choice of partner, the major obstacles encountered and how the company managed to overcome them.

CHAPTER ONE

AFTERMARKET: RULES AND REGULATIONS

The first chapter of this thesis explores the legal structures that control the aftermarket industry in China and Italy. The first focus is on explaining what is meant by "aftermarket" in relation to automotive replacement components and how it differs from similar marketplaces in the same industry. After that, a thorough examination of the aftermarket's present situation in the automobile sector will be carried out, paying particular emphasis to the unique environments in China and Italy.

After laying the groundwork for a knowledge of the regulatory environments, the story will turn to joint ventures and explore the main laws that control the creation of these kinds of organizations, especially in China. This initial investigation is essential to setting the stage for the next chapter, which will involve a thorough case study of the Joint Venture Huzhou Metelli-Taixin. This joint venture was established by cooperation between the Italian company Metelli S.p.A. and the Chinese company Taixin.

To conclude this chapter, the last section will examine labor costs, import and export duties concerning automotive spare parts—the main product of the previously described joint venture. This analysis aims to provide an understanding of the economic dynamics pertaining to the import and export of car spare parts, setting the stage for the ensuing studies and discussions in the next chapters.

1.1. AFTERMARKET DEFINITION

Aftermarket is defined as "the market providing spare parts, accessories, and components for maintaining or improving an original product"[1].
The aftermarket industry encompasses a wide range of sectors and products, including electronics, computer hardware, automotive, home appliances, and more. In this thesis, the focus will be on the aftermarket of automotive spare parts, also referred to as "the secondary market of the automotive industry".

The aftermarket in the automotive industry domain covers a wide range of activities, all related to maintaining a car after its initial sale and until the end of its lifecycle. These activities, also referred to as aftermarket parts and services, encompass all parts and services purchased for light and heavy-duty vehicles after the original sale. They include replacement parts, accessories, lubricants, appearance products and service repairs, and also any additional innovative services that help to optimize the use of the vehicle.
Aftermarket products are also called "secondary market products", since they are normally purchased after the original products.

Opposed to the aftermarket, the other market for automotive products and spare parts is the Original Equipment market (OE), where the main actors are Original Equipment Manufacturers (OEM).

An Original Equipment Manufacturer (OEM) is a company that produces and supplies technology, as well as sells, distributes, or promotes output devices utilized by other businesses in the creation of their final products. This type of business fulfills orders from other companies by precisely manufacturing its products according to specific requirements and specifications, maintaining the original brand.

[1] https://www.wallstreetmojo.com/aftermarket/

At a global level, the aftermarket volume is growing at a fast and becoming increasingly important in the automotive industry in comparison to new car sales.

In 2020, the size of the aftermarket in the automotive industry was recorded at USD 392.35 billion, and it is estimated that it will grow up to USD 529.88 billion by 2028, with a CAGR[2] of 3.8% during the forecast period.[3]
However, the situation of the aftermarket for automotive spare parts is not the same all over the world. In this chapter we will focus on the situation of the aftermarket in Europe, with particular attention to Italy, and in China.

1.1.1. EUROPE AND ITALY

When we refer to Europe, we generally refer to Western Europe, where the aftermarket is a rather mature market with flat growth rates. In fact, the volumes in this sector in Western Europe are expected to grow about 1% per year, which is significantly lower than the expected growth rate in Eastern Europe (5,3%).[4]

Going deeper into the automotive industry in Italy, in the country alone, the entire components supply chain achieved a turnover of approximately EUR 37.9 billion in 2013[5]. This part of the automotive supply chain thus accounts for about 3% of GDP and also has a trade surplus of about EUR 7.4 billion[6].

The global turnover of the sector in 2022 was 90 billion euros, accounting for 9.3% of the Italian manufacturing turnover, and 5.3% of the Italian GDP. The number of

[2] The CAGR (Compounded Average Growth Rate) represents the average percentage growth of a quantity over a period of time. Given, for example, the turnover A of a stock in year x and the turnover B of a company in year y, the CAGR of revenues indicates the average annual percentage growth of revenues.
Source: https://www.borsaitaliana.it/notizie/sotto-la-lente/cagr-259.htm

[3] https://www.fortunebusinessinsights.com/automotive-after-market-102613

[4] https://www.capgemini.com/wp-content/uploads/2017/07/tl_The_Aftermarket_in_the_Automotive_Industry.pdf

[5] *Osservatorio della Filiera Autoveicolare Italiana* – Ed. 2013

[6] Dati Anfia 2013, da "Evoluzione della grande impresa e catene globali del valore", G.Zanetti, 2014

enterprises is around 5,200, with almost 270,000 employees involved directly or indirectly, i.e. '7 per cent of the employees in the Italian manufacturing sector'.[7]

Italy's car fleet is getting older and older: the ACI's latest Statistical Yearbook, updated to the end of 2022, calculated an average age of 12.6 years, up by a further four months compared to 2021 (see Figure 1).

And out of more than 40 million cars on the road, Euro 0, 1 and 2 (which are at least 19 years old) account for 17 per cent[8].

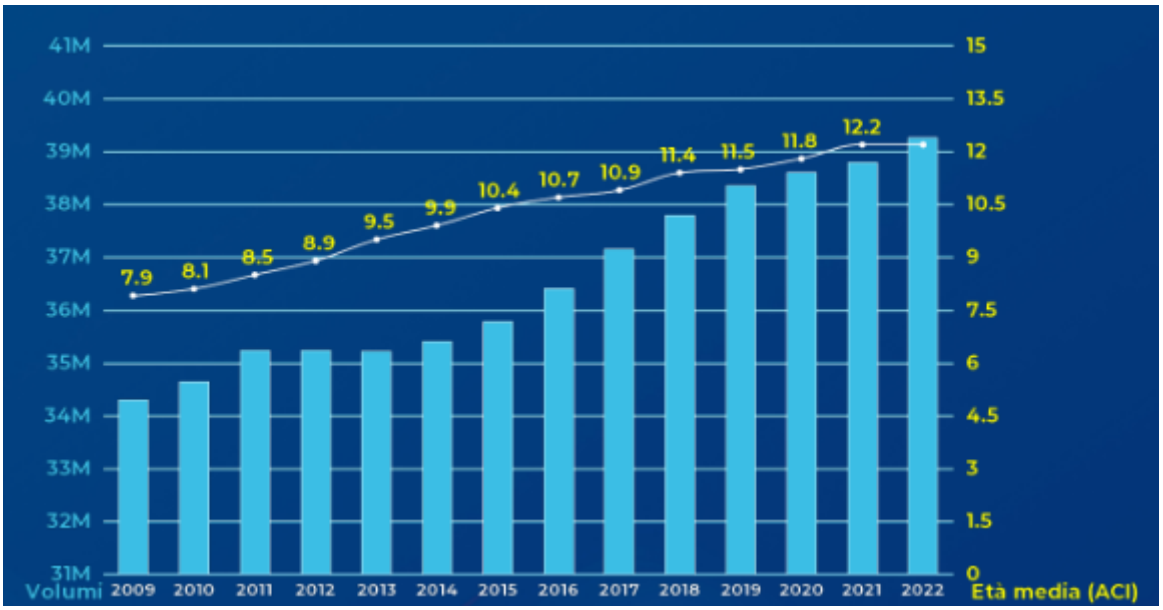


Figure 1. Car Fleet Age - Source: UNRAE

According to UNRAE[9] data, 2022 marks an all-time low in car sales with numbers not seen since the 1970s, lower even than in 2020 with the full impact of the pandemic (see Figure 2)

[7] Carlo Canepa, *No, l'automotive non vale il 20% del PIL italiano*, La Stampa, 16th February 2023

[8] https://www.sicurauto.it/news/attualita-e-curiosita/parco-circolante-italia-il-17-delle-auto-ha-almeno-19-anni/

[9] UNRAE is the acronym of *Unione Nazionale Rappresentanti Autoveicoli Esteri*, the Association of foreign car manufacturers operating in Italy in the distribution and marketing of passenger cars, commercial and industrial vehicles, buses, trailers, semi-trailers and outfitting vehicles, caravans and motorhomes with their service networks and original spare parts.

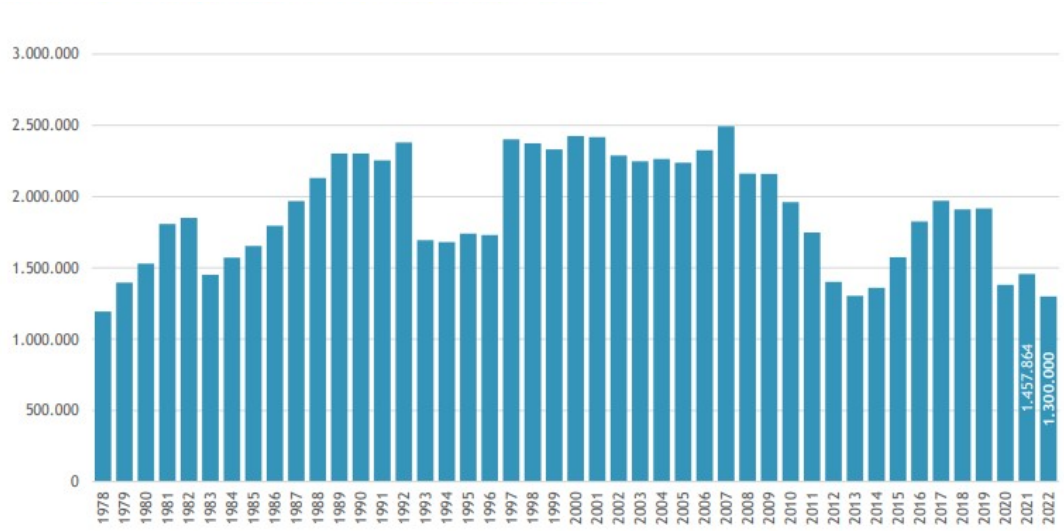


Figure 2. Car sales in Italy - Source: https://www.economyup.it/automotive/

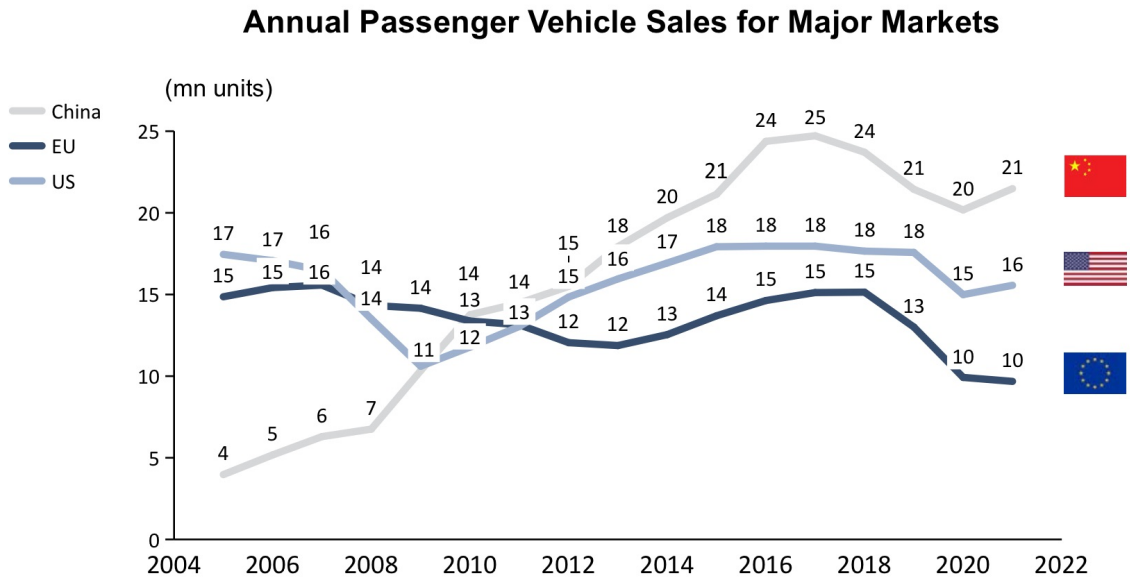
In 2022, Italy, among the five largest European markets, is in last place in the diffusion of electric cars and plug-in hybrids with a share of 8.8%, far behind Germany (38.2%), the United Kingdom (21.4%) and France (21.2%) and surpassed by Spain (9.5%).

UNRAE's forecasts for 2023 indicate an increase of only 100 thousand units to 1.4 million cars (+7.7%) over 2022.[10]

1.1.2. CHINA

In order to discuss the situation of the Chinese automotive aftermarket, it is important to provide an overview of the Chinese automotive industry as a whole. Over the last two decades the Chinese automotive market has become the largest in the world, becoming the growth engine for the global automotive industry, both in terms of vehicles sold and in terms of the position in the global supply chain.

[10] https://www.economyup.it/automotive/mercato-auto-italia-2022-vendite-ai-minimi-storici-e-siamo-ultimi-in-europa-nellelettrico/



Source: MarketLines, ACEA, Automobility analysis

Figure 3. Annual Passenger vehicle Sales for Major Markets

If we look at the figure 3, we can see a significantly rapid increase in the volume of Passenger Vehicles (PV) sold in China, reaching a peak of 24.7 million units in 2017[11]. The increase is even more significant if compared to the trend in the EU and in the USA.

If we consider the global automotive sales, which is the sum of PV and Commercial Vehicles (CV) we can observe an even more outstanding growth, with a peak of 28.9 million vehicles sold in 2017 (see Figure 4).

[11] *The Automotive Sector in China with Special Focus on Aftermarket,* ITA Guangzhou, 2022

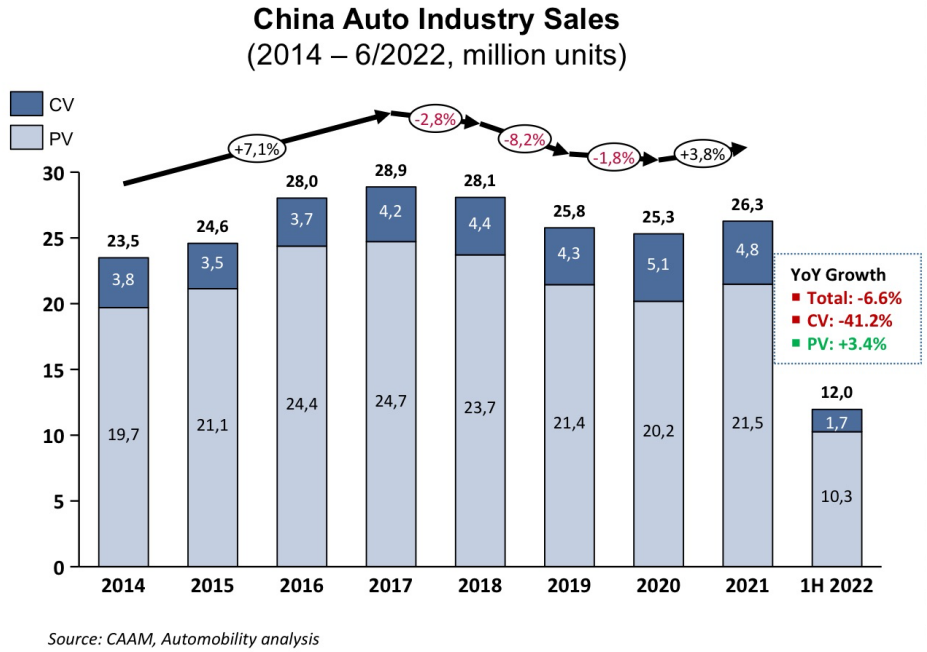


Figure 4. China Auto Industry Sales

To better clarify the definition of the above mentioned types of vehicles, it is necessary to say that Passenger Vehicles (PV) are compact, mid-size, and full-size vehicles employed for the transportation of a maximum of eight passengers (including the driver). On the other hand, Commercial Vehicles (CV) is the term used to describe those compact, mid-size and full-size vehicles that are used to transport goods, commercial products or paying passengers.[12]

In Figure 4 it is also noticeable that China auto industry sales increased at a fast pace up until 2017, and then experienced a decrease from 2017 to 2020 due to the cooling of the economic growth.

