

Analysis on the location choice of transnational operation of Chinese Enterprises——Taking Geely as an example

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Abstract: With the increasing trend of economic globalization, Chinese enterprises are participating in the competition in the international market with unprecedented breadth and depth. In order to occupy the global market share, Chinese enterprises conduct transnational operations overseas and explore the international market. However, compared with foreign large multinational enterprises, Chinese enterprises have a late start and less experience in transnational operation, so they still have a long way to go. At present, location choice is vital for multinational enterprises, which is the primary problem facing transnational operation. Therefore, how to correctly select the location of transnational operation is an urgent issue for enterprises to expand overseas. This paper mainly analyzes the successful experience of Geely Group and provides suggestions for the location selection of multinational operation of Chinese enterprises.

1. Introduction

The automobile industry is one of the earliest industries to enter the global operation. The world automobile industry started in the 1880s. Subsequently, the automobile industry developed rapidly. Many automobile companies such as Mercedes Benz and Ford were established one after another. Automobile production entered the standardized assembly line production, and the production efficiency was greatly improved. After World War II, European countries vigorously developed the automobile industry, and the output increased from 800000 to 8 million, an increase of nearly 10 times. During this period, Japan also rose rapidly. By the 1980s, its output surpassed that of the United States and ranked first in the world.

Compared with the old automobile enterprises in Germany and Japan, China's automobile development is relatively late. Following the pace of reform and opening up, China began to attach importance to learning and introducing advanced technology. A number of foreign-funded enterprises entered the Chinese market one after another, and a series of sino-foreign joint ventures were formed successively. At the same time, a number of excellent private independent autonomous automobile enterprises have gradually been established, such as Geely, Great Wall, Chery, Chang 'an and so on. In 1979, China produced only 180,000 cars, but by 2018, it had produced and sold 27.809,200 and 280,806,600 cars respectively, ranking first in the world for ten consecutive years.

China's automobile industry has risen rapidly in the past 40 years and has been accelerating the pace of "going global". For example, Geely, the largest independent automobile brand in China, has taken a certain share in the international market with only 20 years of development. It is one of the successful representatives of domestic enterprises in the location selection of transnational operation. Therefore, this paper takes Geely as a case to provide reference and help for more multinational enterprises in China in the selection of location.

2. Geely's transnational business location distribution

2.1 Exit location distribution

"Made in China" has been widely spread around the world in various fields, and the automobile industry is no exception. Geely now sells cars in nearly 60 countries and regions around the world and has established more than 400 sales and service networks overseas.

In terms of export regions, Geely's main export markets are concentrated in Southeast Asia, Eastern Europe, the Middle East and South Africa. In Southeast Asia, Malaysia has become Geely's largest overseas market in terms of revenue and its growth rate, with a revenue of 2.723 billion yuan in 2019, a year-on-year increase of 9.72. Geely's Proton Automotive was the only Malaysian car company to record sales growth in 2020. In Eastern Europe, the revenue in 2019 was 618 million yuan, a year-on-year increase of 1.58. Among them, the country with the largest export of Geely is Belarus. A few years ago, Russia was the country with the largest export of Geely. However, in recent years, due to Russia's relevant policies of imposing trade barriers on Chinese cars, Geely had to withdraw from the Russian market. The automobile manufacturing industry in the Middle East and South Africa is relatively backward and needs to import a large number of cars every year. Geely seized the development opportunities of these two regions, developed models that meet the favorite of local consumers and obtained a large profit space.

On the whole, the main exporting countries of Geely are developing countries. Because the economy of developing countries is backward, the automobile industry is relatively weak. Compared with developed countries, they are more likely to accept medium and low-grade cars with relatively low price, convenience and durability. Moreover, developing countries account for more than half of the world's population and have great market demand. Therefore, it has great development potential for Geely's exports. In addition, Lingke, a new era high-end brand jointly built by Geely and Volvo, has officially entered Europe. Lingke will compete with world-class brands in the European market and take a key step in the development of brand globalization.

