Seeking the Breakthrough of the Internationalization of Yu-tong Bus Company

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Abstract

Nowadays, China bus industry has stepped into a relative fast development stage. Domestic manufacturers have turned their attention to the international market. Yu-tong Bus Company, as one of the first-class and representative manufacturers in the industry, has made indubitable achievements in the international market, especially in middle and low-end market. However, for the process of internationalization, Yu-tong still needs to confront some barriers and obstacles. Particularly, for high-end market, more gaps exist which lead to the limitation of its competitive forces. In the thesis, we made the SWOT analysis about the export condition of Yu-tong according to the materials and data that we collected, combining with the relevant theories, conducting various analysis and investigations, we considered “Reverse FDI”(Reverse Foreign Direct Investment) as more appropriate and effective way for the internationalization, and revolving around the theory, we mainly concentrated on the extending of high-end market, tabled some proposals about seeking the breakthrough in the internationalization of Yu-tong Bus Company.

Key words: Yu-tong Bus Company, Breakthrough, Export, Internationalization, SWOT analysis, Reverse FDI
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Our thanks also go to Mr. Weitao Xiao, who is the marketing manager of the Asian region of Yu-tong Bus Company, as well as all the accommodating staffs we had talked with. They offered us plenty of useful relevant data and materials, particularly the chance to get further access to Yu-tong.
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1 Introduction

1.1 Background
Generally speaking, China bus industry has had a relative fast development recently years. Since the international market maintained a considerable market demand, bus manufacturers accelerate their steps for internationalization. Most of China made bus represented by Yu-tong has exported to less-developed regions like central Asia, north Asia and Africa. Indeed, such exports, which mainly depend on price advantage, problems like technology gap, export-channel exploring, after-sale services, supply chain etc. still restrict the extending of export for Chinese domestic made buses. Although Yu-tong has achieved some successful developments in USA and Europe markets, either saleroom or sales volume is so far limited. Through interviewing and communicating with the staffs of Yu-tong, by collecting the materials and data, we found that Yu-tong had made some achievements in middle and low-end market depending on its relative advantages. However, these are not obvious advantages in high-end market. Seeking the breakthrough in the international development, particularly in high-end market, raise the questions for us.

1.2 Research Questions and Purpose
In the thesis, we made analysis and discussion mainly revolving around two research questions. The first one is what and how Yu-tong has done in its internationalization, especially in middle and low-end market; the second one is what would be the more appropriate and effective way for extending internationalization, especially in high-end market. And then, our purpose is to table some useful proposals for the international developments of Yu-tong Bus Company.

2 Methodology

2.1 Interview
We made three times of formal interview from June 2009 to July 2009. Staffs in Yu-tong, especially Mr. Weitao Xiao, who is the marketing manager of the Asian region of Yu-tong, offered many supports and assistances. The first time on 15th June
2009 with Mr. Xiao is about the current situation of the bus industry and market, both domestic and international, as well as some brief introduction of Yu-tong Bus Company, and he also gave us some detailed materials of Yu-tong to consult and read. The next on 26th June 2009, we interviewed Mr. Xiao again about the five main market regions of Yu-tong, including the aspects of the sales status, marketing strategies, development planning and so on. Mr. Xiao expressed his view from his experiences and showed us many useful data and facts. Lastly, on 6th July 2009, we were introduced to the foreign trade and export department of Yu-tong, and we were fortunately to get a chance to have a further discussion with several staffs, which are Mr. Zhang, Mr. Liu, and Mr. Sun who charge for the project teams of Europe and North America, about the internationalization of Yu-tong and we got many useful explanations and supervisions from them.

2.2 Theory study
Although we began our interview from June 2009 to July 2009, the collection and integration of the theories was carried out earlier from the middle third of May 2009. The primary theoretical basis of our thesis is “Reverse FDI”. To some extent, it is not a kind of mainstream theory, but it is appropriate and effective theoretical foundation for our research purpose. Initially, we got elicitation from the book Swedish Direct Investment in the U.S. (Lars Agren, 1990). Through the learning of FDI, we attempted to search the relevant knowledge, and finally got the theory of “Reverse FDI” and then made further research to support our analysis.

