

The impact of equity ratio opening policy on the operating performance of the Joint venture automobile enterprise

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Abstract. The equity ratio opening policy as a strong medicine is an important opportunity for China's car companies to break through the existing obstacles and bottlenecks, and to achieve rise and overtake. The expansion of the shares of foreign-funded enterprises in mergers and acquisitions provides sufficient funds for joint ventures, but also brings advanced technology and provides a broader development platform, which is an effective measure for enterprises to gain competitiveness in the short term. With the opening of China's market environment, more and more foreign-funded enterprises will choose to invest in Chinese enterprises through capital increase and share expansion, and study the performance impact of the joint venture automobile industry caused by the opening of the shareholding ratio will have a positive impact on Chinese enterprises to cope with changes in equity ratio policies and the sustainable development of independent brands.

Keywords: equity ratio opening; automotive industry; joint ventures; performance impact.

1. Introduction

At the beginning of the founding of New China, China was still blank in the field of automobile industry, and China's automobile industry officially started with the help of the Soviet Union before 1953. However, before the reform and opening up, China's automobile industry was forced by the market blockade of Western countries and its own technical restrictions, resulting in its overall slow development and always lagging behind foreign markets. After the implementation of the reform and opening up policy in 1978, many domestic automobile manufacturing companies chose to cooperate with foreign excellent car companies, and in 1984, BAIC Group and DaimlerChrysler established China's first Sino-foreign joint venture automobile company, becoming the first crab-eating enterprise. On July 3, 1994, in order to better protect the infant self-owned brand automobiles from being crushed by foreign-funded enterprises and achieve the purpose of exchanging market for technology, the National Development and Reform Commission submitted for approval the State Council issued the "Automobile Industry Industrial Policy (1994)", of which Article 32 clearly pointed out that the share of foreign investment in the automobile enterprise industry shall not exceed 50%, as the first automobile industry policy since the founding of New China, which has a far-reaching impact on the future development of China's automobile industry. In the following 20 years, the automobile industry policy has undergone several revisions, but the 50% shareholding limit has never changed. In 2001, China joined the WTO, the automobile industry ushered in rapid development, in 2009, China's annual automobile production reached 1379.1 million units, surpassing the United States to become the world's largest automobile manufacturing country and the largest automobile market.

In recent years, the independent research and development and production capacity of China's automobile industry have gradually increased, and the foundation for the liberalization of the shareholding ratio has gradually emerged, and it is imperative to implement and promote the policy of opening up the shareholding ratio step by step. On April 7, 2018, the National Development and Reform Commission (NDRC) made it clear that it would implement changes to the shareholding policy of China's automotive industry in phases, and gradually liberalize the shareholding ratio of joint ventures by type. On December 27, 2021, the National Development and Reform Commission (NDRC) and the Ministry of Commerce jointly issued the Special Administrative Measures for Foreign Investment Access (Negative List) (2021 Edition) and the Special Administrative Measures for Foreign Investment Access in Pilot Free Trade Zones (Negative List) (2021 Edition). It has been clarified once again that from January 1, 2022, China will officially cancel the foreign equity ratio

restriction for passenger cars, and the restriction that the same foreign company can establish two or less joint ventures in China to produce similar finished vehicle products. The implementation of the shareholding ratio opening policy means that the development of foreign automobile brands in China can be wholly owned or controlled without the 50:50 restriction, which directly affects the breadth and depth of foreign investment into the Chinese enterprise industry, making foreign brands and domestic brands usher in a truly comprehensive competition.

2. The opening of the shareholding ratio has brought challenges to China's car companies

2.1. Transfer of control

Due to the lifting of the shareholding restriction, foreign-funded car companies can hold more than 50% or even 100% of automobile companies in mainland China. The new controller will adjust the governance mechanism of the enterprise, such as changing the control mode of the controller, replacing the senior management of the enterprise, changing the supervision and incentive mode of the enterprise management, etc., so as to affect the internal agency problem of the enterprise and the corresponding agency cost. While most studies have shown that multinationals with higher control produce better performance because of their unique strengths. However, due to the lack of strong domestic market players, there is a risk of losing market share or encountering attacks, and it will be in a passive state when dealing with such sudden risks.