This decrease can also be explained by two trends in the Chinese automotive market. The first one is the expansion of the on-demand mobility (ODM), initiated by the Chinese company Didi Chuxing, a very famous car sharing platform. ODM services are a valid alternative to car ownership, which is very attractive among the younger generation living in densely populated cities.

[12] https://autocareaids.com/passenger-vehicle-vs-commercial-vehicle/

The second trend is strictly related to top tier cities[13], where the government has decided to start limiting license plate registration in order to limit urban traffic congestion.
However, the automotive market in China is still offering room for growth, since vehicle ownership penetration in the country remains far below if compared with mature markets.

Another interesting trend in China is the rapid growth of used car sales. This means that consumers are holding on to their cars longer, requiring a higher level of maintenance. This trend is utterly positive for aftermarket parts sales and services.

Going more into detail with the size of the Chinese Aftermarket, the growing and ageing car parc will lead to significant growth of the automotive aftermarket. In fact, the total market size is expected to reach 1.96 trillion RMB by 2025 and 2.2 trillion RMB in 2030, with maintenance and repair as the dominant segment, occupying 70% of the whole market (Figure 5).

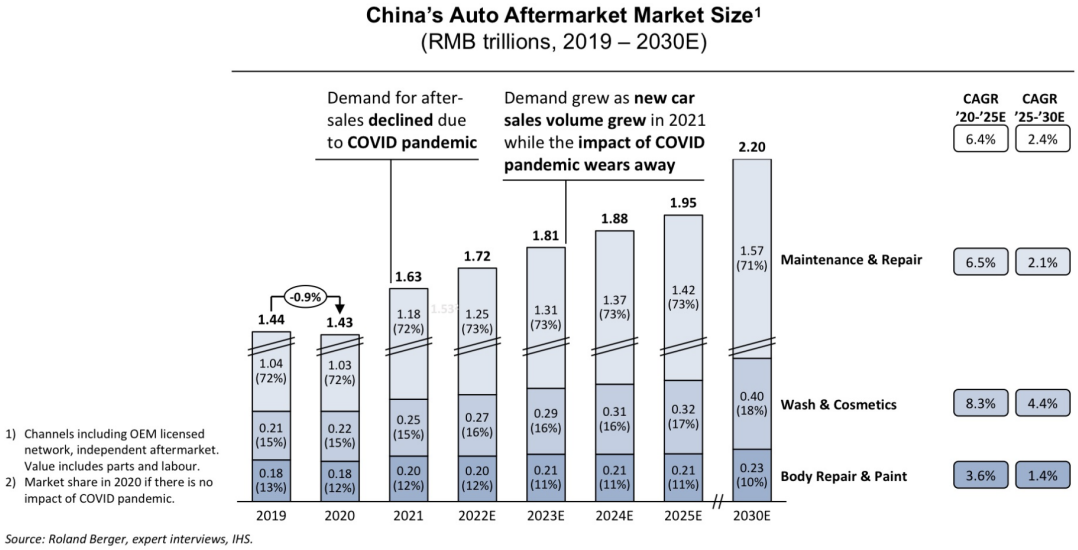


Figure 5. China's Auto Aftermarket Market Size

[13] Chinese cities are hierarchically classified into tiers according to factors like population, development and economic influence. Top tier cities include Beijing, Guangdong, Guangzhou, Shenzhen and Shanghai, but in more recent times, more cities have been classified as New Top Tier Cities. These cities include Hefei, Chongqing, Changshan, Nangjin, Xi'An, Hangzhou, and more.

Going even further into details with regards to the maintenance and repair segment, the independent aftermarket (IAM) is expected to reach 1.13 trillion RMB by 2025, growing at a rate of 6.5% from 2020 (see Figure 6). The growth is hugely faster than the growth of the OEM-authorized channels. The growth of the Aftermarket in China is also helped by the emerging online platforms, which are creating a more efficient and digitalized IAM.

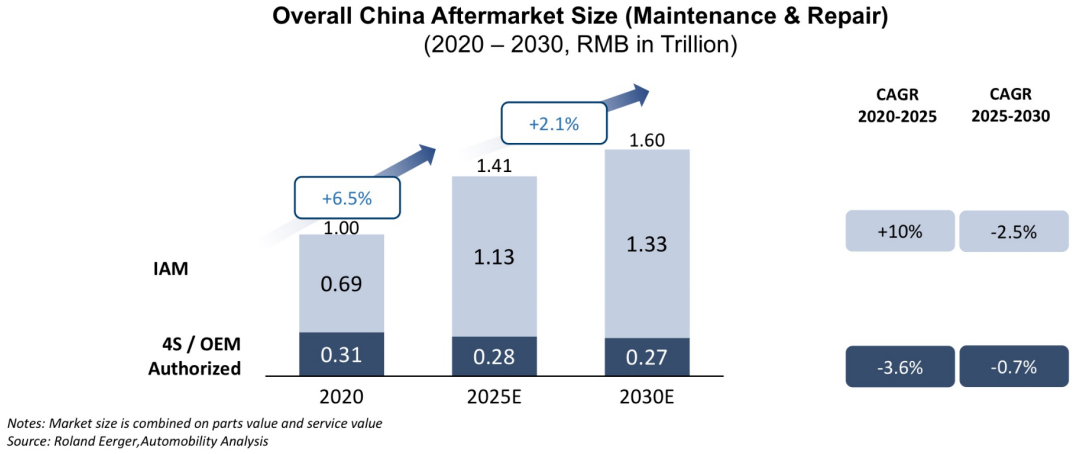


Figure 6. Overall China Aftermarket SIze

As mentioned before, the IAM will become the dominant channel for the automotive aftermarket thanks to the growth of the circulating old cars combined with the increasing car ownership penetration.

However, the IAM channel differs among different-tier cities in China, as shown in Figure 7. The majority of IAM market share is concentrated in higher tier cities. The retail channels are mainly concentrated in tier 1 and 2 cities, driven by the significant recent increase in car ownership in these urban centres. As car penetration continues to spread to lower-tier cities, these regions are expected to see a higher growth rate in both car ownership and vehicle aging compared to high-tier cities. This, in turn, will drive the growth of the IAM sector in China's lower-tier regions.

Figure 7. China's IAM Market Size in Different Tired Cities

Having set the base of the overall situation of the automobile industry in China, it is now appropriate to start a comparison between the situation of the aftermarket in China and Western countries, in particular Italy.

Since 2009, China has become the world's largest new car sales market, with a car population that reached 302 million units in 2021 (Figure 8). Nevertheless, China's car penetration was 64.1% lower than that of Europe in 2020. More in detail, China's car penetration was 201 cars per 1,000 people, while in Europe 560 people out of 1,000 owned a car (Figure 9).

Figure 8. China Car Parc

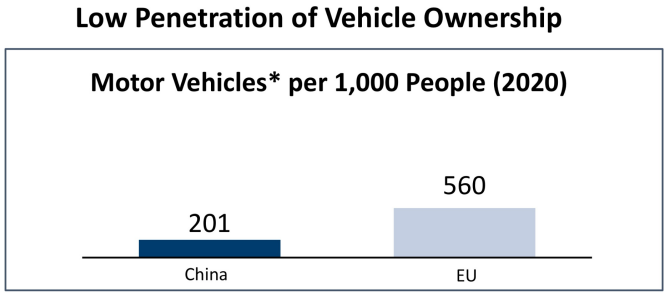


Figure 9. Low Penetration of Vehicle Ownership

In addition, the Chinese car market is relatively young compared to Europe. This difference can be seen in the average age of cars, which in 2022 was attested to be 6.1 years in China and 11.5 years in Europe. To complete the picture, it is important to note that the number of cars older than 5 years is growing faster than the rate of new car sales (Figure 10). As already mentioned, this is a strong advantage for the aftermarket, because as cars get older, they require more maintenance, which leads to a higher demand for car repairs, not to mention that the cars will be beyond their warranty period. It is therefore easy to see that the preference for buying spare parts from the aftermarket will be higher than for buying them from the OEM, especially in terms of price and availability.

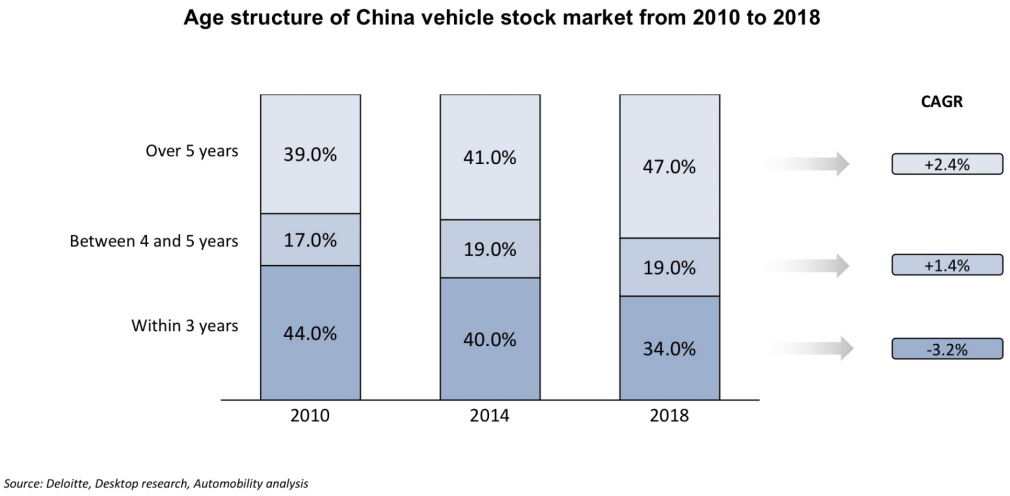


Figure 10. Age structure of China vehicle stock market from 2010 to 2018

Aftermarket channels differ across regions, primarily due to varying market concentration levels. In China, suppliers often encounter intense competition from

local and global players, given the presence of over 20,000 parts suppliers. Distributors in China face similar challenges, as the distribution structure is highly fragmented into multiple tiers of distributors with embedded transfer pricing. Furthermore, emerging business models utilizing digital technologies are disrupting many of these players by eliminating inefficiencies.

Another difference between European and Chinese Aftermarket is related to the digital economy. China, in fact, has stronger e-commerce channels than Europe, and this is reflected in the deployment of online-to-offline (O2O) and business-to-business (B2B) business models. The leaders in the O2O model are the e-commerce giants Alibaba and Tencent, while the B2B model is led by digitally-enabled distributors trying to generate efficiency through the integration of the supply chain.

On the other hand, the European digital aftermarket is primarily led by Amazon. However, the most famous e-commerce platform does not focus on O2O or B2B business models, but mainly on B2C, as more and more consumers in mature markets are more likely to prefer Do-It-Yourself (DIY). The DIY model implies that consumers look for the products and services they need autonomously.

China currently has a staggering number of over 600,000 offline aftermarket shops, a significant proportion of which are small, independently owned businesses. This fragmented landscape has led to challenges such as poor work quality and intense price competition, making it difficult to achieve economies of scale despite significant demand. Unfortunately, only a minority of these existing workshops have access to advanced technology and professionally trained staff. In contrast, more mature markets like the European one are characterised by the dominance of branded chain workshops employing specialised and skilled personnel.

1.1.3. CHINA-ITALY IMPORT AND EXPORT VOLUMES

China is one of the world's largest importers, with an inflow of goods over 2,600 billion USD in 2021 (+30% vs 2020). Italy is 13th in the ranking of top suppliers of

China. More in detail, imports from Italy reached USD 30 billion USD (+36% vs 2020), accounting for 1.1% of total import value. In 2021, China imported automotive goods for a global amount of 91 billion USD (3.4% of total Chinese imports), while automotive goods imported from Italy totaled 1.3 billion USD, accounting for 1.4% of the Chinese automotive imports. (see Figure 11)

China imports of goods: Trend

Item	Unit	Y2018	Y2019	Y2020	Y2021
China Total Imports	USD mln	2,135,637	2,077,097	2,055,612	2,687,529
Increase YoY	Percent	15.8	-2.7	-1.1	30.1
China Imports from Italy	USD mln	21,063	21,412	22,248	30,322
Increase YoY	Percent	2.8	1.7	3.9	36.3
Share on Total Imports	Percent	1.0	1.0	1.1	1.1

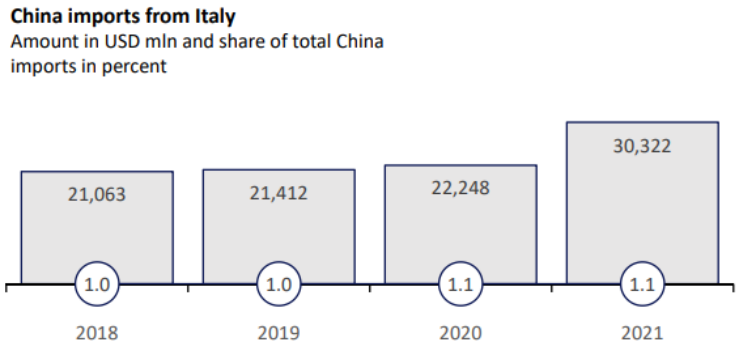


Figure 11. China import of goods: Trend

Italian exports to China include over 964 million USD of motor vehicles and 327 million of auto components (i.e. parts, components, engines, and lighting fixtures). On the other hand, China imports automotive goods from Italy mainly in six Provinces, which together process 92% of the total value of imports (Shanghai Customs processed 64% of the import of automotive goods from Italy in 2021).

Thanks to the growth of motor vehicles imports, which was attested at +107.7%, the import of automotive goods from China to Italy increased by 72.4% in 2021 reaching USD 1,291 million.[14]

[14] *The Automotive Sector in China with Special Focus on Aftermarket,* ITA Guangzhou, 2022

Among the imported goods, another great role is played by automotive spare parts, which include (see Figure 12, 13, 14):

- Brakes and servobrakes
- Gearboxes
- Bumpers
- Drive and non-driving axles
- Suspension systems
- Steering wheels and boxes
- Road wheels
- Other parts of bodies for vehicles
- Other parts for vehicles.

