Research on WEICHAI’s Trade and Investment Strategy along the Belt and Road

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Abstract. Since been proposed, the Belt and Road has attracted much attention at home and abroad, bringing new opportunities and challenges for domestic enterprises and causing domestic enterprises to go abroad one after another. WEICHAI Group is a leader in China's automobile and equipment manufacturing industry. In recent years, it has responded positively to the call of the national initiative the Belt and Road, carrying out the corresponding trade and investment activities in the countries along the route. Based on J.H. Dunning's theory of the Eclectic Paradigm of International Production, this paper analyses the OIL advantage of WEICHAI Group in the countries along the Belt and Road, sums up the trade and investment strategy of WEICHAI Group in the area, and analyzes the opportunities, risks and challenges in the state investment activities, then puts forward the corresponding suggestions.

1. WEICHAI Group’s strategic layout in the countries along the Belt and Road

As Chinese most powerful automobile and equipment manufacturing group, WEICHAI group is the only company who has five business platforms including powertrain, vehicles & engines, key components, luxury yacht and after-market business. Under the guidance of the Belt and Road, WEICHAI Group constantly adjust the development strategy to enter overseas markets, beginning by establishing local production plants, outputting technology, etc. The following figure shows the model how WEICHAI Group enters the countries along the Belt and Road:

Figure 1. The pattern of entering the countries along the Belt and Road.
2. The analysis of WEICHAI Group’s advantages based on the Eclectic Paradigm of International Production which is developed by J·H· Dunning

2.1 The technical ownership advantage analysis of WEICHAI Group in the countries' investment activities along the Belt and Road

WEICHAI Group, as the leader of the domestic engine market, constructed the industry's only state key laboratory of internal combustion engine. Up to now, the enterprise has undertaken and participated in 863 projects from 22 different countries, gained more than 3000 technical licensing patents and presided over 65 items of participation in the formulation of industry and national standards.

2.2 Whole industry chain layout ownership advantage of WEICHAI Group

WEICHAI Group always persists in diversified development path and through some ways like mergers & acquisitions to continue to extend the industrial chain. Its main listed companies which called WEICHAI power is a leading enterprise in the field of heavy engine and its subsidiary Fast is the largest heavy-duty gearbox manufacturer in China. Otherwise, the holding subsidiary Hande is a leading domestic axle manufacturer. Thus WEICHAI has formed the power assembly industry chain of WEICHAI engine plus Fast transmission plus Hande axle. At the same time it successfully constructed the complete and competitive gold industrial chain in heavy truck industry.

2.3 Innovative ownership advantage of WEICHAI Group

WEICHAI always maintains high input in research and development. Therefore, it accumulated R&D investment of more than 15 billion yuan. In addition, WEICHAI Group has built R&D centers in the United States, France, Germany and Italy. It also joint MIT, Tsinghua University, AVL, BOSCH and other educational and technical institutions to set up a strategic alliance of technological innovation, forming of global collaboration R&D innovation pattern and continueing to lead the industry technological innovation.

3. The internalization advantage analysis of WEICHAI Group in the countries’ investment activities along the Belt and Road

For Ethiopia and Myanmar, their economic development is still at a lower level. They are dominated by agriculture and the industrial infrastructure is shaky. Additionally, the development of the market economy, the infrastructure and transport facilities are not perfect, and there is a greater political risk. Otherwise, the two nations participate in the activities of international trade and international investment activity not positively. If WEICHAI Group takes the direct form of FDI, it will need large fixed assets and infrastructure investment which will take high cost and cause big investment risk while it cannot meet the requirement of internalization.

Secondly, for a certain industrial foundation of emerging economies like Russia, Belarus, India, whose industrial development is relatively perfect. The types of their industries are complete and there are corresponding industrial parks, relatively perfect domestic transport facilities and public infrastructure.

4. The investment strategy analysis of WEICHAI Group along the country in the Belt and Road

According to the above analysis of the country's OIL advantage for WEICHAI Group in the countries along the Belt and Road, we can summarize its investment strategies are as follows:
Table 1. The trade and investment strategy of WEICHAI Group in the Belt and Road.

<table>
<thead>
<tr>
<th>Country</th>
<th>Ownership advantages</th>
<th>The internalization advantage</th>
<th>Location advantage</th>
<th>Way</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myanmar</td>
<td>✓</td>
<td>×</td>
<td>×</td>
<td>Technical output</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>✓</td>
<td>×</td>
<td>×</td>
<td>Production license</td>
</tr>
<tr>
<td>Russia</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>The joint venture company</td>
</tr>
<tr>
<td>Belarus</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>The joint venture company</td>
</tr>
<tr>
<td>India</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>Greenfield investment</td>
</tr>
<tr>
<td>Others</td>
<td>✓</td>
<td>✓</td>
<td>×</td>
<td>Export trade</td>
</tr>
</tbody>
</table>

Obviously, the investment strategy of WEICHAI Group in country along the Belt and Road is: (1) in the countries whose industrial foundation and economic development level is relatively good, it adopt the method of direct investment; (2) in the countries with low economic development level, which the industry foundation is weak and have high political risk, it takes the technology output; (3) in other areas where investment is not radiated, it takes export trade.