2.2. The long-term dependence of joint venture automakers on foreign investment

Under the protection of the equity ratio restriction policy, China's automobile industry has developed rapidly, and from a macro level, the equity ratio restriction has indeed played a positive role in promoting China's automobile industry. However, in recent years, China's automotive industry has experienced a stage of rapid growth, the domestic market is close to saturation, the industry as a whole began to slow down, in 2018 China's automobile production of 27.827 million units, down 4.1% year-on-year, then due to the impact of the epidemic for three consecutive years of production decline, in 2021 China's automobile pullback reached 26.528 million units, up 4.8% year-on-year, but still not reached the level of 2018. At present, due to the long-term dependence on equity ratio restrictions, the annual profits of joint ventures and foreign-funded car companies in 2022 will exceed four times the annual profits of China's own brand enterprises. It is the norm for joint venture car companies not to seek technological breakthroughs in their own car companies and use joint ventures as cash machines, resulting in lagging research and development of enterprises.

2.3. Independent brands still lack core technology

Core technology has always been a key factor hindering the development of China's own brand automobile industry, mainly in the engine, structural materials, power battery, cutting-edge talents and other major aspects of automobiles. The application of these major technologies by Chinese self-owned brand automobile enterprises is very narrow, and the dependence on foreign or joint venture brands is strong. Nowadays, there are relatively weak links in the core technological innovation chain of China's self-owned brand vehicles, the most obvious is that in the process of transforming scientific and technological achievements, China's self-owned brand automobile industry still has insufficient application capabilities; The linkage rate between the industry and related universities and scientific research institutions is also much lower than that of countries such as Europe and the United States. In addition, the relaxation of the shareholding ratio restriction may greatly reduce the ownership rate of independent brand cars of joint venture car enterprises, it is obvious that China's independent brand automobile industry has serious shortcomings in key links such as core technologies, and the investment in R&D and innovation of enterprises is far from enough.

3. Analysis of the impact of the market on the performance of the news day

On April 17, 2018, the National Development and Reform Commission (NDRC) clearly stated in an exchange with reporters that China's shareholding restriction policy in the automotive industry will be changed, and the shareholding ratio will be liberalized in stages. By analyzing the closing prices of the five major joint ventures in the April 17, 2018 window, it is found that,