China Automotive Imports from Italy

Item	Imports Y2020 (USD mln)	Share Y2020 (percent)	Imports Y2021 (USD mln)	Share Y2021 (percent)	Increase YoY (percent)
Components and spare parts	284.9	38.0	327.0	25.3	14.8 ▲
Bodies for motor vehicles	0.2	0.0	0.0	0.0	-100.0 ▼
Glass and mirrors	2.3	0.3	2.5	0.2	9.9 ▲
Lighting	22.4	3.0	24.4	1.9	9.3 ▲
Locks	15.8	2.1	20.8	1.6	31.6 ▲
Mountings and fittings	0.4	0.1	1.2	0.1	185.5 ▲
Other automotive parts	7.3	1.0	9.8	0.8	32.8 ▲
Auto parts	190.9	25.5	220.4	17.1	15.4 ▲
Piston engines	12.2	1.6	9.0	0.7	-26.0 ▼
Tyres and parts	33.2	4.4	38.9	3.0	16.9 ▲
Motor vehicles	464.1	62.0	964.0	74.7	107.7 ▲
Chassis fitted with engines	2.2	0.3	0.3	0.0	-86.7 ▼
Passenger cars	446.9	59.7	938.8	72.7	110.1 ▲
Special purpose motor vehicles	0.9	0.1	0.0	0.0	-100.0 ▼
Trucks	14.1	1.9	25.0	1.9	77.4 ▲
Automotive Imports from Italy	**748.9**	**100.0**	**1,291.1**	**100.0**	**72.4** ▲

China's imports of Italian made goods for the automotive industry increased by 72.4% in Y2021 reaching USD 1,291 million, boosted by the growth of motor vehicles imports (+107.7%)

Auto parts include
- Brakes and servobrakes
- Gearboxes
- Bumpers
- Drive and non-driving axles
- Suspension systems
- Steering wheels and boxes
- Road wheels
- Other parts of bodies for vehicles
- Other parts for vehicles

Figure 12. China Automotive Imports from Italy

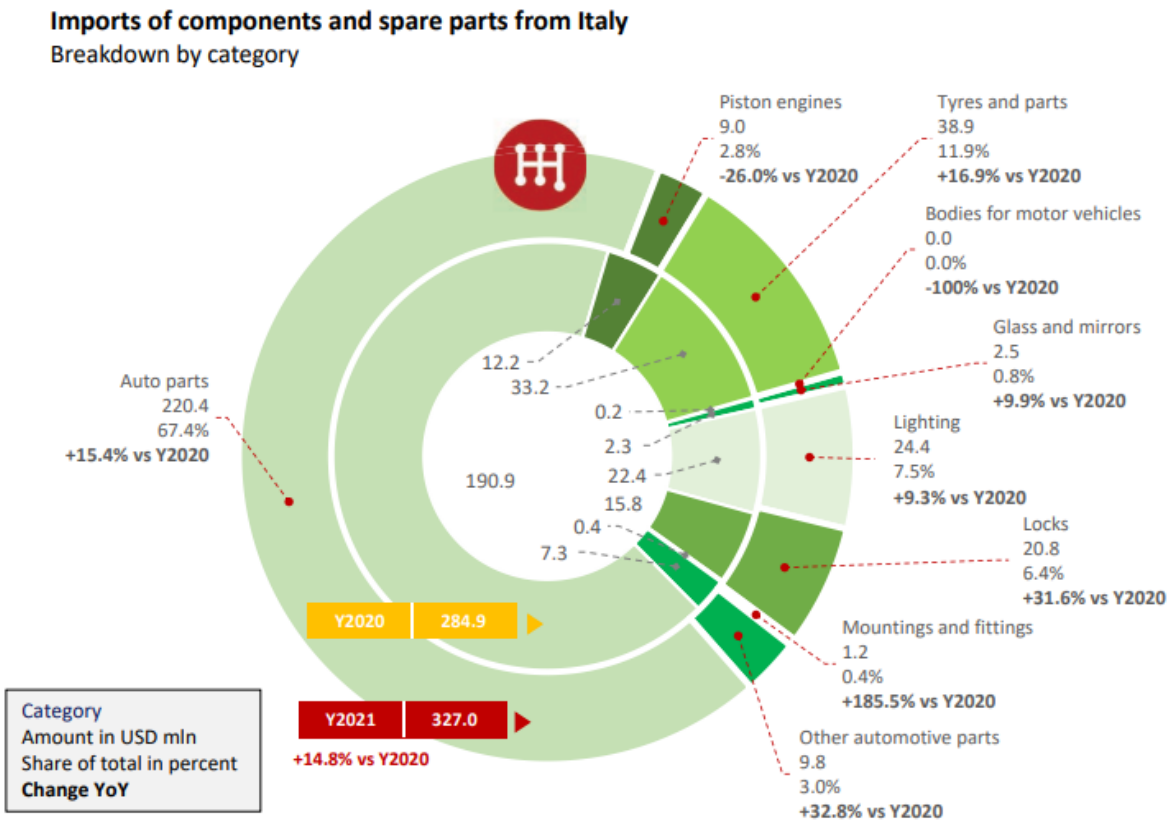


Figure 13. Imports of components and spare parts from Italy

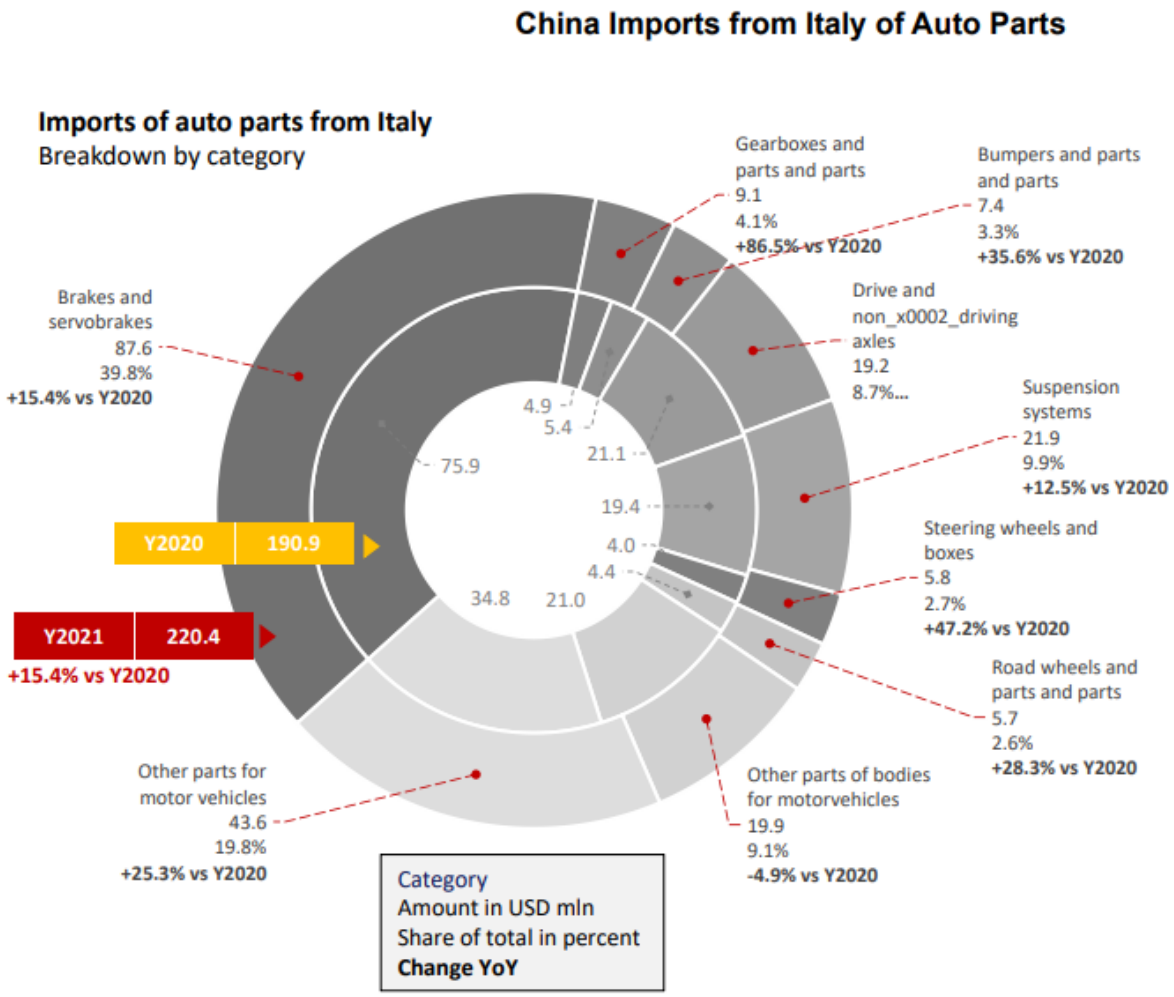


Figure 14. China Imports from Italy of Auto Parts

Most of the investments are located in the Eastern coastal provinces (i.e. Shanghai, Jiangsu, Zhejiang) and the southern Guangdong province. Since these regions are the most advanced and industrialised centres of the country, with a stable and strong development in the automotive industry, they are the top recipients of foreign direct investments (FDI) flowing into China. Other than the South and East of the country, little investments are recorded in Northern and Northeastern regions and in Chongqing municipality. (see Figures 15 and 16)

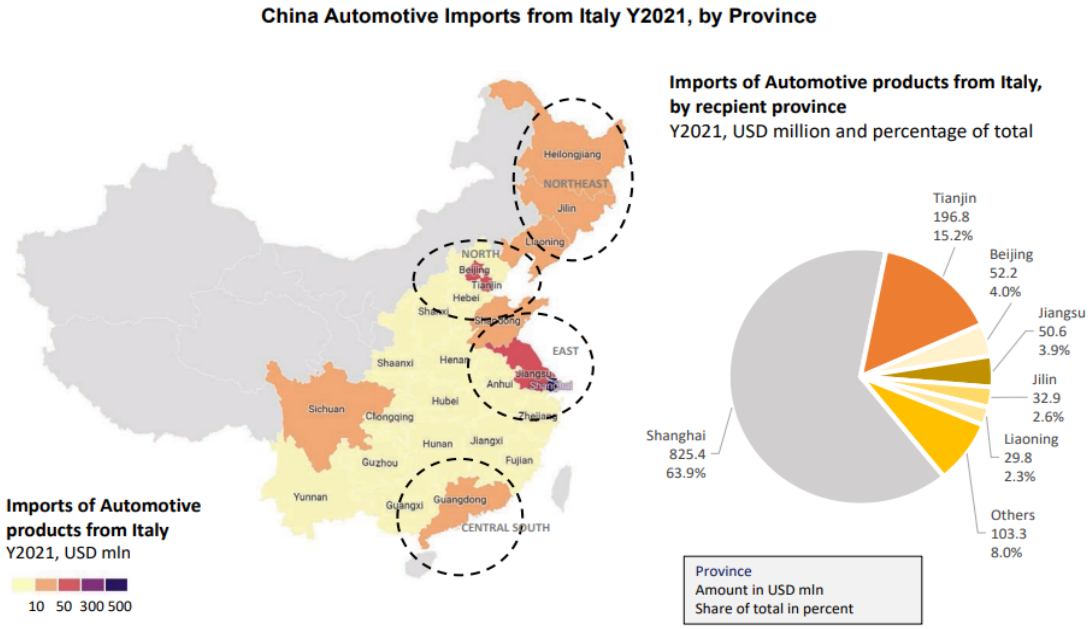


Figure 15. China Automotive Imports from Italy Y2021, by Province

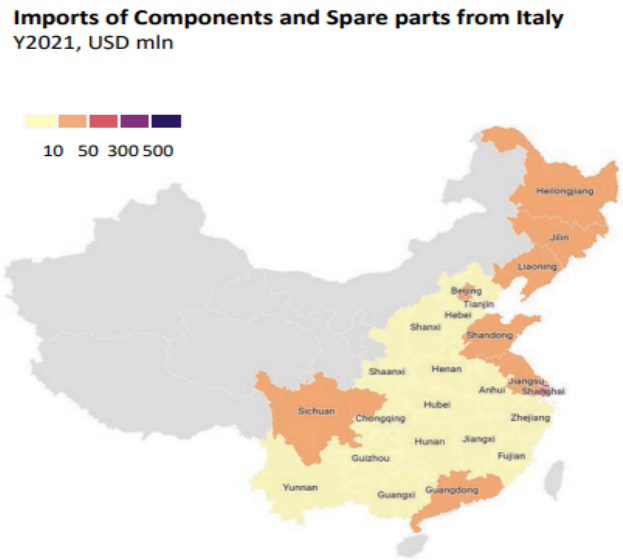


Figure 16. Imports of Components and Spare parts from Italy

Chinese imports of Italian made motor vehicles reached USD 964 million in Y2021, up by 107.7% compared to Y2020. Passenger cars, referring to motor vehicles for the transport of less than ten persons, accounted for 97.4% of these imports, with a total value of USD 938.8 million (vs USD 446.9 million imported in Y2020). Almost

97% of the passenger cars imported in Y2021 were spark-ignition internal combustion vehicles, and the residual 3.4% consisted of hybrid vehicles.

Conversely, trucks, which refer as motor vehicles for transporting goods, accounted for 2.6% of the total Italian motor vehicles imported by China in Y2021, followed by chassis fitted with engines. There were no imports of motor vehicles for the transport of more than ten persons (i.e., buses) in Y2021. Nevertheless, Chinese imports of auto parts from Italy reached USD 220.4 million in Y2021, up by 15.4% compared to USD 190.9 million in Y2020. Brakes and servo-brakes accounted for 39.8% of the auto parts imported by China, with USD 87.6 million, up by 15.4% vs 2020. A significant percentage increase was recorded for gearboxes and parts (+86.5% vs Y2020, USD 9.1 million), bumpers and parts (+35.6% vs Y2020, USD 7.4 million), and steering wheels and boxes (+47.2% vs Y2020, USD 5.8 million).

1.2. JOINT VENTURES REGULATIONS

One of the most efficient strategies for a foreign company to do business and invest in China, especially in restricted sectors like the automotive one, is the establishment of a joint venture (JV) with a local company.

Before going deeper into the regulation concerning the joint venture, it is appropriate to provide a definition of this type of contract.

1.2.1. DEFINITION OF JOINT VENTURE

A joint venture is a contract where two or more companies join together to collaborate on a particular project, sharing resources, profits, losses and expenses.

The resulting joint venture is a legal entity separate from the companies' other business interests.[15]

In China, there are two types of joint ventures: the Equity Joint Venture and the Cooperative (or Contractual) Joint Venture.

An Equity Joint Venture (EJV), is a separate legal entity established by one or more foreign investors and one or more Chinese investors and organised as a Limited Liability Company. The EJV requires an investment from both parties, which is proportional to the profit and the associated risk that the investors assume: in fact, the ownership and shares of profits and losses are determined based on the contribution to the share capital of the EJV. Normally, the minimum level of foreign participation in an EJV is 25%. Given the investment restrictions in certain sectors, the company is required to be controlled by the Chinese company (minimum 51%). There is no upper limit for foreign participation in general projects. The requirements for shareholding are the same as for a WFOE[16]. Investors retain interests in the share capital but not shares. Voting authority rests with the board of directors rather than the shareholders. The directors are appointed by the investors and reflect the shareholders' share in the capital.

Another type of Joint Venture is the Cooperative Joint Venture (CJV), which is similar to the EJV in its objectives but not for the division of profit and risk. These, in fact, are not proportional to the share invested by the parties but rather established by an agreement that regulates the responsibilities and profitability for each partner. A CJV may be based on a contractual cooperation agreement or on an integrated with a limited liability company.