2.2 R&D location distribution

In terms of global R&D investment layout, Geely has established its own R&D center and design center. In 2013, Geely set up a European R&D center in Gothenburg, Sweden to integrate its Volvo resources and build the modular architecture and related components of a new generation of intermediate cars to meet the future market demand. In 2015, Geely expanded in the UK with the acquisition of Manganese Bronze. Then, Geely set up a UK R&D center to take advantage of The UK's technical foundation and talent advantage in the field of new energy vehicles and continuously develop and launch new models that lead the technological trend and meet market demand. On May 10, 2017, Geely's new R&D center was officially opened in Hangzhou Bay New Area, Ningbo. The center has advanced research and development technology center, vehicle test center, powertrain test center, vehicle trial production center and life supporting facilities. It integrates design and development, trial and production, quality control, supplier collaborative development in one.

In addition to the R&D center, Geely has also opened four design centers for product modeling, which are respectively built in Los Angeles, Barcelona, Gothenburg and Shanghai. These four places basically represent the direction of the world-class automobile industry, and are engaged in the design of Geely product modeling and function as well as preliminary market research. In the future, Geely will rely on the four design centers to bring more personalized new products to consumers.

Table.1. Geely's overseas R&D centers and design centers

R&D centers	Geely Ningbo Hangzhou Bay R&D Center
	Geely Gothenburg R&D Center in Sweden
	Geely Coventry R&D Center in UK
	Geely Hangzhou R&D Center
design centers	Geely Shanghai Styling and Design Center
	Geely Gothenburg Design Center in Sweden
	Geely Barcelona Design Center in Spain
	Geely Los Angeles Design Center in USA

2.3 Manufacturing location distribution

Investing in overseas factories and carrying out localized production is an important point that distinguishes Geely from other brands in internationalization. Geely's decision to locate its overseas factories was made after careful consideration. For example, in order to enter the Latin American market, Geely set up an auto parts assembly factory in Uruguay. Compared with other Latin American countries, Uruguay has political stability, a relaxed foreign exchange management system, and simple labor and tax relations. As a result, the cost of setting up a plant in Uruguay is much lower than in other Latin American countries.

In addition, Geely also has factories in Belarus, The United Kingdom, Egypt, Indonesia, Sri Lanka and Ethiopia. The target markets correspond to the White and Eastern European market, Western European market, African market, Southeast Asian market, South Asian market and East African market. In this way, Geely has set up production and assembly factories worldwide. Although Ethiopia is the least developed country in the world, it has been one of the fastest growing countries in Africa for more than a decade. It is the second country in Africa with a population of over 100 million and a huge consumer market. In addition, Ethiopia is also one of the partners of China's "Belt and Road" initiative. Geely insists on building factories in this country, which shows its long-term vision for layout.

Table.2. Geely's overseas manufacturing plants

Manufacturing factories	Geely Belarus Factory
	Geely UK Factory
	Geely Egypt Factory
	Geely Indonesia Factory
	Geely Uruguay Factory
	Geely Sri Lanka Factory
	Geely Ethiopia Factory

2.4 M&A location distribution

Geely has carried out cross-border mergers and acquisitions abroad to achieve overseas expansion. In 2010, Geely completed the 100% acquisition of Volvo with 1.8 billion dollars, which is of great significance. On the one hand, Geely obtained more than 10,000 patented technologies and more than 4,000 R&D talents from Volvo, and sent hundreds of technical personnel to Volvo factory in Sweden to learn technologies and improve its technical reserve. On the other hand, the acquisition of Volvo, such a world-renowned high-end automobile brand, can quickly help Geely to enter the high-end market, and at the same time quickly improve its brand image and competitive position. In 2017, Geely acquired proton and Lutus, two major car brands. Proton has a strong market share in Malaysia, and Geely could use proton's influence to make inroads there as well as in Southeast Asia. Lutus is a British national sports car brand with profound attainments in automotive engineering and body lightweight technology, which is conducive to enriching geely's high-end product line. In 2018, Geely acquired 9.69% voting shares of Daimler AG for \$9 billion, becoming its largest shareholder. Li Shufu, chairman of Geely, believes that Daimler is a leader in the fields of electrification, intelligence,

unmanned driving and shared mobility. From the perspective of strategic synergy, Daimler has synergistic effects with Geely and Volvo, which is the first reason for Geely to invest in Daimler.