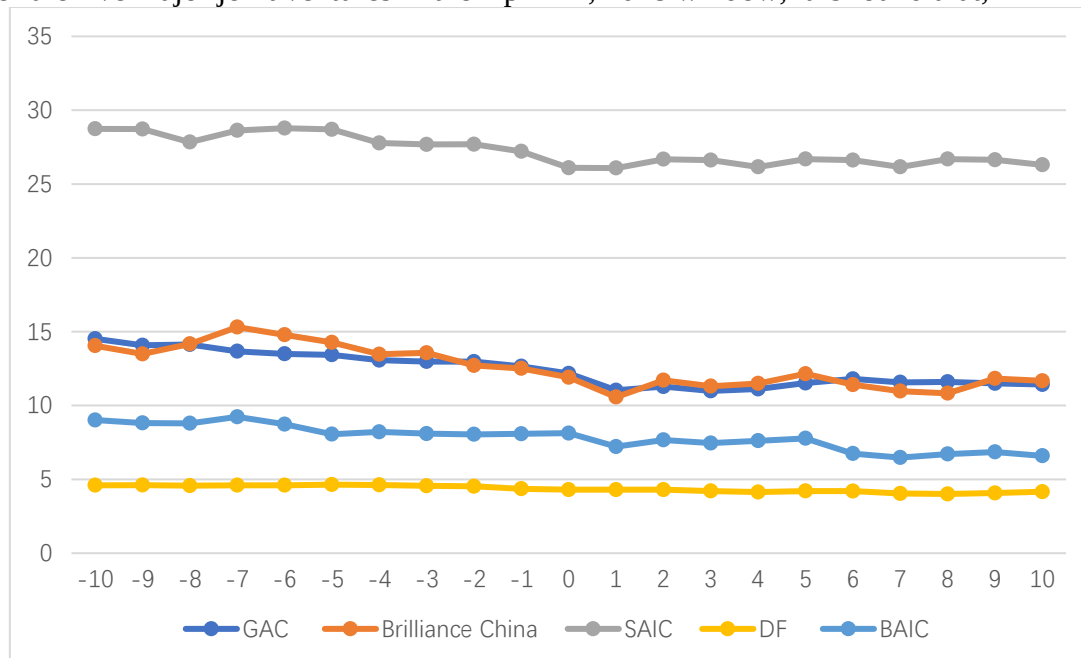


Figure 1 Close prices of the window period of April 17, 2018 (-10,10).

On the day of the announcement, the stock prices of the five joint venture automobile companies except BAIC Motor all fell. In particular, GAC and Brilliance reacted strongly to the removal of the equity ratio restriction during the (0,1) window, and when the share ratio liberalization would hit the growth of their own brands and did more harm than good to China's auto industry, the stock prices of major joint venture automobile companies showed a downward trend of volatility during the (1,10) window, and failed to break through the window price. Judging by the share price during the window period, the NDRC's decision to remove the shareholding restrictions in the automotive industry clearly lowered investors' expectations for the shares of the joint venture auto company.

On October 11, 2018, Brilliance China announced that BMW will change the proportion of investment equity in Brilliance China and will continue to acquire 25% of the equity from BMW Brilliance on the basis of the existing shareholding, a decision that will be implemented by 2022 at the latest, while suspending all transactions. At this point, BMW will be the first foreign-funded company to announce that it has broken the 50% shareholding limit. On March 1, 2021, BMW Brilliance once again announced its suspension of trading, during which the bankruptcy restructuring of Brilliance Group, internal corruption cases and rumored mergers and acquisitions brought the company to a standstill. On February 11, 2022, the BMW Group officially announced that its stake in BMW Brilliance was changed to 75%, and Brilliance China Automotive Holdings Co., Ltd. indirectly held 25% of the shares, which brought the already shaky local car company to an end, which means that for BMW Brilliance, even without the help of the equity liberalization policy, the Chinese side can no longer implement equal rights and responsibilities in this joint venture.

At 9 a.m. on October 5, 2022, Brilliance China (HK01114), which had been suspended on the Hong Kong Stock Exchange for a year and a half, officially resumed trading, but its stock price plummeted 63% on the first day after resumption of trading to close at HK\$2.70 per share; The next day, Brilliance China's share price continued to decline, falling 16.3% on the day to close at HK\$2.26 per share; On October 7, Brilliance China's share price opened high and low, falling 9% at one point, but then rebounded, and as of the close of the day, the stock price was 2.35 Hong Kong dollars per

share, an increase of 3.98%. By the close of trading on October 7, Brilliance China's three-day share price had fallen by nearly 70% to 67.8%, and its market value had shrunk by HK\$24.974 billion (HK\$36.830 billion before the resumption). It can be seen from the stock price after the resumption that the trading market has a sharp reaction to BMW's capital increase, and the domestic market is not optimistic about the prospects of joint venture automobile enterprises that have lost their right to speak, and can even be described as pessimistic.

4. Performance evaluation and improvement strategy for the automotive industry with open equity

4.1. Increase R&D funding and promote technological innovation

The core technology can provide a solid guarantee for the competition of independent brand vehicles, and further increase the capital investment in the research and development and independent innovation of other independent brand automobile industries, thereby promoting the scientific and technological innovation of China's independent brand automobile industry. Talent reserve is the strategic guarantee for the research and development of core technologies of enterprises, and is the most valuable resource for development. Hard power and soft power, in the final analysis, depend on the strength of talents. The attraction of talents by automotive companies not only reflects the great importance attached to human resources, but also reflects the strength of corporate strategic development. At the same time, the government should also give corresponding tax relief and preferential treatment to self-owned brand automobile enterprises, promote independent brand automobile enterprises to increase investment in research and development, promote technological innovation of their own enterprises, and enable enterprises to truly put the researched patents into practice and give them commercial value.