Going more into detail, a CJV differs from an EJV in two fundamental points. Firstly, a CJV does not have to be an independent legal entity. Secondly, although a CJV is not

[15] https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/glossary/joint-venture

[16] A Wholly Foreign-Owned Enterprise (WFOE) is a company established in China according to Chinese laws and wholly owned by one or more foreign investors.
Source: https://www.sovereigngroup.com/china/corporate-services/wholly-foreign-owned-enterprise-wfoe/

incorporated as a Limited Liability Company, it may choose to be subject to taxation at the entity level. In many cases, a CJV is treated as a passive rather than a flow-through entity, mainly to enjoy a favourable tax regime. A CJV that is incorporated as a Limited Liability Company Limited is subject to taxation at the entity level. Ownership and shares of profits and losses are not determined on the basis of the contribution to the share capital or the number of shares but on the basis of a contractual agreement. For this reason, a CJV has much more flexibility in profit-sharing and risk-sharing.[17]

1.2.2. LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON CHINESE-FOREIGN EQUITY JOINT VENTURES

Up until 2020, the establishment of an EJV contract in China was regulated by the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures dated November 30, 2005.

The first article describes a Chinese-Foreign Equity Joint Venture as follows:

"With a view to expanding international economic cooperation and technological exchange, the People's Republic of China shall permit foreign companies, enterprises, other economic organizations or individuals [...] to establish equity joint ventures together with Chinese companies, enterprises or other economic organizations [...] within the territory of the People's Republic of China, on the principle of equality and mutual benefit, and subject to approval by the Chinese Government."

Three key principles emerge from the first article. The first one is the scope of the EJV, which is the development of business cooperation with foreign countries and the exchange of technological knowledge.

[17] *Guida Rapida alla Costituzione di una Società in Cina,* Camera di Commercio Italo Cinese

The second principle is connected with the basic values of that type of contract, namely the principles of equality and mutual benefit and, finally, the last point concerns the necessity of approval by the Chinese Government.

In particular, EJVs must undergo the endorsement of the Chinese Ministry of Commerce (also known as the MOFCOM), which, according to the second article, shall protect their investments and profits connected with the scope of the company. Moreover, the second article also states that the Government shall not nationalise equity joint ventures.

Going further into the analysis of the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures, the fourth article defines the form of EJVs as follows:

"An equity joint venture shall take the form of a limited liability company. The proportion of the foreign joint venturer's investment in an equity joint venture shall be, in general, not less than 25 percent of its registered capital. The parties to the venture shall share the profits, risks and losses in proportion to their contributions to the registered capital."

However, what is even more crucial is the fifth article, in particular considering the main topic of this thesis, which is strictly connected with technology. In fact, the fifth article states that the foreign party in the EJV must contribute with highly advanced technology, investment and equipment that align with China's specific requirements. If the foreign joint venturer deliberately provides outdated technology and equipment, leading to losses, they will be held responsible and required to compensate for the damages incurred.

This article is a clear explanation of the aforementioned principle of mutual benefit, which is the expansion of business for the foreign joint venturer, and the acquisition of new technology for the Chinese investor.

Article 7 suggests another important topic, which is taxation connected to profit, aligning perfectly, again, with the principle of mutual benefit.

The final sentence of the article, in fact, states as follows:

A foreign joint venturer that reinvests its share of the net profit within the territory of China may apply for a partial refund of the income tax already paid.

This is one of the incentives made by the Chinese government to promote foreign investments.

1.2.3. LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON CHINESE-FOREIGN CONTRACTUAL JOINT VENTURES

Similarly to EJVs, also Contractual Joint Ventures up until 2020 were regulated by a specific law, the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures, Adopted at the First Session of the Seventh National People's Congress and promulgated by Order No. 4 of the President of the People's Republic of China on April 13, 1988, and effective as of the date of promulgation.

The law regulating CJVs is very similar to the one regulating EJVs, which was discussed before.

The two main differences between the two types of Joint Venture are discussed in the articles 2 and 22.

The second article states that CJVs do not need to be separate legal persons under PRC law, they are allowed to be separate legal persons only after meeting precise conditions.

Article 22, instead, refers to the division of profit and states as follows:

The Chinese and foreign parties shall share earnings or products, undertake risks and losses in accordance with the agreements prescribed in the contractual joint venture contract.

This article well explains the biggest difference between EJVs and CJVs: the division of profit.

If in EJVs the profits are distributed among investors according to their shares, in CJVs the distribution of profit is decided in the contract.

However, both the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures and the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures are not effective anymore.

They have now been repealed by The Foreign Investment Law of the People's Republic of China, adopted at the Second Session of the 13th National People's Congress on March 15, 2019, and promulgated for implementation as of January 1, 2020.

1.3. IMPORT AND EXPORT DUTIES AND TAXES

Now that the main business strategy that regulates the exchanges between China and Italy in the automotive aftermarket sector has been described, it is therefore appropriate to discuss the limitations to import and export, namely taxes and duties.

In the Chinese law system, the most important laws regulating import and export duties are summarized in the *Regulations of the People's Republic of China on Import and Export Duties,* adopted at the 26th Executive Meeting of the State Council on October 29, 2003, promulgated by Decree No. 392 of the State Council of the People's Republic of China on November 23, 2003, and effective as of January 1, 2004.

The *Regulations of the People's Republic of China on Import and Export Duties* include the *Customs Law of the People's Republic of China,* the *Flat Duty Rates on Inward Articles of the People's Republic of China* and the *Customs Import and Export Tariff of the People's Republic of China*.

The purpose of these regulations is the implementation of the policy of opening to the outside world and the promotion of the development of foreign economic relations and foreign trade and the national economy.

Each law in the Regulations has specific responsibilities, all explained in detail in the first chapter.

According to what is stated in the fourth article, the Tariff Commission, established by the State Council, "is responsible for making adjustment to and interpretation of tariff items, tariff headings and duty rates in the Tariff and the Flat Duty Rates on Inward Articles and implementing such adjustment and interpretation after they are submitted to and approved by the State Council". Other responsibilities of the Tariff Commission are the following:

- determining the goods subject to temporary duty rates and the rates and duration thereof;
- determining tariff quota rates;
- determining the imposition of anti-dumping duty, countervailing duty, safeguard duty, retaliatory duty or other tariff measures;
- determining the application of duty rates under special circumstances;
- and performing other functions and responsibilities prescribed by the State Council.

On the other hand, the Customs and staff members share the responsibility of collecting the duties in accordance with the statutory authority and procedure, safeguarding the State interests and protecting lawful rights and interests of duty payers, as well as receiving supervision according to law.
Other than these responsibilities, the Customs shall keep the commercial secrets of the duty payer confidential, and it shall "in accordance with the relevant provisions, reward units and individuals that inform against violations of these Regulations or provide assistance in investigating such violations, and be responsible for keeping secrets concerned."

The second chapter is entitled *Composition and Application of Duty Rates on Import and Export Goods* and deals with the classification and description of the different type of duties on import and export goods.
According to article 9, duty rates on import goods are classified as follows:

- most-favored-nation duty rates
- conventional duty rates
- special preferential duty rates
- general duty rates

Starting from the most-favored-nation duty rates, they apply to all goods imported from the Custom territory of the People's Republic of China, from the World Trade Organization (WTO) member states, from countries or regions with which the People's Republic of China has concluded a bilateral trade agreement for reciprocally granting of most-favored-nation treatment.

Conventional duty rates and special preferential duty rates, instead, shall apply to those countries with which the People's Republic of China has signed trade agreements that comprise respectively conventional duty rates and special preferential duty rates.

General duty rates apply to all those countries that are not included in the other classifications.

Therefore, according to this classification, all goods imported from Italy are subject to most-favored-nation duty rates.

However, there are some exception: in fact, where import goods are subjected to anti-dumping, countervailing or safeguard measures, the application of duty rates of such import goods shall be governed by the relevant provisions of the *Regulations of the People's Republic of China on Anti-Dumping, the Regulations of the People's Republic of China on Countervailing Measures, and the Regulations of the People's Republic of China on Safeguards.*

Going more into detail with regards to the import duties on automotive spare parts, the customs tariff applied to the different type of products is mainly the most-favored-nation duty rate.

In particular, auto parts including clutch parts, water pump, brake discs, brake pads, driveshafts, and engine parts are all subjected to the most-favored-ratio duty rate.

Concerning export duties, they are only imposed on a few resource products and semi-manufactured goods.

Finally, the last topic on duties is the transaction value of import goods, which, according to article 18 of the Regulations, shall comply with the following conditions:

(1) there are no restrictions as to the disposition or use of the goods by the buyer other than restrictions which are imposed by laws or administrative regulations, restrictions which limit the geographical area in which the goods may be resold, or restrictions which do not substantially affect the value of the goods;

(2) the transaction value of such goods is not subject to some condition or consideration such as tie-in sale for which a value cannot be determined with respect to the goods being valued;

(3) no part of the proceeds of any subsequent resale, disposal or use of the import goods by the buyer will accrue directly or indirectly to the seller, or appropriate adjustment can be made to the proceeds, if any, in accordance with the provisions of Articles 19 and 20 of these Regulations;

(4) the buyer and seller are not related or, although the buyer and seller are related, such relationship does not affect the transaction value.

The aforementioned Articles 19 and 20 state:

Article 19 The following costs shall be added to the customs value of import goods:

(1) commissions and brokerage incurred by the buyer, except buying commissions;

(2) the cost of containers treated as being one for customs purposes with the goods in question, which is incurred by the buyer;

(3) the cost of packing incurred by the buyer, whether for labor or materials;

(4) the value, apportioned as appropriate, of such goods as materials, components, parts, tools, dies, moulds, consumed materials and similar items, and such services as development, design and associated services undertaken elsewhere than in the Customs territory of the People's Republic of China where supplied by the buyer free of charge or at reduced cost for use in connection with the production and sale for export of the import goods to the Customs territory of the People's Republic of China;

(5) royalties and license fees related to the import goods that the buyer must pay, as a condition for sale of such goods to the Customs territory of the People's Republic of China;

(6) the value of any part of the proceeds of any subsequent resale, disposal or use of the goods that accrues directly or indirectly to the seller.

Article 20 The customs value of import goods shall not include the following taxes and charges that are specified in the price of such import goods at the time of importation:

(1) charges for construction, erection, assembly, maintenance, or technical assistance, undertaken after importation on import goods such as industrial plant, machinery or equipment;

(2) the costs of transport, charges associated with transport, and the cost of insurance incurred after unloading of import goods at the port or place of entry within the Customs territory;

(3) import duty and other internal taxes.

1.4. LABOR COST

Over the course of two decades, there has been a rush to source and manufacture goods in China beginning in the late 1990s.
Since China joined the WTA in 2001, numerous international manufacturers have established facilities there or started sourcing Chinese components and goods because to the country's accessibility to cheap labor and low operating costs.
During this time, Western Europeans and Americans were greeted with open arms as Chinese manufacturing advanced and product quality skyrocketed. China was the most cost-effective and efficient manufacturing solution.

On the other hand, as China advanced along the maturity curve, its labor force got more skilled and its machinery and production methods more sophisticated. Due to jobs in factories, primarily in China's eastern coastal regions, approximately 150 million people were able to escape poverty and become the middle class as the country's economy grew. This was the Chinese Industrial Revolution blown out of proportion, and as industrialization grew, Chinese labor rates began to climb.
Understanding that labor costs in China have been rising for a while, the Reshoring Institute (Los Gatos, California) conducted research and analysis of labor costs worldwide. The high-level findings of our recently released research study comparing labor rates across 13 nations are listed below.

Based on where Reshoring Institute clients were moving their production from or to, the nations—including the US—were chosen for comparison. European businesses considering relocating from China to other low-cost nations include those in France, Germany, and the United States.
Several businesses want to relocate manufacturing domestically. The study concentrated on this sample since it was the most pertinent for comparison, even though there are many more nations that could be taken into account.

The Reshoring Institute team looked into the implications for businesses moving forward of the growth in manufacturing salaries in China. Pay and benefits for manufacturing supervisors, managers, machine operators, and production workers were contrasted. The study found that because of the country's sharp rise in labor costs, China can no longer be regarded as a low-cost nation.

CHAPTER TWO

LITERATURE REVIEW

The second chapter of this thesis is devoted to a thorough examination of the body of knowledge regarding joint ventures in the literature. The chapter opens with a historical review of joint ventures in the automotive sector in China, explaining their vital role in promoting expansion and development in the sector. Subsequently, a comprehensive analysis will be carried out to determine the principal drivers that encourage foreign enterprises to pursue internationalization in China via joint ventures.

The subject matter will then shift to an examination of the main challenges and impediments faced by organizations looking to enter the Chinese market. This analysis will clarify the obstacles that need to be taken into account strategically in order to successfully enter the market.

Furthermore, the chapter will conduct an analytical investigation into the benefits that arise from the formation of joint ventures, clarifying the reciprocal gains realized by both participating organizations. The goal of this analysis is to offer insightful information on the strategic advantages that support corporate decision-making in joint ventures within the Chinese automobile industry.

A brief overview of the body of research on joint venture regulations will be provided to wrap up the chapter. In order to give readers a contextual understanding of the legal factors that form joint ventures, this section aims to give a brief review of the regulatory frameworks controlling them.

2.1. HISTORY OF AUTOMOTIVE JOINT VENTURES IN CHINA

China's automotive history dates back to 1956, when the First Automotive Works (FAW) was established and the country's first vehicle was constructed. This came about as a result of a 1953 agreement between China and the Soviet Union to import Soviet assembly lines and automotive technology in order to produce medium-sized trucks. Beijing Automotive Works and Nanjing Automotive Works were established in June and March of 1958, respectively. In April 1960, Jinan Automotive Works was established, followed by Shanghai Automotive Works in October 1960. The Chinese car industry has 104 plants by that point. Only 133 of the approximately 40,542 units produced in 1965 were automobiles (Buckley et al., 2007)[18].

In China, the automobile industry developed more between the middle of the 1960s and 1980. First opened in 1966 as Sichuan Automotive Works, Second Automotive Works (SAW) followed the next year (and changed its name to Dongfeng Automotive Corporation in 1992), and Shaanxi Automotive Works followed in 1978. Many Chinese provinces, autonomous regions, and towns established local production between 1966 and 1980. In 1980, there were 2,379 businesses operating, and out of the 222,288 units produced that year, 135,000 were trucks and only 5,418 were cars. According to Buckley, the scenario is one of a disjointed production system with extreme overcapacity across the country and output below the minimum efficient scale in each province; regardless of size, the automobile industry was present in 26 out of 31 provinces (Donnelly)[19].

The government sector's demand for vehicles for official use first drove the country's rapid increase in car demand during the 1980s. But the automobile sector constituted a very minor portion of the total vehicle output. Imports of cars rose significantly because trucks were the primary product of China's automotive

[18] Buckley, P., Clegg, J., Zheng, P., Siler, P. and Giorgioni, G. (2007) 'The impact of foreign direct investment on the productivity of China's automotive industry,' Management International Review, Vol. 47, No. 5, pp.707–724.