2.3 Case study
A completed case that we mainly used is the “Cooperative Venture between Yu-tong and MAN”. Besides, we also stated some cases of the internationalization of some other famous manufacturers. We attempted to investigate and analyze the practical situation with literatures and theories, as well as compare Yu-tong with the famous bus manufacturers, eventually table our proposals.

2.4 Limitations
There two main limitations for our thesis. Firstly, we are not capable of interviewing the international famous manufacturers in world bus industry; the materials of these enterprises are mainly from secondary recourses, so that we can not make in-depth
investigation and comparative studies. Secondly, since our main theoretical basis “Reverse FDI” is a relatively new and developing theory, the shortage of relevant reference materials also leads to some limitation.

3 Literature review

3.1 SWOT analysis

3.1.1 Definition
SWOT Analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

3.3.2 Use of SWOT Analysis
A SWOT analysis must first start with defining a desired end-state or objective. A SWOT analysis may be incorporated into the strategic planning model. An example of a strategic planning technique that incorporates an objective-driven SWOT analysis is Strategic Creative Analysis (SCAN). Strategic Planning, including SWOT and SCAN analysis, has been the subject of much research.

(1) Strengths: attributes of the person or company those are helpful to achieving the objective.

(2) Weaknesses: attributes of the person or company those are harmful to achieving the objective.

(3) Opportunities: external conditions those are helpful to achieving the objective.

(4) Threats: external conditions which could do damage to the business's performance.

The SWOT analysis is often used in academia to highlight and identify strengths,
weaknesses, opportunities and threats. It is particularly helpful in identifying areas for development.

3.2 Cooperative ventures
3.2.1 Classification of cooperative ventures
Some scholars have typified cooperative ventures along various dimensions. Generally speaking, cooperative strategies can be defined in terms of the extent of inter-organizational dependence. Contractor and Lorange outline such a classification, which includes, in an increasing inter-organizational dependence, various types of technical and production agreements, patent licensing, franchising, know-how licensing, management agreement, no-equity agreement, and equity joint ventures.

Berg, Duncan, and Friedman (1982) related their deification on value creating activities, categorizing joint ventures as “technological” and “non-technological”, depending on whether the venture involved R&D.

Killing (1983) had a different approach to a classification of traditional equity joint ventures. He focused on the parent companies’ role in influencing the venture’s activities and decision making. Three types of joint ventures emerged: (1) shared, (2) dominant, and (3) independent. In the shared joint venture, both partners play an active, hopefully complementary, role in the venture. In the dominated joint venture, one partner typically plays a more dominant role in the decision-making, whereas the other partner may have a more passive role. In the third type of joint venture, finally, both partners play a passive role and, instead, the joint venture, as such, is more of an independent entity with its own decision making routines.

In the above discussion, we have seen that many forms of cooperative ventures exist. We have discriminated between these forms mainly on the basis of the parent company’s contributions from their value chain, their influence over decision making, and their proximity to the venture strategy. However, for our thesis, the focal point is the feasibility of its implementation.

3.2.2 Occurrence of cooperative ventures
It is widely recognized that different forms of collaborative arrangements have
become an important part of international business. Cooperative ventures occur in many industries and between firms of different sizes, have numerous purposes, and may be vertical or horizontal from a value chain perspective. A multitude of examples of such cooperative strategies can be found in the automobile, semiconductor, computer, information technology, telecommunication, robotics, air transport, and biotechnology industries, among others.

In a study of 839 “collaborative agreements” from their INSEAD database, Hergert and Morris (1988) have found that most such agreements were carried out in “high-tech” industries, particularly in automobile which is 24%.

![Diagram of collaborative agreements distribution](image)

Figure 1: The distribution of “collaborative agreements” from INSEAD database 2009 by Jing Wang & Hongpeng Fu, data from INSEAD database, Hergert and Morris (1988)

3.3 Reverse FDI

3.3.1 The definition of Reverse FDI

The investment that the company in developing country invests to developed countries with advanced level of economic and technology is commonly called as Reverse FDI.