5. Investment risks and challenges WEICHAI Group faces in the countries along the Belt and Road

5.1 Contradictions between corporate governance structures in different countries

There are still many obstacles for Chinese enterprises going abroad, and the contradiction between corporate governance structures in different countries is still prominent. As a sign of the merger transaction, WEICHAI Kion group's total investment reached 8.6 billion yuan, which is the largest direct investment by Chinese companies in Germany so far. The corporate governance structure of the Kion Group AG is much different from WEICHAI’s. Germany has a board of supervisors and executive management structure and the two division of labor is clear and does not coincide. While Chinese executive directors also hold positions on boards and management. There is not the only and the best model in corporate governance, but in order to integrate with the countries along the Belt and Road, WEICHAI Group still needs to continue to seek and try. At the same time, it is wise for WEICHAI Group to adjust according to the strategic objectives, so that it can have better financial control and maximize the benefits.

5.2 Cultural integration risk

On July 3, 2012, WEICHAI Group acquired a 75 per cent stake in the world's largest luxury yacht maker Italian Ferretti. WEICHAI Group has formulated the international and industrial development strategic plan, which means that through the acquisition of Ferretti into the yacht industry, forming a linkage effect with the marine engine industry. Because of the different values of the cultural system, the acquisition to the WEICHAI Group has brought a lot of cultural integration risk. After long-term cultural integration, although WEICHAI Group and Ferretti had a difficult time, it costs too much. So how to deal with the cultural integration risk is still a major problem of the cooperation between WEICHAI Group and the countries along the Belt and Road.
6. The path exploration of investment activities about WEICHAI Group in the countries along the Belt and Road

6.1 Expand to the high-end value chain

China put forward the Belt and Road under the new normal situation of economic growth, echoing our positive position and role in the global value chain, but Chinese overall level is not at the high end of the global value chain. For WEICHAI Group, the expansion to the high-end value chain is urgent. Ward's AutoWorld's professional editorial team annually selects the Top 10 Engine of the Year, which covers comparable data such as engine noise, vibration and comfort (NVH), fuel efficiency, and technological innovation and so on. Finalists must be equipped with the top ten models in the production model and the model prices are slowly raised to no more than $61,000, these models must also be available in the North American market. The world's top 10 Ward in 2016, a total of six gasoline engine selected, included a diesel engine and three hybrid systems. Europe and the United States occupied half of the brand, while the Asian brand is slightly weak. The diesel engine is a 3.0-liter turbocharged V6 cylinder diesel engine from Fiat Chrysler. As it can be seen, WEICHAI Group’s engine is far from the world front engine.

With the acceleration of global economic integration, in order to achieve its strategic objectives, WEICHAI Group must strive to develop to the high-end value chain and stand in the world's forefront.

6.2 Open up overseas emerging markets

WEICHAI’s equipment manufacturing engines have made a huge progress, but its domestic market share has been in a low market position.

The car sales of WEICHAI Motor are far less than the automotive industry's leading car brands. The monthly sales of leading domestic car brands are more than ten million, while WEICHAI’s car sales are only one or two thousand. Also, in the first month of 2017, the car sales of WEICHAI Motor fell below two thousand while it kept more than 2 thousand sales in a few years ago. WEICHAI Motor is temporarily unable to compete with the leading domestic car brand and the reasons are that its technology can’t compete with other brands it did not form their own brand. In order to seek development, WEICHAI Motor must open up overseas markets. Moreover, the WEICHAI Group’s Yingzhi car positions in the low-end, which is inconsistent with Chinese markets demand. And the infrastructure of the countries along the Belt and Road is not perfect, although in recent years there have been many emerging economies, but the overall economic development is still relatively slow. Therefore, WEICHAI automobile market can be positioned overseas, then do the overseas market research and identify the target market in order to realize their strategic expansion in WEICHAI Motor.

6.3 Ration with transportation enterprises

In February 2017, the Ministry of transport, Ministry of finance, the National Railway Bureau, civil aviation bureau, the State Post Bureau and Chinese Railway Corporation jointly issued the guiding opinions on encouraging support transport enterprise innovation development. This clause imposed a strong impetus to the development of transport enterprises from the synergy model, organization, new technology applications, fiscal and financial policies, regulatory systems and other dimensions. By 2020, complete nurturing a number of innovative international transport enterprises, and continue to enhance the service of the three strategies implementation and economic and social development. China encourages the development of innovation and development of the transport industry, which is in line with the global layout and strategy of WEICHAI Group, which is a great opportunity for the development of WEICHAI Group. The strategic alliances among supply chain or upstream and downstream are all effective ways to organize innovation. Towards the Made in China 2025 goal, the future will be that more and more transport companies tend to go out. WEICHAI Group can cooperate with the transport industry to provide transportation to form a strategic alliance, so that the WEICHAI Group’s car and other equipment can better access to overseas markets.
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References