Geely has made big moves in international capital markets in recent years. From the acquisition of Volvo, Proton, Daimler and other mergers and acquisitions, Geely based on its own development plan and aimed at the core technology of automobile development, obtaining a continuous "leapfrog" in cross-border mergers and acquisitions.

3. Enlightenment for Chinese enterprises to select transnational operation location

The successful location selection of transnational operation has laid a foundation for the success of Geely's transnational operation. In less than 20 years of transnational operation, Geely has successfully become an international first-tier auto brand. This successful case gives some enlightenment to other multinational enterprises in China.

3.1 Identify positioning and development needs

At present, most Chinese enterprises are still in the embryonic stage of transnational operation. If they do not have a clear understanding of their competitive advantages and development direction, it is easy to lead to mistakes in decision-making and eventually bring huge losses.

In terms of location selection for export, Geely gives full play to its product advantages -- convenient and durable mid - and low-grade cars, and exports its products to developing countries with weak automobile industry and large demand for automobile import. After clarifying its own export regions, Geely conducted local market surveys to determine suitable factory sites for different export markets.

Geely, which was at the low end of the value chain in the early stage, understood that it must improve its technology in order to occupy a place in the competitive automobile market. Therefore, Geely selected regions complementary to its own technology in the world and made up for its deficiencies in technology and design by setting up R&D centers and design centers. Geely's series of location decisions are based on its competitive advantages and position in the global value chain, so as to obtain the maximum benefits at the lowest cost in transnational operations. Therefore, multinational enterprises must make clear their own competitive advantages and positioning on the value chain to choose location, pay attention to the combination of location advantages and enterprise advantages, rather than blindly make decisions.

3.2 Select M&A location according to M&A motivation

At present, there are different motivations for Chinese listed companies' cross-border M&A, such as market acquisition, technology acquisition and resource acquisition. Market acquisition enterprises can consider Indonesia, Malaysia and other countries. Technology acquisition enterprises can consider developed countries such as the United States, Japan and so on. Resource acquisition M&A can be carried out in West Asia, South America and Africa. For example, in 2010, Geely's acquisition of Volvo aims to evade trade barriers in European and American countries, acquire Volvo's sales network in European and American markets, learn technology and management mode, and make use of Volvo's brand effect. In 2017, Geely acquired Proton and Lotus, two major car brands. Geely can take advantage of Proton's influence to enter the Malaysia and Southeast Asian markets and Lotus's lightweight body technology to enrich its high-end product line. In 2018, Geely became Daimler's largest shareholder and acquired Daimler's electric vehicle battery technology to fill its own technological gap.

3.3 Pay attention to the political factors of the host country

As can be seen from Geely's road of transnational operation, Geely acquired experience through constant trial. In 2005, Geely signed a contract with Malaysia's IGC Group in order to enter the Southeast Asian market. However, the Malaysian government immediately issued a ban on the sale of new car brands in Malaysia, which led to Geely's development plans in Southeast Asia being

temporarily put on hold. Russia used to be Geely's main export market, but Geely had to withdraw from the Russian market due to Russia's policy of imposing trade barriers on Chinese cars. Russia is no longer Geely's main export market.

In the rapidly changing international market, the policy of the host country government is the key to the success of transnational operation. Only by correctly selecting countries with stable political situation and friendly policies towards China can enterprises go further and further in the international market. When conducting transnational operations, the enterprise should do market research in advance and pay attention to the analysis of local investment risks, especially political risks. In addition, the enterprise should communicate and coordinate with local governments, sign cooperation agreements and develop business strategies in all aspects.

4. Conclusions

Although Geely's successful experience can not be completely replicated, it can provide reference for more enterprises. In terms of location selection for future transnational operation, Chinese enterprises should make clear their positioning and development goals, clarify their motivations for M&A, attach importance to the political factors of host countries, and select targeted locations based on their own transnational operation strategies.

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