[19] Donnelly, T (2008) 'The Chinese car industry and globalisation', Journal of Management, International Business and Economic Systems, Vol. 2, No. 2, pp.28–40.

industry. In response, the Chinese government promoted foreign direct investment (FDI) in the automotive industry by establishing joint ventures (JVs) between foreign automakers and Chinese automakers, wherein MNEs were only allowed to own up to 50% of the equity. In order to prevent economic exploitation, this framework was created to guarantee that Chinese authorities would ultimately manage the industry's development (Chen, 2010).

In the past, the central government strictly required the establishment of joint ventures for foreign companies to operate in China. This resulted in vehicle manufacturers having to establish their operations as JVs with state-owned enterprises, as joint ventures were a preferred government tool for achieving technology transfer and rapid growth. The major JVs are summarised in Table below.

Enterprise	*Chinese partner*	*Western partner*	*2004 capacity*	*2004 production*	*2004 sales*
Shanghai Volkswagen	Shanghai Automotive Industry Corp.	Volkswagen	450,000	346,338	353,649
FAW–Volkswagen	FAW	Volkswagen	400,000	287,117	300,117
Shanghai GM	Shanghai Automotive Industry Corp.	General Motors	200,000	253,000	252,000
Guangzhou Honda	Guangzhou Automotive Industry Group	Honda	240,000	202,312	202,066
Beijing Hyundai	Beijing Automotive Industry Corp.	Hyundai	150,000	150,158	144,090
Chang'an-Suzuki	Chang'an Automobile Group	Suzuki (Japan)	100,000	107,337	110,052
Shenglong (Dongfeng-PSA)	Dongfeng Motor Corp.	PSA	150,000	88,034	89,129
FAW–Toyota	FAW	Toyota	120,000	83,437	77,739
Dongfeng Yueda Kia	Dongfeng Motor Corp.	Kia	100,000	63,267	62,506
Fengshen (Dongfeng-Nissan)	Dongfeng Motor Corp.	Nissan	150,000	64,197	60,784
Chang'an-Ford	Chang'an Automobile Group	Ford	150,000	50,000	47,119

Source: Automotive News (2005)

Figure 17. Major Automotive Joint Ventures in China

Because of the sector's strategic importance and the relatively advanced understanding of truck production, the majority of the joint ventures are in the passenger vehicle market.

The first joint venture (JV) was Beijing Jeep Co., a 1983 establishment of Beijing Automotive Industry Co. (BAIC) and American Motors Co. (later acquired by Chrysler). Chrysler (formerly known as DaimlerChrysler) and BAIC renewed and broadened their collaboration for an additional thirty years in September 2000. The second joint venture, Shanghai Volkswagen, was founded in 1985 and involved Volkswagen AG and Shanghai Automotive Industry Company.

With an annual capacity of 450,000 vehicles, which is equivalent to Volkswagen's main plant in Wolfsburg, Germany, it remains the largest international joint venture in China. Volkswagen continued to produce the Santana model in 2005, although with a facelift, and used this early-mover advantage to justify its long-standing market domination in China. It wasn't until 2005 that Shanghai GM overtook its lead in the production volume league table.

Guangzhou Peugeot, which was founded in 1985 alongside PSA (better known as Peugeot-Citroen) was another early joint venture. Conflicts between the partners and Guangzhou's lack of production experience and suitable suppliers at the time caused the JV venture to fail in 1997. Another problem was Peugeot's unwillingness to produce cutting-edge cars in China, which infuriated the authorities and resulted in the operation's shutdown. The loss of IPR resulting from PSA's JV is still a big worry for foreign automakers operating in China.

The state-owned FAW and Dongfeng also started a number of joint ventures in the late 1980s. FAW began with an earlier technology partnership with Audi, and in 1992, it formed its first joint venture with Volkswagen. In addition to Volkswagen, FAW now has joint ventures with Toyota and license arrangements with Mazda for a number of models. 1992 saw Dongfeng and Peugeot enter their first joint venture. Three car models—the Santana, made by Shanghai Volkswagen, the Jetta, made by

FAW–Volkswagen, and the Fukang, made by Dongfeng–Peugeot—dominated the Chinese auto market for decades, underscoring the dominance of Volkswagen and the Chinese Big Three during those (still highly regulated) years.

Furthermore, a number of regional businesses were collaborating on technology and licensing agreements with foreign automakers in the small car market. During the late 1980s, a few tiny local enterprises, namely Chang'an, Changhe, Hafei, and Liuzhou Wuling, imported and shared Suzuki compact car innovations.
The popular Xiali (Charade) model, which was licensed by Tianjin Automotive Industry Co. from Daihatsu and Toyota, was once again the best-selling vehicle in the first half of 2005. In 1993, Changan and Suzuki established a joint venture to manufacture the Alto, Gazelle, and Swift. It also manufactured a number of minivans under the Chang'an brand using Suzuki technology under license. In 1994, Guizhou Aviation—the second member of the Mini Two—licensed Subaru minicar models, and in 1998, the two companies formed a minor joint venture.

In conclusion, two important characteristics can be found when examining the development of JVs in the 1980s and 1990s. To facilitate the intended knowledge transfer, the government has first encouraged joint ventures (JVs) but forbade foreign automakers from owning 100% of auto facilities. Second, while some locally or regionally supported small businesses also entered into license deals with foreign automakers, the majority of centrally backed international collaborations were with the Big Three, Small Three, and Mini Two companies. Due to their incapacity for advanced production management and product development, small businesses typically depend on foreign automakers. These automakers often produce antiquated Western and Japanese designs under their own labels.

From 1984 until 2002, several significant joint ventures were formed. The government initially made attempts to get Ford, General Motors (GM), and Toyota to invest, but these approaches were turned down since none of them saw any immediate potential in the Chinese market. The only option left was to go to secondary producers. Beijing Automotive Works and Chrysler of the USA entered

into the first joint venture in 1984. Then, in 1985, a joint venture (JV) was formed between Guangzhou Automotive Company (GAC) and Peugeot of France, and Volkswagen of Germany and Shanghai Automotive Industrial Corporation (SAIC).
In 1988, it changed its name to Guangzhou Honda. Volkswagen-Audi and FAW, Hyundai of Korea and Beijing Automotive Works, and Toyota of Japan and Tianjin Automotive Industry Corporation were among the other joint ventures. The latter changed its name to Tianjin FAW Toyota in 2003 from Tianjin Toyota Motor Corporation in 2000. Over US$ 45 billion had been invested by international companies that had joined the Chinese automobile market by the end of 2000 (Buckley et al., 2007).

With its 2001 WTO membership, China took a variety of actions to liberalize the market, such as lowering tariffs and doing away with local content criteria. The expansion of China's automobile market was swiftly accelerated by these measures. The auto industry, along with a number of basic and service-related industries like machinery, rubber, petrochemicals, electronics, textiles, auto financing, aftermarket distribution channels, and automotive repair services, is still seen by the government as the engine of economic growth.

Following China's WTO accession, the automobile sector experienced unprecedented growth. China became the world's fourth-largest auto producer and third-largest auto market in 2002 and 2003, respectively, as a result of an overall output rise of 38.8% and 36.7% in those years. The automobile industry experienced significant expansion, especially in 2002 and 2003, which drew significant foreign investment. This included manufacturers who had not previously established operations in China as well as those who already had business there and were looking to increase their capacity and production.

The fact that there was more capacity constructed than there was demand resulted in a significant increase in competitiveness. In response, the government began enacting certain economic cooling-down measures at the beginning of 2004. These included slowing the approval process for investments and limiting bank lending.

Together with these macroadjustments, the banks' ensuing reduction in lending and the repeated price reductions that followed decreased demand, causing many price-conscious Chinese consumers to postpone purchasing automobiles as the decline in prices persisted. In spite of these circumstances, total vehicle production increased to 5.07 million units in 2004—a 14.1% year-over-year increase.

The National Development and Reform Commission announced the New Automotive Industry Policy in 2004 to address the issues that the automotive industry faced following China's membership into the WTO, as well as to adjust to developments in the Chinese automotive sector and the country's economic boom since the late 1990s. The 1994 policy was surpassed in some ways by the new one.

These included: (1) encouraging the harmonious growth of the automotive industry and related sectors; (2) pushing for changes to the industrial structure; (3) supporting independent product development and local brand development in order to establish a few well-known brands and globally competitive (top 500) automotive groups by 2010; (4) supporting independent research and development and large-scale production for essential parts and components, as well as supporting local suppliers and their global operations; and (5) advocating for light-duty vehicles and new energy-efficient vehicles.

In contrast to the 1994 policy, the industrial policy from 2004 provided strategic guidance and encouragement instead of regulation. This suggests that the government's role in economic affairs has significantly changed, as it is now dedicated to leveraging market forces rather than government-prescriptive laws to shape the industry's destiny. For instance, the new policy encourages global platforms in place of the previous regulations regarding local content rates imposed on suppliers and automakers. The idea is that global components will be produced in China for both the domestic market and export to North America, Europe, and Japan.

In the past, substantial tariffs were enforced by the government to safeguard regional businesses. The historical auto import quota has now been abolished in accordance with WTO accords, and the tariff rate on imported entire cars lowered to 25% by July 1, 2006, from 30% on January 1, 2005. 10% is now the reduced tax for imported car parts. The main adjustments that happened in 2004 are summed up as follows.

First, the government relaxed its regulation of the automotive sector and changed the policy. Second, the government promoted and assisted private vehicle ownership, which aided in the growth of the passenger automobile industry. Third, the industry's total production capacity (as well as economies of scale) have been expanding quickly due to a rise in foreign investment and the influx of more private capital.

Despite some potential buyers delaying their purchases in anticipation of further price reductions, private car ownership has increased as a result of vehicle price declines, and private buyers currently make up the majority of the market. The auto parts industry has expanded along with auto-related services like auto finance, repair, maintenance, and insurance. To accommodate the rise in car ownership, the state is also building transportation infrastructure more quickly.

Following the significant expansion of 2002–2004, the Chinese auto sector "cooled down" in the first quarter of 2005 but then rebounded. Future demand is anticipated to be more stable, as will be covered below. In contrast to its ultimate economic scale, the Chinese auto market is far from saturated, even though production capacity has surpassed demand. However, there is a great deal of uncertainty surrounding China's long-term energy supply, rising urban traffic and pollution, and currency concerns.

By beginning manufacturing using imported parts and components, these joint ventures were able to lessen the foreign exchange impact of importing completed cars into China.

Beyond this, JVs served as a channel for the ultimate diffusion of cutting-edge technology and contemporary management approaches in the auto industry. Nevertheless, foreign companies were hesitant to introduce their most advanced cutting-edge technologies to their Chinese businesses in the early days of joint ventures due to concerns about potential intellectual property rights violations. However, because the national government's policy insisted that this happen, there has been development in this area, including spillover effects to independent Chinese enterprises and demonstration impacts.

The influence of foreign direct investment (FDI) inflows on China's automotive sector has been empirically studied by Buckley et al. (2007). This research corroborates the predictions of the FDI theory, which holds that MNEs bring advanced technologies and management skills to the industry of the host nation in addition to finance.

2.2. REASONS FOR THE CREATION OF A JOINT VENTURE

Barney (1991) defines business resources as "the possessions, aptitudes, organizational procedures, qualities, data, expertise, and more that a company controls and that allow it to develop and implement plans that increase productivity and effectiveness".

According to conventional wisdom, every competitive environment has unique critical success elements, and businesses work to develop the resources necessary to satisfy these demands.

Companies base their decision to start a joint venture agreement with a Chinese company following the "resource-based view".

Important resources that a potential partner can offer to a joint venture in an emerging market, particularly China, include a marketing network (distribution network), guanxi, collaborative capacity, natural resources, local knowledge, and crucial basic infrastructure, among other things (Luo, 1998; Hitt, et al, 2000). An

industry's resources are not dispersed equally. As a result, possible partners are diverse and only a small number of them have access to rare, valuable, and unique resources.

Their resources are difficult to replicate or obtain through the market for a number of reasons. (1) Physical uniqueness, which is inherently impossible to duplicate; for example, patents, natural resources, and distinctive real estate properties cannot be replicated. Path dependency: Due to everything that has transpired during the course of their accumulation, these resources are distinct and, as a result, rare. These resources have to be developed gradually and in ways that are challenging to expedite; the competitors cannot just go out and purchase them instantly. (3) Economic deterrence: By making a substantial investment in an asset (physical or intangible), a business can get an advantage over its rivals. Despite having the ability to duplicate the resources, the rival decided against it due to the small market potential (Gal-Or, 1987).

A resource-based view of joint venture suggests that the goal of forming a joint venture is to maximize the value of one's current resources by combining them with those of others—as long as, of course, this combination produces the best returns (Das and Teng, 2000). In the end, a company's ability to outperform rivals in an activity by virtue of possessing significant resources gives it a competitive edge. Therefore, creating a unique collection of resources and utilizing them according to a well-thought-out plan will be the foundation of competitive advantage. Forming a joint venture can be viewed as a calculated action to achieve the desired outcome.

According to Das and Teng (2000), resource integration across enterprises is the fundamental cause of strategic alliances. Forming alliances is mostly about joining forces with partners to explore market possibilities that would otherwise be out of reach. Each participant in the joint venture might contribute a certain set of resources to the enterprise. The joint venture has a competitive advantage over its rivals because of its pooled resources.

The joint venture's entire resource endowments and capabilities are referred to as its collective strengths, and they should influence how well or poorly the venture performs (Beamish, 1987). Over the course of a joint venture, collective strengths will fluctuate, but we anticipate that the venture's performance will also alter.

Although it is expressed in monetary terms, the foreign company's first investment in a joint venture consists of cash, technology, management expertise, an international marketing network, etc. A joint venture can establish its first resource profile to launch the business when it is combined with the complementary resources from the local partner side, which typically comprise finance, a production facility, local market expertise, etc.

Resource-based strategies are more sensitive to issues pertaining to the beginning or continuation of operations in overseas markets. Businesses looking to expand into international markets, such as China's economic growth, need to have access to certain resources such supplier networks, human resources, distribution channels, and local connections. It is essential to import resources, particularly innovative technologies. Because of the competitive worth of these resources, Sino-foreign joint ventures have difficulty filling resource deficits. Within Sino-foreign joint ventures, enterprises prioritize exclusive control over scarce, tacit, durable, and non-easily imitable resources, given the competitive scenario where resources are prioritized. The resource-based paradigm sheds light on the reasons for managers' preference for resource control in these joint ventures.

Several authors, including Kogut (1988), Doz, Hamel, & Prahalad (1989), Hamel (1991), Richter and Vettel (1995), and Mowery, Oxley, & Silverman (1996), have shown that collaborative efforts enable each partner to gain insights from the other in addition to the well-documented benefits of size and symbiotic effects arising from collaboration. When seen from this angle, an alliance functions as a vehicle for the cooperative transfer of skills, knowledge, or technology between partners. A joint venture is a kind of osmotic zone that forms between two firms to facilitate the exchange of knowledge aspects, including technological know-how, marketing-related know-how, skills, and abilities in a particular industry. When an ally brings in a specific kind of intangible resource, a partner can assimilate it through cooperation if they have mechanisms in place that are suitable for this transfer.