Its investment subject as the company in developing country often is without any
obvious absolute or relative advantage. The company in developing countries compared with developed countries, capital, and technology had no significant advantages and Reverse FDI of multinationals in developing country face greater risk, but why do the multinationals in developing country carry out Reverse FDI? A factor plays a key role: the need for enterprise development strategy. Hwy-ChanMoon and Roeh l (2001) think that Reverse FDI is a strategic investment of multinational corporations in developing countries. Strategic investment is used to weakened competitors and strengthens their own competitive advantage in the hold non-superiority's situation. Lei (2004) also mentions the same view that he built the model of Reverse FDI of developing countries for accessing market-leading position and regards Reverse FDI as a strategy that is developing countries participate in international competitiveness.

3.3.2 Reverse FDI theory in developing countries

Technological accumulation theory is raised by well-known experts Cantwell in the University of British. Cantwell (1990) mainly explains foreign direct investment in developing countries from the point view of the process of technological accumulation that is a conversion process from outside sources to the internal in technology and also is learning process from basic technology to advanced technology, and he understands that the process of foreign direct investment in developing countries is dynamic and includes some stages. He think that the experience in the early stage of FDI, local changes in technology and technological accumulation have a very important role to the later stage of FDI. Mengmeng，Ning (2006) proposed the concept of technology gap, and then they believe that it doesn’t only rely on attracting foreign investment to close the technological gap in developing countries, but it should be a positive development of foreign direct investment, that the technological gap is a mainly factor for foreign direct investment of developing countries. Yali （2006）also pointed out that seeking technology is the primary direction of Reverse FDI in developing countries.

In recent years more and more studies have found that multinational companies at a technical disadvantage in developing countries takes foreign direct investment as a powerful tool and means of searching for technological advantage of in the international arena. Yujuan (2008) thinks that multinationals in developing countries
invest to developed countries through foreign direct investment, can make use of the host country's advance technological resources to obtain reversely technological transfer, and improve the technological level of home-country enterprises and industries. It is suitable choice to use Reverse FDI to learn and transfer technology for multinationals of developing countries in the economic globalization

3.3.3 Dynamic analysis-- seeking the advantages theory
Some economists in China put forward the FDI is a dynamic process from the dynamic point of view, Reverse FDI is only the initial stage of the process according to the dynamic point of view. The purpose of the Reverse FDI is to obtain advantage, seeking advantage, and ultimately converting to the use of advantage FDI. Theory in this area includes:

(1) Two-stage theory
Bin and Tao (1997) first proposed two-stage theory. The theory understands FDI as a dynamic process, the process of FDI is in stages. It mainly helps enterprises to improve the business's comprehensive level and get the profits at an appropriate time. This process is divided into two stages--- the "experience phase "and" get the profits stage.” In the previous phase is for testing, familiarization or learning stage, at this stage, investors need to grasp the business elements through a variety of operating activities, so as to enhance their overall advantage capabilities. At a later stage, it is mainly about the pursuit of profit maximization. The theory suggests that it should mainly engaged in profit-type FDI when the investment enterprise is at a disadvantage compared to the enterprise of the host country at the edge of enterprises. When the host country enterprise is at a disadvantage compared to the investment enterprises, the investment enterprise mainly engaged in experience-based FDI, which is advantage to seek to improve the competitiveness of enterprises in preparation. When the investment enterprises operates in a higher competition environment, which is more close to advanced technical resources, participate in a higher level of competition in the international market more in accordance with international practices in the production and operation activities. So we can see that FDI enterprises have a much higher role comparing with import and export or the effect of international technology transfer in improve competitiveness.
Bin and Tao (1997) also pointed out that the competitiveness of developing countries is at a disadvantage. If it invests to the developed countries with higher technology, FDI projects are small-scale and more scattered, the investment enterprises often are in a state of less profit or loss, the purpose of the enterprises also focus on experience rather than to get the profits. And they put forward the general principle of Government's FDI policy is that if the investment enterprises is more competitive in particular, then the Government should encourage enterprises to invest to less competitiveness advantage country to a certain extent, and use diplomatic means to ensure the interests of enterprises of investment country and the host country; If the investment enterprises is less competitive, then the Government should encourage enterprises carry on FDI carefully, so as to raise the majority of domestic enterprises in international competition force.