4.2. Enrich diversified marketing models

In the era of big data, the changing market environment requires the automotive industry to better use various forms of sales platforms or marketing software that appear in a large number of network marketing to adjust and optimize some marketing methods in the existing market. Using the vast and complex network resources, combined with various new network technologies, the automotive industry can better understand the potential needs of consumers in the development of the modern market. Enterprises should strengthen the management of new products, in all aspects of management, such as R&D, production, promotion, operation and service, make full use of advanced network technology, to enrich marketing methods³. Today's enterprises should reposition online consumers and set them as partners in network cooperation to help consumers fully understand the quality of enterprise products and better understand enterprise products.

4.3. Plan horizontal mergers and acquisitions to expand market share

At present, independent brand car companies are fighting their own battles, and the arrival of the new energy tide has made more enterprises with no experience in automobile manufacturing involved in the industry. The involvement of enterprises such as Evergrande, Gree and Qiantu will seriously affect the impression of independent brands in the minds of consumers. In recent years, there are very few brands that can truly be recognized by consumers, and capable car companies can adopt horizontal mergers and acquisitions to occupy a larger market share and obtain complementary resources and skills. The author believes that there are only five or six self-owned brand automobile companies left, which is not necessarily a bad thing. After all, there is still fierce competition between five or six companies. Looking at the automobile powerhouses Europe, the United States, Japan and South Korea, it is far from the number of car brands in China, but their quality is very good. Therefore, the leading enterprises in the industry can acquire other enterprises in the industry through horizontal mergers and acquisitions, so as to occupy a larger market share and obtain market dominance. In

addition, complementary resources and skills can be acquired through mergers and acquisitions. For example, all advanced technologies and patents of the acquired party can be obtained through mergers and acquisitions, and these technologies and patents can be applied to the development of their own enterprises, so as to promote their own enterprises to enhance their core competitiveness.

5. Conclusion

The opening of the equity ratio is both a threat and a challenge. It is true that after the announcement of the stock ratio opening policy, the survival pressure of joint venture automobile brands will be greater, but this will also prompt us to compete in the global system, constantly break through ourselves in the competition, and grow in adversity, which is a century challenge for the joint venture automobile industry and even the Chinese automobile industry to the forefront of the world.

In view of the positive or negative impact of equity ratio restrictions on China's automotive industry, as well as the gradual opening up of equity ratio restrictions in various industries, both local governments and major car companies should actively seek changes and take targeted measures to deal with the performance impact caused by the equity ratio policy. As macro-control and policy implementers, local governments should actively safeguard them

In the automotive industry, the role of the automobile association is to maintain the norms, car companies constitute the main body of the automotive industry, and the government, automobile associations, and enterprises cover the necessary escorts for the stable development of China's automotive industry. After the gradual opening of the equity ratio, enterprises should play a certain degree of buffering role in the competition of powerful foreign automobile enterprises, and protect the business performance of enterprises under the impact of the opening of the equity ratio.

For the entire automotive industry after the opening of the equity ratio, it should be clearly understood that only by relying on their own efforts to improve the level of technology research and development can we deal with the technology monopoly of Western countries on China's automotive industry, so as not to fall into the vicious circle of introduction, backwardness, and reintroduction, and it is particularly important to fundamentally broaden technology and adhere to independent research and development. Improving the core technical capabilities of the entire industry will also greatly reduce the problem of intellectual property disputes, and in the process of product improvement or upgrading, it will no longer be constrained by foreign automobile giants, so that the automotive industry will be healthy and sustainable.

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