Alliances provide an appropriate vehicle for knowledge, which is fundamentally changeable in terms of its ease of inclusion/understanding, transferability, and susceptibility to duplication (Inkpen, 1996). When it comes to transmitting tacit knowledge—knowledge that is difficult to express, intrinsically uncodified or uncodifiable, and inarticulate—an alliance is especially useful. Examples include in-depth familiarity with a market (or a nation) and proficiency with an essential management technique used by a firm.

Due to the dynamics of transferring knowledge, skills, competencies, expertise, and other intangible assets inside these cooperative structures, Chinese and foreign businesses are forced to compete with one another for the allocation of equivalent resources. Thus, the ally who successfully seizes the other's resource first is the victorious one. Contrary to popular belief, competition still exists even within the core of Sino-foreign joint ventures; in fact, it is far from being replaced by others. But unlike other competitions, this one takes on a new form.

The major reasons for using the equity joint venture organization form are:

- a requirement or pressure from the government to enter a market;
- a demand for the abilities of the other partner? whether they be managerial, technological, or market-specific expertise;
- a requirement for the qualities or resources of the other partner. Assets might be things like money, patents, and sources of raw materials; characteristics can be things like using or producing specific goods or services.

There are good theoretical justifications for using the joint venture organization type, even in spite of government pressure.
Among others, Hennart (1988) and Beamish and Banks (1987) have presented the broad case for joint ventures. According to the latter study, the joint venture arrangement might be appropriate when multinational corporations from industrialized nations encounter greater adaptability and information

requirements than they are used to, especially in nations with different cultures. In the PRC, these criteria undoubtedly face the majority of international investors.

2.3. ADVANTAGES FOR THE PARTNERS

Sino-foreign joint venture parent enterprises ostensibly originate from unrelated settings (Ambler, 1995; Child, 1998; Liu & Vince, 1999). Their countries of origin differ greatly in terms of their history, economic, political, and legal contexts, as well as their ideals (such as individualism versus collectivism). They also speak quite different languages and have unique social mores, customs, and languages. It appears logical to believe that Chinese and international companies exhibit different profiles, skills, etc., even if they are in the same field.

The Chinese government decided more than 20 years ago to rely on foreign direct investment to establish an inflow of technology and management expertise because many plants were outdated, technologies frequently needed to be upgraded, and management skills were underdeveloped in Chinese state-owned companies. Prior studies often show a particular resource allocation pattern in which each partner specializes in bringing a unique set of skills to the joint venture. According to several studies (De Bruijn & Jia, 1993; Yan & Gray, 1994; Vanhonacker, 1997; Jolly, 2001), foreign partners are now the primary source of technology.

Large international corporations are also exporting to China standardized brand policies and marketing concepts and strategies (Liu & Pak, 1999). Chinese companies made greater contributions in terms of industry experience, market power, distribution channels, and relational qualities (guanxi) as well as skills related to interacting with the local government and other institutional infrastructures (Yan & Gray, 1994; Osland & Cavusgil, 1996; Luo, 1998; Liu & Pak, 1999).

There is a widespread belief that China's national plan is to quickly catch up to the rest of the world in a number of cutting-edge technology areas. It follows that the

main reasons a Chinese company would want to join a joint venture are (1) to acquire access to cutting edge technology, contemporary facilities and machinery, and new product models; and (2) to acquire access to contemporary management approaches, systems, styles, and knowledge (Beamish, 1993; Yan & Gray, 1994; Osland & Bjorkman, 1998; Si & Bruton, 1999; Deng, 2001). De Meyer (2001) claims that Chinese authorities are even becoming more demanding and expecting technological transfers of the newest, state-of-the-art (as opposed to established) technologies.

It is important to emphasize that when innovations become sources of competitive advantage, they may cause international corporations to worry about transferring them. Imparting innovative management strategies from the West is one approach to enhancing operations in regional businesses. Ding et al. (2000) provided evidence to support this claim on human resource management (HRM) strategies. Sixty-two industrial enterprises—half state-owned, half joint ventures with foreign investment—were the sites of their case-based research. It demonstrates how foreign investment improves HRM procedures in Chinese businesses.

Aside from the conventional justification of the cost advantage, the needs of international corporations have received less consideration. Foreign businesses typically expect China to make it easier for them to enter the country and teach them how to conduct business there, which is a complicated, highly regulated, unpredictable, and volatile environment. According to a survey by Zhao et al. (1997) with 200 British companies, access to the Chinese market is the reward for technical transfers.

Three terms could best describe the foreign partners' reason for founding a joint venture in China, according to research by Calantone and Zhao (2001): efficiency, competition, and learning. Using the Chinese partner's resources, getting around government regulations, and lowering risk in new markets are all examples of efficiency. The goal of competition is to increase market dominance. Acquiring

knowledge involves being aware of the regional market, customs, institutional features, and more site-specific details.

Tsang (1994) focused in especially on the management of the Chinese workforce, including both workers and managers, which he thought to be the biggest difficulty for foreign investors operating in China for Sino-foreign joint ventures. The well-known HRM functions — recruitment, compensation, promotion, training, and so forth— are not as well-known in China due to the institutional and cultural differences in the country's operating environment. Joint ventures must address the legacy of state-owned businesses. In China, the norm for state-owned businesses was egalitarianism, overstaffing, and a reluctance to take chances.

The so-called "iron rice-bowl" (铁饭碗), which guaranteed jobs for life, protected state-owned firm employees from termination almost entirely until the PRC's labor law was passed in 1994 (Ding et al., 2000). The labor market is still far from being free due to the significant authority of administrative authorities, and qualified managers and experts are frequently in short supply.

In conclusion, foreign investors expect to gain market access into China, gain knowledge of the political and regulatory landscape (which varies greatly from province to province), learn how to manage Chinese labor, gain insight into the cultural differences between Chinese and foreign enterprises, and gain insight into the country itself, which varies greatly between rural and urban areas, coastal and inland regions, Special Economic Zones (SEZ) and other areas, and the North and the South.
According to a survey of 42 Chinese executives, there is parity between the benefits that one partner seeks and the other partner's contribution to the joint venture (Jolly, 2001).

It was demonstrated by Doz, Hamel, and Prahalad (1989), Hamel (1991), Richter and Vettel (1995), and others that inter-firm relationships could serve as a conduit for partner transfers. This idea is especially intriguing when it comes to intangible

assets like the application of sophisticated technology, in-depth familiarity with a market or a nation, proficiency in product development, and the manufacturing know-how that is ingrained in an organization.
Unlike material assets, information may be easily replicated, particularly in the case of technology. According to Kogut (1988), alliances are more desirable in this situation than licenses or business deals.

Through cooperation with its ally, a partner can usurp one of these intangible assets carried by individuals if sufficient processes are in place. In essence, the transfer happens when employees are hired and fired from both the parent company and the joint venture (Inkpen, 1996). According to research by Mowery et al. (1996), the creation of equity joint ventures is more likely to encourage the transfer of technological competencies than the creation of non-equity joint ventures.
Not every joint venture is designed to provide partners with learning experiences. Partners can only learn from each other in exogamies. This isn't possible in endogamies since couples have comparable profiles and hence don't have many possibilities to share knowledge. The only thing that can be done in this situation is to learn from one another and create new collective knowledge. Mutual learning is not favored by endogamies. Regarding Sino-foreign joint ventures, Liu and Vince (1999) argued that partner disparities can serve as a source of learning. Luo (2002) asserts that because joint ventures allow for partner learning, they facilitate superior competence building than WFOE.

Each partner in an exogamy learns from the other in stages as this learning process occurs. I would want to propose that partners bridge the knowledge gap that existed at the formation of the alliance via years of cooperation. Because of the expertise they have been able to gain, corporations who enter into more recent partnerships have fewer discrepancies in their respective resource profiles, while allies in very early joint ventures exhibit considerable discrepancies in their resource profiles.

2.4. OBSTACLES AND MAIN CHALLENGES

In addition to navigating the perceived peculiarities of the political, industrial, economic, and sociocultural environments, the executives must navigate a convoluted web of interpersonal and management relationships in order to achieve the JV's goals. Evidence from the present day (e.g., Sergeant & Frenkel, 1998; Gui, 1998; Hu & Chen, 1996) shows that issues that arose in the various management relationships in the early days are still very much relevant today, even with the emergence of a new generation of confident Chinese managers (the majority of whom received their training in Western nations) and their increased familiarity with Chinese conditions. "Relationship, relationships, relationships... understand the culture and develop the relationships," is what a foreign manager with vast experience managing PRC Chinese says. Although it seems easy, some people find it difficult. (Sergeant & Frenkel, 1998).

The majority of JV studies focus on examining the JVs from a structural standpoint, with a particular emphasis on the relationships that exist between parents, partners, and/or top management (e.g., Killing, 1983; Harrigan, 1986; Beamish, 1988). Aside from the requirement that partners be chosen based on compatibility of resources and abilities and that motives be well-thought-out and realistic, the somewhat simplistic conclusion suggested by these studies seems to be that, provided the fundamental framework is in place, everything will eventually work itself out because the issues that result are essentially the same as those that arise at home.
This does not, however, imply that the joint venture's "technical aspects" are unimportant. A joint venture, or any other type of cooperation and business combination, including mergers and acquisitions, cannot succeed if it lacks well-defined objectives, a complementary partner or partners, and a suitable management structure. Furthermore, the JV will fail if sufficient market, legal, and financial assessments are not conducted. Nevertheless, a focus on these kinds of issues sometimes obscures the fact that merging two companies truly means uniting people and communities.

The methods that are successfully implemented are more desirable than those that are cleverly devised. Changes in mindset are frequently necessary for implementation at all organizational levels. Within the organization, it entails managing things like people, systems, structures, culture, and rewards. A JV's success cannot be fully understood in terms of the interactions between the board members and the parents; instead, an effort must be made to comprehend the complexities of the management environment. Put another way, while the relevant studies offer insightful information about key situations, they are largely silent on the dynamics and procedures that determine success or failure.

According to Harrigan (1986), the sustainability of a joint venture (JV) is contingent upon the quality of the relationships that exist within it: 1) among the venture's owners, the question of bargaining power is critical; 2) between the venture's owners and the venture, the main issue is the owners' control versus the JV's requirement for operating autonomy; and 3) between the JV and its surroundings, the question of competitiveness is critical. The owners' expectations regarding the benefits of the joint venture will determine how much operating autonomy is traded off against the venture's requirement for close owner coordination. Naturally, the JV manager will have less operating autonomy the more influence the owners have over the JV, and vice versa.

Research on Sino-foreign joint ventures found that significant disparities in the political, economic, and sociocultural preconditions contributed to management challenges in these kinds of partnership. The challenge of managing human resources in the context of a "communist power structure that pervades all aspects of society, as well as extreme cultural differences," was highlighted by Zamet and Bovarnick (1986). Redding (1980) clarified differences between Chinese and Western civilizations' basic values. Garatt (1981), drawing on Redding's work, argued that Confucianism and Maoism—two influential schools of thought—have shaped PRC culture.

The statement that "the frames of reference by which both (Chinese and Western) cultures view their world are divergent and often contradictory" is supported by this cross-cultural viewpoint. This causes misunderstandings and a lack of understanding when managers from the West and China attempt to collaborate... " (Garatt, 1981)

In the PRC, forming a joint venture entails creating a new organization with members from various organizational backgrounds and cultures. The resulting concerns that arise from this type of environment include cross-cultural and cross-organizational, which inevitably affect how the international and local (Chinese) staff interact with one another. It goes without saying that this ruins the working rapport between the two staff groups. The literature on Sino-foreign JVs shows that managing Chinese staff was hampered by issues related to both cultural and external elements that were typical of LIC settings.

One thing was fairly obvious when it came to the process of transferring management expertise from foreign experts to local staff: the Chinese staff saw it as a "major" change that involved altering the organizational structure, systems, procedures, and cultural components—in other words, a shift in organizational culture. One of the main reasons why there are disputes between the two staff groups is this notion.

The Chinese staff likewise faces comparable issues. However, the establishment of a new organization was viewed as a "change of organizational culture" in China. Chinese staff members experience four different forms of ambiguity as a result of this view, which is one of the main sources of tensions between the two groups of employees. It is determined that there are four different kinds of ambiguity: role, structural, cultural, and environmental. Therefore, identifying pertinent management difficulties that arise from this "change" perception gives JV general managers' concerns an additional layer of explanation. It is interesting to note that modern JV academics, particularly those who have written about Sino-foreign JVs, have completely ignored the aspect of organizational culture shifts and blending.

In a joint venture with a dominant parent, relationships are less complex than in a joint venture with shared management. Complex issues surface in a joint venture with shared management. A number of the challenges that employees from partner firms have when working together are related to "mistrust," "lack of communication," and "differences in preconceptions."
Distinct working styles and disparate values, attitudes, and beliefs rooted in the national and corporate cultures of the concerned organizations are two more elements exacerbating the collaboration issues between the two staff groups.

The operational staff and the board are where the "mistrust" issue shows up. While the "board" level has not been the focus of this study, it is important to note that Killing (1983) contends that decision-making is likely to suffer in a joint venture (JV) when the general manager must refer numerous decisions to a board, whose members frequently have different goals, priorities, and values. As a result, the general manager may have additional work to do in overseeing the JV.

The two groups of people have different strategic objectives and may have come from two or more different parents, which contributes to the mistrust issue. These distinctions persisted from the highest levels of management to the lowest operational levels. People who work under JV executives may experience disorientation as a result of the executives' suspicion of them. When financial issues arose, such as when purchasing plants, machinery, materials, or components and calculations for such purchases were made by foreign employees, or vice versa, the issue of trustworthiness became apparent.

The mistrust issue led to a tense, laborious, and ineffective working relationship between the two sets of managers and produced a very uncomfortable environment. Moreover, it was challenging to form an efficient team among operational staff members.

Mistrust might also arise from a lack of communication. Mistrust issues can quickly occur in a joint venture (JV) wherein expatriate management collaborate with their

respective Chinese deputies. As an example, consider the situation when a Chinese employee approached a fellow manager who spoke the same language as him rather than turning to his direct German boss. Since they spoke the same language, they could naturally talk more easily and come to a greater understanding.
The issue of mistrust appeared to be more acute among Chinese managers, despite the fact that foreign managers were undoubtedly wary of Chinese people. The possibility that a foreign force once took advantage of the Chinese people is one explanation. Another, less sophisticated one can be found (at the time) in the propaganda that was widely accepted at the time, which claimed that, to put it plainly, foreigners were nothing but liars.

In addition to the issues previously noted, it was found that a lack of communication of two types—formal (organizational "disorder") and informal (linguistic barrier)—was a major contributing factor in some of the misunderstandings that occurred between the two groups of personnel.

2.5. RULES AND REGULATIONS THROUGHOUT THE YEARS

The three primary legal entities that foreign investors can invest in China through are equity joint ventures, contractual joint ventures, and totally foreign-owned firms, as per Chinese legislation. Some novel FDI structures, like limited firms with foreign investment and foreign-invested holding companies, were gradually permitted in the 1990s.

China passed its first law allowing and regulating the establishment and activities of foreign commercial enterprises on its soil in 1979 when it passed the Equity Joint Venture Law.
The Chinese government enacted the Wholly Foreign-Owned Enterprise Law in 1986 in an effort to meet the demands of international investors and increase FDI inflows. The Contractual Joint Venture Law was eventually enacted in 1988.