Two-stage theory is a point of view that foreign investment is a process from gaining experience to capture the profit, with regard to developing countries invest to developed countries, investment is focused on getting the experience of enterprises, the Government should encourage enterprises to carry out FDI carefully in order to enhance competitiveness.

(2) Learning experience theory
The theory that Yunhai (1998) put forward is similar with Bin and Tao’s views. He also divided FDI into two stages, namely the "learning experience" stage, and “take full advantage of enterprise” stage. The difference is that he clearly put forward China’s Reverse FDI in developed countries are learning experience stage, and he made FDI a more comprehensive analysis on motivation of enterprises. His theory is that in the first phase the purpose of FDI enterprises are familiar with and adapt to international business environment, learning and mastering advanced technology, production methods, management skills and the accumulation of experience in international business, and gradually form and develop their own comprehensive business advantage. Accordingly, this phase may have a variety of investment motives, such as in order to feel change of the local market conditions-- "window-type" investment, in order to track the advanced level-- "track-type" investments. In the second phase of FDI, the purpose is to make full use of their strengths to maximize profits, during this time the fundamental motive for FDI enterprises lies in the pursuit
of economies scale, access to the benefit of economies scale. Specific motivation in the investment performance may be in order to develop new markets, or to seek low-cost production elements, or it may be in order to make more effective use of idle resources in the country. Learning experience theory distinguishes the current stage motivation and specific motives of FDI.

Rui and Mingguo (1998) believe that foreign direct investment in developing countries can be divided into two categories:

The investment that the company in developing country invests to developed countries is called as FDI-I, that is learning-oriented FDI. The investment that the company in developing country invests to developing countries is called as (FDI-II), which is competitive strategy-based FDI. Through the early learning-oriented FDI, developing countries can enhance and accumulate the technology and then the effect of the accumulation of technology increase the ownership advantages on the latter stage. They also pointed out that FDI-I could converse to FDI-II, when the gap between the technology of developed country and the technology that developing countries accessed through the early learning is less than a particular at the same period. That is to say, when developing countries prepare to carry on FDI-II, they must be a certain accumulation of technology. Of course, if developing countries have accumulated higher in the level of technology, they can carry on FDI-II directly.

4 Findings

In this section, we looked through and summed up some facts and data which relate to the conditions of markets and manufactures, including Yu-tong and other bus enterprises as well as the general situation of bus Industry both in China and worldwide. Particularly, we chose the cooperative venture between Yu-tong and MAN as case study.

4.1 Worldwide bus demand and manufacture

Demand for buses is common affected by variety of factors. It follows a cycle that depends on region-specific trends, such as demographics, income levels, relative
spending levels on mass transit systems, per-capita passenger vehicle density, and others. Besides, bus as one of the most fuel-efficient public transportation vehicles is becoming more of a necessity for urban travelers for both the Rising fuel prices and enlarging urbanization. Other forces expected to support bus demand include governments enforce limits on the use of personal vehicles (both cars and motorcycles) to reduce pollution and congestion levels. According to the research from the Freedonia Group, the world demand of buses is forecast to over 350,000 vehicles in 2010.

Western European manufacturers are still the powerhouse of the world bus industry, however, Western Europe, can no longer claim to be the biggest base of bus making, at least in numerical terms. This now gradually centers on China.

China is both the largest market for and producer of buses, as well as the nation most responsible for supporting the forward momentum expected for bus demand. The country has become a regional center for bus manufacture, although Chinese bus manufacturers currently lack the international brand strength of leading producers in western countries. In Britain, for instance, in the sales list of 2008, we can hardly find any Chinese bus manufacturers. Nonetheless, the leading enterprises in China bus industry have pointed toward an increased emphasis on exports.