The Equity Joint Venture Law was amended in 1990 to include protection from nationalization and to remove the need that Chinese investors name the chairman of the board of an equity joint venture.

China published the Company Law in 1994. The three legal entities that make up FDI firms were not completely eliminated by the Company Law. Rather, it made an effort to reclassify them as either of the two types of corporations: companies limited by shares or limited liability companies. According to the Company Law, limited-liability firms include foreign joint ventures and entirely foreign-owned businesses.

The Chinese government significantly changed the Wholly Foreign-Owned Enterprise Law, the Contractual Joint Venture Law, and the Equity Joint Venture Law in 2000 and 2001 in order to comply with the WTO's entry requirements.[20]

The modifications lifted previous limitations on foreign exchange balance requirements, sourcing requirements for raw materials and equipment, export requirements that had to be met, and business plan reporting. The Chinese government has taken a significant first step toward fulfilling its obligations under the terms of its prospective WTO membership with these legislative reforms.

[20] *Law of the People's Republic of China on Foreign Capital Enterprises,* Revised 31 October 2000, viewed 18 April 2011, <http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=51034>; Law of the People's Republic of China on Chinese-Foreign *Contractual Joint Ventures*, Revised 31 October 2000, <http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=51032>; Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures, Revised 15 March 2001, <http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=51033>

CHAPTER THREE:

THE JOINT VENTURE HUZHOU METELLI-TAIXIN

The third and final chapter of this thesis has the purpose of applying all the theoretical aspects concerning the creation of a Joint Venture in the automotive spare parts industry in China to a real case study: the one of the Huzhou Metelli Taixin company.

The chapter opens with a presentation of the Italian company Metelli S.p.A, that in July 2022 founded a joint venture with the Chinese water pumps manufacturer Huzhou Taixin.

Then, there will be a discussion on the reasons for the search of a Chinese company as a business partner for a joint venture, and the reasons for choosing Huzhou Taixin as a partner.

Finally, after the reasons, also obstacles are analysed, in particular the ones concerning organisational aspects, language and culture.

All the information is supported by interviews with the company's managers and by the analysis of the industrial plan.

3.1. COMPANY PRESENTATION

Founded on 1 August 1962, Metelli S.p.A. was originally born as a small machine shop but just eight years later, in 1970, the company became an engine part manufacturer. By 1975, Metelli started producing components for hydraulic brakes and clutches. A production line for constant velocity joints was installed in 1991. Eight years later this was expanded to include driveshafts. Metelli S.p.A. has a long story of acquisitions. In 1996, Metelli merged with Cifam, hydraulic brake and clutch parts manufacturer. In July 2001, the company acquired 100% of GRAF S.p.A., a well-

known manufacturer of water pumps and brake discs together with the KWP brand. The latest range expansions include the introduction of brake pads in 2008 and brake shoes in 2010 completed with the acquisition in 2015 of two important brake component manufacturers: Trusting and Fri.Tech. In more recent years, Bugatti Autoricambi S.p.A was acquired and also the aluminium die-casting foundry Sol.Id, respectively in 2017 and 2020.

On the 15th of July 2022, Metelli S.p.A. signed an agreement to acquire the majority shares of the Chinese company Huzhou Taixin. The newly established company named Metelli-Taixin is based in Huzhou (Zhejiang) southwest of the Shanghai area. The Huzhou Taixin company is internationally recognised as a manufacturer of quality water pumps for both passenger cars and heavy-duty vehicles and has built up a high degree of technical know-how and in-depth knowledge of the supply chain over the years.

This expertise has enabled it to establish itself as a strategic partner of major distributors in several foreign markets such as the USA. Since August 2023, all the activities have been relocated a few kilometers away from the original site to a new, technologically-advanced production site. The new 15,000 square meter facility has been housing the entire production of Taixin water pumps and Metelli's new range of water pumps, guaranteeing the high quality standards that have always distinguished both brands. The new production site complies with the highest standards in terms of sustainability, safety and environment.

Metelli's management has been directly involved locally in order to contribute to increasing the know-how and quality of the new production site. The main strategic objectives of the Joint Venture are to increase Metelli's market share both in China and in the APAC region and to increase the production capacity of the Metelli group worldwide. Metelli-Taixin also includes a team of specialists dedicated to supporting the group in the procurement of both components and finished products, assuring quality and guaranteeing lead times.

3.2. METHODOLOGY OF RESEARCH

The research methodology used in this study first involved a comprehensive review of the existing literature on joint ventures, examining various theoretical frameworks and empirical studies. From the literature review presented in Chapter Two, several trends concerning Sino-foreign joint ventures emerged. The main objective of the revision of the literature was to investigate the main objectives, reasons and obstacles that companies are used to experience when establishing joint venture agreements with Chinese partners.
Following this review, a number of pertinent questions on the reasons for the establishment of a joint venture emerged to guide further research, all summarized in the following paragraph:

- Why did the company decide to opt for the societal form of the joint venture?
- Why did they decide to establish the joint venture in China?
- Why was Huzhou Taixin chosen among the other potential partners?
- What is the main advantage for the partner?

The core goal of this case study is to investigate whether Metelli SpA's experience and those described in the literature can be compared.

In order to provide an answer to the aforementioned questions, the research proceeded with a detailed analysis of the business plan associated with the joint venture under review, examining its strategic objectives, operational mechanisms and expected outcomes.

In addition, in-depth interviews were organised with all the top managers within the company that have participated in the entire realization process of this ambitious project. The result of these interviews provided valuable insights into their perspectives, decision-making processes and experiences in relation to the joint venture.

Concerning the obstacles that the company faced during the realization of this project, managers were interviewed not only with regard to the obstacles themselves, but also about the ways they managed to overcome those obstacles, being an example for other companies.

This multi-faceted approach aimed to promote a complete understanding of the dynamics and intricacies of collaborative ventures, thereby enriching the depth and validity of the research findings.

3.3. REASONS FOR THE JOINT VENTURE HUZHOU METELLI-TAIXIN

Metelli Group has a long history and experience in exporting. The company sells its own products to more than ninety countries in all five continents, serving the International Aftermarket (IAM), Original Equipment Services (OES) and Original Equipment Manufacturers (OEM).

As far as China is concerned, Metelli Group has always exported its products in this country through its division "Metelli Shanghai". The purpose of the products exported was mainly to serve the USA and the Chinese market.
However, in 2017 the company started to lay the foundation for a new, big project: the establishment of a joint venture with a Chinese water pump manufacturer.

Metelli Group felt the need to create a Joint Venture with a Chinese partner for three reasons:

1. Preserving EBITDA by saving costs on water pump production.
2. Support the supply chain.
3. Develop the "local for local"

The first reason is cost-related. With the wide spreading of electric vehicles, the mechanical water pump market is destined to decrease and eventually die.

It is easy to imagine that for Metelli SpA, whose core business is the production of mechanical water pumps, it is important to renew its own product to suit the needs of the market.

Developing a new product line, the one of electric water pumps, requires investment. The strategy of the company was to dislocate the production in China and significantly reduce costs. Labour cost in China is in fact one-third lower than the labour cost in Italy. The final objective was to ensure that, through the reduction of production costs, the EBITDA is safe. This saving will become the basis for the investment in the development of electric water pumps.

In order to achieve this objective, the company started by analysing which products to move to China. The analysis is summarised in the graph below.

Among the 75 million euros of water pumps produced in 2020 by Metelli SpA every year (column A), the first decision was to just delocalize the production of fast movers, which account for 36 million euros (column B).

Among fast movers, a further selection has been made: firstly, all the water pumps that need to be assembled with Camas machinery (column C) have been excluded from the list. Products not suitable for "made in China", due to strategic and commercial considerations, e.g. difficult to replicate, complex, (column D) were then excluded. Another 4 million euros in water pumps were finally excluded since they were products highly sensitive to "Made in EU" branding (column E).

The final result was the decision to off-shore the remaining 25 million euros of water pumps to China, which accounted for 1 million units of water pumps (column F).

The final off-shorable perimeter was thus composed of fast-moving, high-marginal and subject-to-market-pressure water pumps.

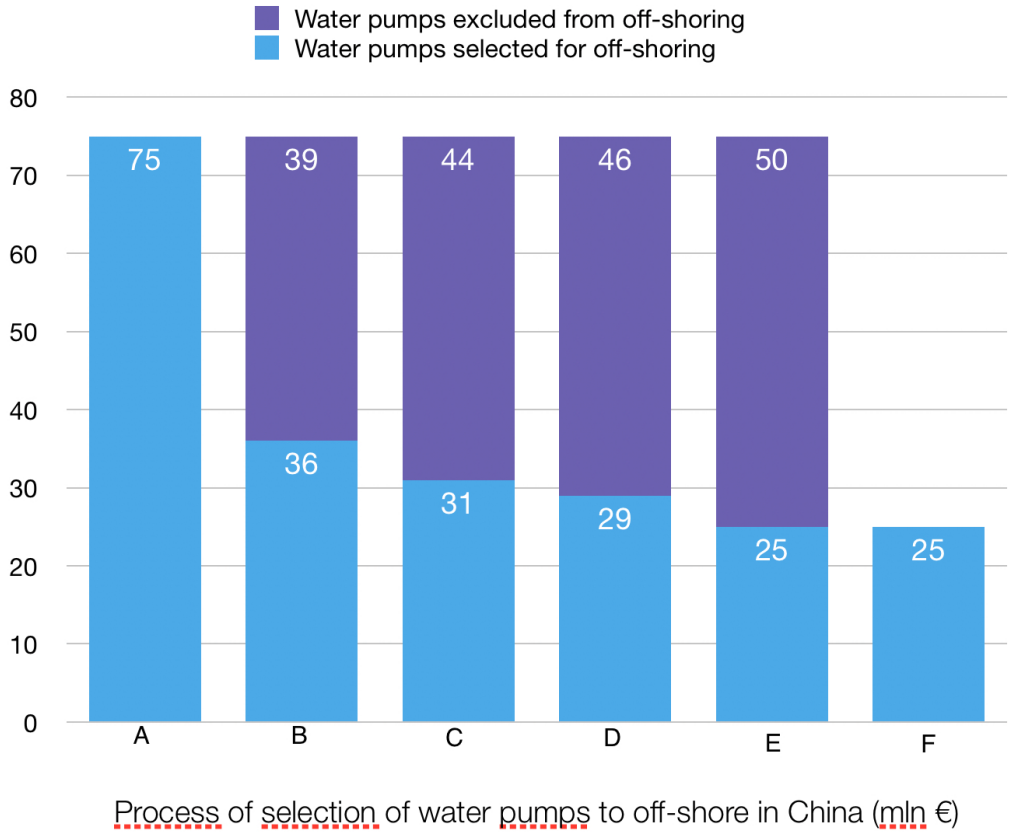


Figure 18. Process of Selection of Water Pumps to Off-Shore in China

The second reason for establishing a joint venture with a Chinese company is to support the supply chain.

The basis for this reason is connected to the fact that 30%, equal to 15 million euros, of components purchased comes from the Far East.

As for water pumps are concerned, Metelli was already buying the main components of the products (bearings and seals) from China, thus the great advantage of delocalizing the entire production and assemblage of water pumps is to support and enforce the supply chain locally. As a matter of fact, being present in the Chinese market facilitates the scouting of new suppliers. All the managers interviewed agreed on the fact that moving part of the purchasing activity to China makes it

easier to scout new suppliers, even the less known ones. This advantage is carried out thanks to the partner's knowledge of the market and the supply chain.
Dislocating the production to China is thus strategic because it allows Chinese people work with Chinese people, making it easier to overcome linguistic and cultural barriers, which would have been an important obstacle if the company had decided to invest directly in the Chinese market.

Moreover, working in China with a Chinese partner strengthens the company's presence in the country, conveying an image of reliability among potential customers and suppliers.
The company's presence in the Chinese market with a Chinese partner also allows the company to enlarge its network of contacts (the so-called "guanxi"[21]) locally.

As for quality is concerned, dislocating the production and the purchasing of components in China enables the company to test, check and verify the quality of the products directly in China, thus saving time and transportation costs that they would need if they had to shipped back to Italy.

The third reason relies on the greatness of the Chinese market and the need for the company to start selling products specific for the Chinese automotive spare parts market.

[21] *Guanxi 关系* is a Chinese term indicating an individual's ability to network in business contexts, best encapsulated by the axiom, "it's not *what* you know, but *who* you know."
Etymologically, the word is composed of two characters: 关 and 系. The first one, 关, indicates a gate, whilst the second one, 系, stands for the verb "to tie". Together, these two characters suggest the action of passing a barrier and getting connected. This association of characters also convey the message that *guanxi* 关系 is a relatively closed system. In *guanxi*, however, business and personal dimension are closely joined. Indeed, the original Chinese symbols relate to the concept of a gateway to a relationship, a neat and relatively accurate way to think of *guanxi*. In other words, the exercise of *guanxi* leads to the connections through which business can happen.

The Chinese market is, in fact, the world's biggest market, with the fastest development pace. It is thus in the company's plans to start selling its products in the Chinese market.

It is also important to mention that, since the biggest car manufacturers have started to move their production plans in China, the Chinese market has a big potential concerning the OE business, and this could be interesting for the future development of the company.

After having deepened the reasons for Metelli SpA to establish the joint venture, it is fundamental to mention that, whilst the first two reasons (save EBITDA and support the supply chain) have already been translated into objectives, and the company has already started working on them, the third reason (serve the Chinese market locally) is still a "work in progress". According to the managers interviewed, serving the local market is a fundamental objective that will regard the future of the company, but at the moment, during the first year of the joint venture, the most important priorities are saving production costs and support the supply chain.

A. WHY DID THE COMPANY DECIDE TO OPT FOR THE SOCIETAL FORM OF THE JOINT VENTURE?

The managers interviewed all agree on the fact that a green field investment would have been extremely complicated.
While it is true that since 2022 the Chinese legislation allows foreign direct investment also in the automotive sector, it is also true that it is easier to start a business in China with a local partner rather than investing directly.
Moreover, in a country like China it is extremely important and strategic to rely on a local partner both for linguistic and cultural aspects.

B. WHY DID THE COMPANY DECIDE TO ESTABLISH THE JOINT VENTURE IN CHINA?

Globally, the transfer of the manufacturing activity from Europe towards China started in the 1980s. This trend destroyed the supply chain, making reshoring become almost impossible, especially where technology is involved.

Nowadays the situation has changed: the Chinese population has become richer and richer, and the production has been starting to be moved towards Vietnam and Philippines. This happens especially for the raw materials for electrification, which leads to three problems: rare earth, pollution and energetic costs.
The Aftermarket in China experienced a great development in the last decade, along with the wide spreading of the automotive market. Nowadays, there is a strong presence of electric scooters, and also the automotive industry is moving towards the electric.

Until ten years ago there was a clear gap between labour costs in Italy and those in China. Many of the components for water pumps were moved there: mainly bearing and mechanical seal, which make up about 30% of the value of the product.

The need to go to China, therefore, is because most of the components are made there. In Italy, and in Europe in general, there are no longer the technologies and costs to support the production of those components.
China was chosen among other countries such as Vietnam because China has suitable foundries, bearing manufacturers and localised supply chains: in other words, the supply assets are sufficiently advanced to meet global market demand.