<table>
<thead>
<tr>
<th>Item</th>
<th>Sales Volume (Units)</th>
<th>Annual Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2005</td>
</tr>
<tr>
<td>World Bus Demand</td>
<td>238000</td>
<td>286000</td>
</tr>
<tr>
<td>North America</td>
<td>54600</td>
<td>53000</td>
</tr>
<tr>
<td>Western Europe</td>
<td>32860</td>
<td>31200</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>115660</td>
<td>157200</td>
</tr>
<tr>
<td>Other Regions</td>
<td>34880</td>
<td>44600</td>
</tr>
</tbody>
</table>

Figure 2: World Bus Demand (units)
2006 by The Freedonia Group, Inc.
<table>
<thead>
<tr>
<th>Brand</th>
<th>Sales Volume (Units)</th>
<th>Market share (%)</th>
<th>Annual Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>Volvo Bus</td>
<td>1,020</td>
<td>1148</td>
<td>25.54</td>
</tr>
<tr>
<td>Alexander Dennis</td>
<td>701</td>
<td>981</td>
<td>17.56</td>
</tr>
<tr>
<td>Optare</td>
<td>466</td>
<td>533</td>
<td>11.67</td>
</tr>
<tr>
<td>Scania</td>
<td>452</td>
<td>521</td>
<td>11.32</td>
</tr>
<tr>
<td>MAN</td>
<td>199</td>
<td>315</td>
<td>4.98</td>
</tr>
<tr>
<td>Iris Bus</td>
<td>415</td>
<td>282</td>
<td>10.39</td>
</tr>
<tr>
<td>Mercedes</td>
<td>143</td>
<td>225</td>
<td>3.58</td>
</tr>
<tr>
<td>Other imports</td>
<td>182</td>
<td>148</td>
<td>4.56</td>
</tr>
</tbody>
</table>

Figure 3: Bus Sales in UK (Units) 2009 by Wang Jing & Fu Hongpeng (Data from http://autonews.gasgoo.com/)

4.2 Conditions of Chinese bus industry and Yu-tong

The scale of bus sector of China’s auto industry was not large and dispersed. The production and distribution volume in the world was only hundreds of thousands of units. The reason why bus enterprises entry the stage of market-orientation lied in that the overall level of China remained lower and China opened the industry early. At that time, many bus manufacturers were transformed from automobile assembly factories. Only Huanghai Auto in Dandong and another company in Yangzhou were bulk vehicle factories.

Zhengzhou Yu-tong Group Co., Ltd. is a large-scale integrated group corporation with businesses covering buses, construction machinery, special vehicles, parts and components, real estate, etc. In 2007, Yu-tong ranked 1st again in domestic bus sales. The propaganda focuses on shifting the impression of “Durable” to “Valuable” and was warmly welcomed by the customers. In 2007, Yu-tong achieved total revenue of RMB 14.84 billion, with an average annual growth rate of 26% in the past 4 years. The overseas revenue of Yu-tong reached RMB 2.18 billion, accounting for 15% of
overall revenue. Until now, Yu-tong products have been sold to 30 countries and regions. Yu-tong has become a leading bus manufacturer with Asia's largest production capacity of large or medium-sized bus and is equipped with the most advanced technology. Within the company list released by the United Nations for 2006-2008 procurement, Yu-tong Bus is the only Chinese vehicle company. Last year, the sales revenues of Yu-tong Group amounted to RMB 10.1398 billion and turned out to be the first bus company with sales revenues of more than RMB 10 billion in China. Yu-tong was founded based on a small Bus Factory and transformed to a stock company. Yu-tong went public at Shanghai Stock Exchange in 1997, becoming the first listed company in China’s bus industry.

In 2008, Mercedes-Benz bus sales of 40,591 for the first in the world, while sales for Yu-tong 27,556, the highest in the second, as the same as Yu-tong, Chinese buses manufacture and business have developed rapidly and owns strong competitiveness. “That’s because China's bus products is very cost-effective to adapt to the domestic market. However, compared with the international giant, the gap is still very great.” a project manager of Yu-tong said. “Cost-effective vehicles in this country must be adapted to the consumption. That is why Chinese bus is more popular in the markets of developing regions and countries.”

![Figure 4: World bus delivery in 2008 (units)](image)

2009 by Wang Jing & Fu Hongpeng, data from China Customs
In 2005, 400 Yu-tong buses were exported to Cuba. The total amount reaches as high as 240,000,000 Yuan, originates the Chinese bus export unique lot quantity to be most, the value highest record. However, this export was not the same as general trades. Yu-tong broke a new path of export by taking the strategy of technology for market. Like the International giants, Yu-tong is through CKD exporting in bulk in order to achieve technology export.