Above all, while it is true that there are 'scarce' companies in China, it is also true that there are good, structured companies that are equal in quality to European (including German) companies, but with a saving, to date, of 30% on average.
However, the cost of labour in China is not necessarily lower: for example in Shanghai it is higher than in Italy, this is because the cost of living in Shanghai is very high, and salaries must be adequate.

Other parts of China have lower salaries, but they are still not as low as they used to be, and year by year they grow in step with inflation, which is always increasing in China.

C. WHY WAS HUZHOU TAIXIN CHOSEN AMONG THE OTHER POTENTIAL PARTNERS?

The selection of the Chinese business partner was made among several companies known through trade fairs, consultants and advisors.
When, in 2017, Metelli was starting to lay the groundwork for the realisation of this project, and then looking for a partner, several water pump companies were analysed and taken into consideration.
Among the various companies, Huzhou Taixin was chosen for both numbers and instinct.

The Chinese company, in fact, used to produce from 5 to 8 thousand water pumps per year, which is really close to the amount of water pumps that Metelli wanted to dislocate in China.

Moreover, Taixin was the company that was closest to Metelli's way of working, in terms of both the owner and the company's organisational culture. Metelli, in fact, tends to work in an orderly, clean, people- and environment-friendly environment, and sought a partner that respected these characteristics and was akin in these areas. In addition to that, the organisational structure of the Huzhou Taixin was very similar to that of Metelli (see figures below).

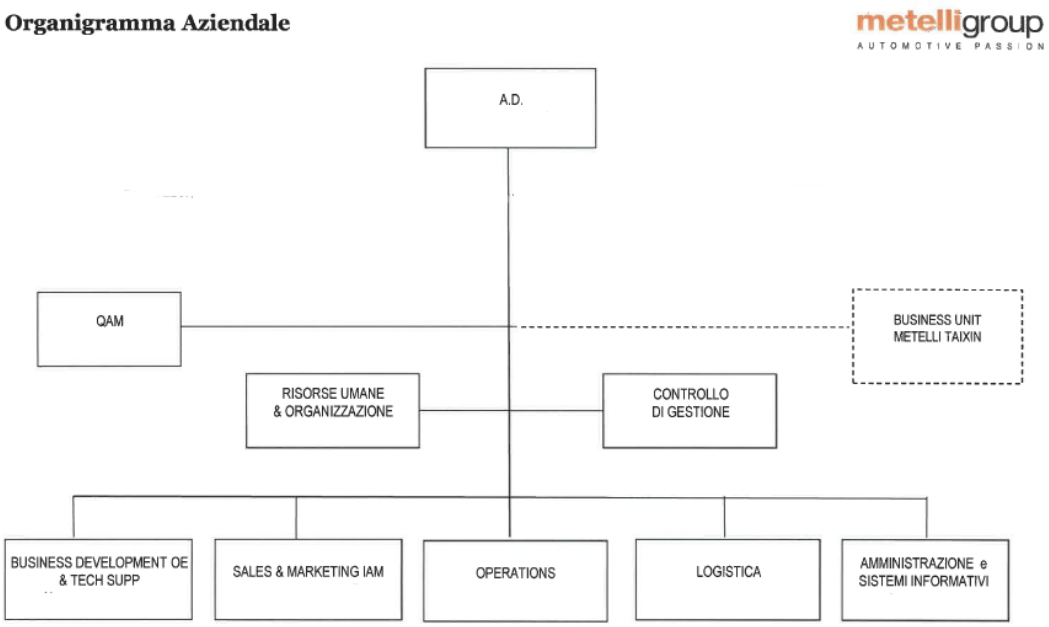


Figure 18. Metelli SpA's organizational chart

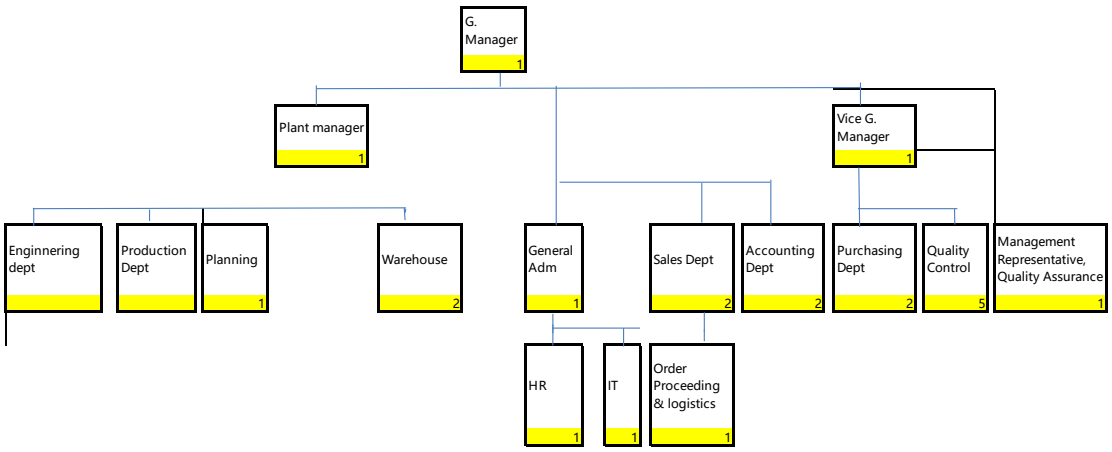


Figure 19. Huzhou Metelli-Taixin organizational chart

One advantage of Huzhou Taixin is its current location, Changxing (Huzhou), which is located in a strategic area, two and a half hours away from Pudong airport and Shanghai.

Changxing is expanding and growing at a fast pace, and this is also possible thanks to the local government, who strongly believes in the growth of the city.
Moreover, another notable advantage of choosing a company based out of Shanghai is that the cost of living is significantly lower than in Shanghai, and this leads to the possibility of adopting a lower salary policy, with lower taxes on salary.

D. WHAT IS THE MAIN ADVANTAGE FOR THE PARTNER?

The advantage for the Chinese partner was that Huzhou Taixin had a 10% EBITDA on PAs, which was relatively low compared to Metelli's 19/20%.
With this JV Metelli guarantees Huzhou Taixin volume and development, and allows Huzhou Taixin to pass from 35 to 120 people employed.

3.4. OBSTACLES IN THE CREATION OF THE JOINT VENTURE

According to the managers interviewed, the main obstacles in the creation of a joint venture with a Chinese company are all connected to culture.
It is indeed easy to imagine that working with new partners in the other side of the world carries many hardships.

A. DISTANCE

Firstly, distance plays a major role when it comes to starting a business cooperation. When Metelli started and concluded the negotiation process with the Chinese company Huzhou Taixin, the world's global scene was dominated by war and pandemics. China was the last country to eliminate lockdowns and social distance measures, as a result, all the meetings and negotiations were conducted via video calls and video conferences.
Moreover, distance makes it hard to maintain a constant control over the operations in the new business unit, thus it requires trust in the partner.

B. LANGUAGE

The second major obstacle is language. It is widely known that in China the knowledge of English is not as widespread as in European countries.
According to research conducted by EF - Education First in 2023[22], China ranks at the 82nd position over 113 countries in terms of English proficiency. A cause of this bad ranking for China is the decline in the number of students enrolling USA universities in 2023 (-30% than 2020).
Among all the employees of Huzhou Metelli Taixin only three people speak Chinese fluently, and more in detail the Chinese business partner, one of the sales managers and one employee in the purchase department.

According to the Italian managers interviewed, one of the hardest difficulties encountered was in the recruitment of English-speaking employees.
The level of proficiency in English is higher in the top-tier cities, and significantly low in the minor cities, and since the company is not located in a big city, the recruitment was comprehensibly difficult.
On the other hand, no people in Metelli SpA speak Chinese, and this fact makes even more difficult the communication between the Italian and the Chinese colleagues.

C. INTEGRATION

The third major obstacle concerns the integration of people from different cultures.
To scientifically and sociologically analyse the cultural difference between Italy and China, it is useful to look at the cultural dimension model developed by the anthropologist and sociologist Hofstede in 1980.
Hofstede's model allows one to observe a country's culture according to six parameters: power distance, individualism, motivation towards achievement and

[22] EF EPI, EF English Proficiency Index, 2023 (www.ef.com/epi)

success, uncertainty aversion, long-term orientation and indulgence. Each parameter is rated on a scale of scores from 1 to 100.

Power distance is defined as the extent to which less powerful members of institutions and organisations accept that power is distributed unequally.

Individualism indicates the degree of interdependence that members of society maintain among themselves.

The parameter "Motivation towards achievement and success" is the new term for the original parameter "masculinity vs femininity". In a society where masculinity prevails, members are oriented towards the realisation of concrete goals and the achievement of personal success. Conversely, in a society in which femininity prevails, members cooperate with each other and pursue ideals such as modesty, empathy and helping others.

Uncertainty avoidance refers to the extent to which a culture feels threatened by situations of uncertainty and the readiness to resolve such situations.

Long-term orientation is defined as the extent to which a society is persevering and prefers to postpone immediate results for the benefit of the future.

Indulgence is the extent to which members of a society tend to control their impulses and desires[23].

China and Italy are two countries that are remarkably far apart culturally. With the exception of the parameters of masculinity and indulgence, in fact, all the rest show a marked difference in values (see figure below).

[23] https://hi.hofstede-insights.com/national-culture

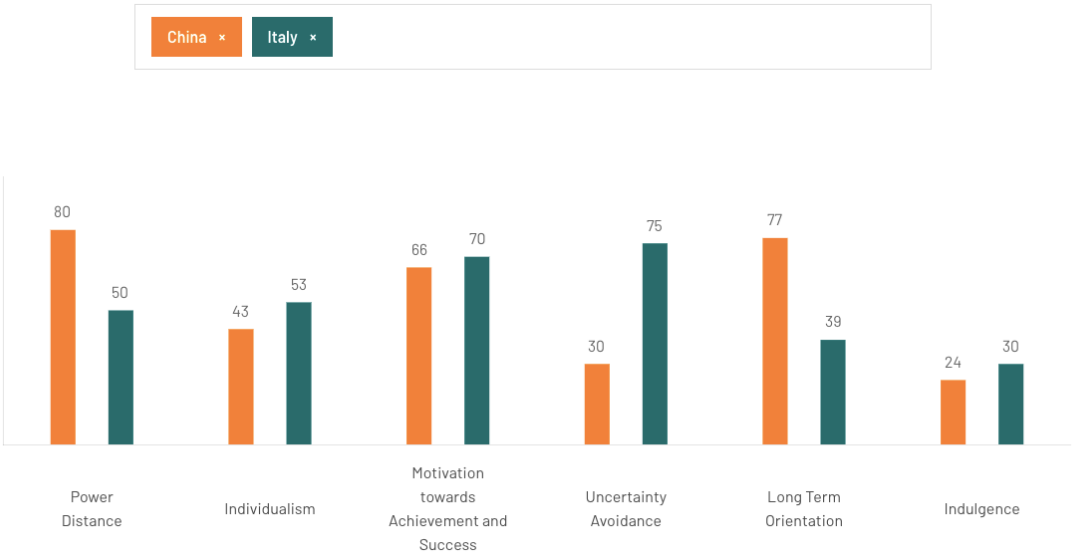


Figure 20. Hofstede's Cultural Dimensions: China vs Italy

All these differences should be smoothened in order to work in a more equal environment and to enhance the cooperation among individuals.

Concerning the relationship among colleagues, the managers interviewed agree on the fact that a higher degree of integration is required.
It is difficult for them to feel part of the same company and to understand that they work for the same objectives, and there is still a big distinction between "us" and "them". Even in this case, language plays a major role in making this distinction more evident.

The new division of roles also exacerbates the relationship between Italian and Chinese colleagues. With the dislocation of some purchasing operations to China, in fact, the Chinese purchasing employees are carrying out business operations that, until one year ago, were carried out by their Italian colleagues. The difficulty here is for the Italian purchasing employees to accept that some of their job have been moved to China: this requires trust in their colleagues and the willingness to train them and cooperate. The company has found a way to try and overcome this obstacle by training a Chinese purchasing employee in Italy, giving her the

opportunity to learn how things are done, to meet her colleagues and to get to know the company directly.

The experience of Metelli SpA and Huzhou Metelli-Taixin is a good example of the creation of a joint venture in the automotive spare parts industry in China.
This case study shows the key reasons for the Italian company to dislocate in China through a JV agreement, but it also shows the obstacles that it encountered during the process.
Even if the company has been established only one year ago, it has all has all the prerequisites to achieve its goals and to undertake new ones, through cooperation and integration among the two realities.

CONCLUSION

In conclusion, this thesis provides an overview of the situation of the automotive aftermarket sector in Italy and China, analysing its volumes and developments over time. The research has shown that the Chinese automotive sector has expanded rapidly in the last decades and will continue to do so until China becomes the world's leading power. In view of the expected expansion of the automotive industry in China, companies are increasingly showing interest in internationalizing in China, and one of the preferred ways to do so is through the establishment of joint venture agreements with Chinese companies. The partnership with a local company is beneficial from both sides: the Chinese company will acquire technical knowledge and expertise, and the foreign partner will be supported in the entrance in the target country by a partner who is already present in the market. According to Chinese legislation, the companies can decide whether to settle an Equity Joint Venture (EJV) or a Cooperative Joint Venture (CJV), according to the extent of which they want to share risks.

The review of literature, with an historical excursus on the joint venture, shows how this type has contributed to the rapid development of China's automotive industry. In addition, the main reasons why foreign companies decide to establish joint ventures with Chinese partners and what the benefits are for both parties are analyzed. In contrast to the advantages, the major obstacles to the formation of this type of company, especially from a linguistic and cultural perspective, are also listed and explored.

The literature review uncovered several insights for further study, which are applied in this thesis to a real case of an Italian automotive parts manufacturer, Metelli SpA, which established its first joint venture with a Chinese water pump

manufacturer, Huzhou Taixin, in July 2022. The joint venture was called Huzhou Metelli-Taixin. The case study begins with a general presentation of Metelli SpA and the main reasons why it decided to undertake this project.
The research was carried out by analysing the business plan prepared by a well-known consulting firm and by interviewing some of the top managers of Metelli SpA, who personally followed all the phases of the project.
The analysis and interviews provided much more specific information on the main reasons for and obstacles to the creation of the joint venture. In particular, the reasons for choosing the joint venture legal form, the reasons for choosing China as the target country and the process of selecting the Chinese partner are explained.

The aim of this paper is therefore to provide a general overview of both the automotive spare parts sector and the joint venture form of company in China.
In view of the continuous expansion of the automotive sector in China, this country appears to be increasingly interesting for foreign companies that wish to opt for an internationalisation strategy that allows them to receive real support from a partner already fully integrated into the socio-economic context of reference.

The Huzhou Metelli-Taixin joint venture case study is a successful example of how an Italian company established its first joint venture with a Chinese partner. The research demonstrates what steps the company took to complete this project and how it decided to address the obstacles that arose during its implementation. The company can therefore be an example for other Italian companies that wish to decide to internationalize their business in China through the corporate form of the joint venture, analyzing the benefits, foreseeing the potential risks and finding a strategy to address socio-cultural barriers and linguistic issues that will inevitably arise during the implementation of this project.

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