This export ranged over many aspects, such as the technical transfer, the trademark use permission, CKD and the complete vehicles transportation, the after-sale services and so on. That was unprecedented in the history of the China bus industry.

In 2005, Yu-tong successfully passed the United States DOT certification and exported to the U.S. market as the Airport Express bus. In the same year, Yu-tong was awarded the “Certification of Free-inspection Product for Import and Export” as the

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**Figure 5: TOP 5 China bus export in 2008 (units)**
2009 by Wang Jing & Fu Hongpeng, data from China Customs

4.3 Internationalization of Yu-tong

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first enterprise of Chinese auto industry.

In 2007, Yu-tong signed a big export contract of 5348 buses with Cuba once again and the total value reached as high as 370,000,000 US dollars. This is also the amount of the domestic auto industry’s largest export orders for a contract in the past 10 years, and, in China, no one can export that number of buses to overseas markets. Therefore, it was told from mouth to mouth with general approval. Because in domestic market, Yu-tong took the lead through the Russian GOST Certification, Russia became the second largest overseas strategic bridgehead of Yu-tong. In the same year, Yu-tong sold 3319 buses overseas, exported the amount of 1.39 billion yuan, year-on-year growth of 84% and 92% respectively.

Americas, Asia Pacific, Africa, Europe&CIS(Commonwealth of Independent States), Middle East have become the five Strategic regions of Yu-tong. Now, there are also special project teams of Europe and North America take charge of the certification of European Union and the North America as well as market development. In 2008, the sales of Yu-tong in these regions are as follows.

Figure 6: Yu-tong export in 2008 in 5 regions (units)
2009 by Wang Jing & Fu Hongpeng (Data from China Customs)

But the more remarkable result is that In July 2009, the first Yu-tong bus officially
made its entry to Iceland, marking the first time for the Chinese bus brand to enter the European market. The bus model, a forty-four seater, is imported by GT Group, a family enterprise owned by Benedikt G. Gudmundsson in the northern European country. With a total workforce of about 60 employees, GT Group boasts a fleet of 40-50 buses of various sizes and is chiefly involved in the cultural tourism industry.

The bus drivers from the operator expressed their satisfaction over the quality and performance of Yu-tong bus. Compared with Benz, one of the big names in the global bus building industry, Yu-tong bus is said to be of the same quality level but half the price of a same-sized Benz bus. Thanks to this, the company is now considering placing more orders on Yu-tong and helping popularize the Chinese bus brand in the European market.

4.4 Cooperative venture between Yu-tong and MAN

4.4.1 MAN in the world

The MAN Group is one of Europe's leading manufacturers of commercial vehicles, engines and mechanical engineering equipment with annual sales of approximately €14.9 billion and circa 51,000 employees worldwide. MAN supplies trucks, buses, diesel engines as well as turbo machinery and holds leading market positions in all its business areas. MAN SE is one of the top 30 companies listed on the German stock exchange (DAX).

The MAN Group's strategy is to achieve sustainable value enhancement in its core areas. It focuses on high-growth business sectors in the area of Transport-Related Engineering, which it is strongly developing. The Industrial Governance leadership system, with its clearly distributed roles, centralizes the company's strategic management and strengthens the operative responsibility of the business areas. Every area must measure itself against the strongest competitor in its respective market. The MAN Group's guiding principles are the framework for responsible action by all MAN employees.

MAN corporate values are based on the solid, tried and true foundations of our 250 years of history. Today, as in the past, MAN upholds its four core values: reliability, innovation, dynamic strength and openness.
These values are essential success factors for MAN in product markets, the capital market, and the acquisition of qualified employees and for society's acceptance of the company's entrepreneurial activities.

4.4.2 Cooperation

With import of foreign advanced technology becomes gradually mature in the car industry, the process that China's bus companies cooperate with foreign company is also accelerating the pace of introduction. From 1999, Zhengzhou Yu-tong has the first meeting with Germany MAN Company, Yu-tong have negotiated with Germany MAN Company for two years. In 2002, Zhengzhou Yu-tong bus Co., Ltd. and the Germany MAN Commercial Vehicle Co., Ltd had a signing ceremony and announced that both of them established a joint venture—MENGSHI bus Co., Ltd in Zhengzhou. The joint venture located in Zhengzhou Economic and Technological Development Zone. The total investment is 320 million yuan(RMB), China and Germany each accounted for 50% of the shares. MENGSHI bus Co., Ltd mainly engaged in development, production, sales and service of chassis for high-grade large and medium-sized bus.

(1) The reasons for co-operation
The joint venture mainly brings in chassis technology, because there are two major parts in a bus, one of part is the body, others is the chassis. The gap in the part of the body is getting smaller and smaller comparing with advanced international standards, including the structure, shape, pattern. However, this part of the chassis is still a large gap with foreign countries, this part of the chassis is an important core for a bus, the chassis has a decision role on speed, stability, security, reliability, fuel efficiency and environmental protection. Chassis technology is still backward in China, because the amount of buss are less than that of cars, most of Chinese companies that produce chassis didn’t pay more attention on the bus chassis, these companies will focus on the cars. So a lot of Chinese companies do not want to spend a lot of effort to develop the technology of the bus chassis, resulting in relatively backward in technology of the bus classis.

(2) The purpose of co-operation
A production line that could produce annual chassis of 4000 has been completed before 2002 in Yu-tong; the production line is mainly for mid-grade bus. Chassis is still a lack of high-grade production lines in Yu-tong. On the one hand, the joint venture that Yu-tong with MAN have set up together could help Yu-tong to produce high-grade chassis with the international standard, this is a strong complement in high-grade market, at the same time a joint venture also help Yu-tong to have a quick upgrade in technical and management level, it could establish a good foundation for the internationalization strategy of Yu-tong. On the other hand, the joint venture could help MAN to participate in China's bus market actively and directly and speed up the pace into China bus market.

(3) The process of co-operation
The cooperation of MAN and Yu-tong emphasis on research and development, improving the ability of research and development and absorbing advanced technology is the pursuit of Yu-tong. To this end, Yu-tong with MAN company pay much money to set up Research & Development center in Munich and domestic bus industry leading, world-class bus laboratory, at the same time the joint venture constructed the two networks in Research & Development center, the former network is connected with the German MAN, this network included technology from MAN, another network is connected with Yu-tong, this network included the technology of body and the need of technology and development in chassis. Therefore, MAN is the technology; Yu-tong is the market. At the same time, Yu-tong has also sent more than 80 senior technicians to the headquarters of MAN in Germany to study advance technology, including frame welding, body skin, painting, assembly, electrical and so on. In the design of production line, the specialists and technology experts of MAN and Yu-tong together carry out overall planning and plant design in accordance with the requirement of R & D center and design concept of MAN. For example, workshop used popular light steel structure construction in recent years; process line completely comes from the German MAN company's advanced methods, equipment design process achieve the same level of MAN completely; assembly line introduce Germany logistics technology, and then carry out the assembly line layout and equipment design reasonable. At the same time, the introduction of Germany advanced technology equipment and testing equipment ensure that the quality of the product assembly, and all of these fully reflect the Germany features of practical and
efficient production processes.

(4) The results of co-operation
After the joint venture was set up in 2002, the joint venture launched three new "Rhine" series products with international advanced technology and integration requirements of the Chinese market in the World Expo Asia bus exhibition in Shanghai in 2003, "Rhine" series products have become the highlight in the exhibition, the A82 chassis of the joint venture also received the annual Award for the best chassis, synchronous production in Europe, "Rhine Star" won not only the design of the area known as the automotive industry "Oscar" of the Red Dot Award (Red Dot Award) and was rated as the best models in 2004.

5 Analysis

In this section, we firstly made the discussion of “Reverse FDI”, to ensure that we can clearly apply it in our further analysis. And then revolving around our two main research questions, combing with our findings, we made the SWOT analysis about export condition of Yu-tong, to evaluate if Yu-tong is appropriate and necessary for the implementation of “Reverse FDI”. And based on the theory of “Reverse FDI”, we made the further analysis of the internationalization of Yu-tong and tabled some proposals for its international developments.

5.1 Discussion of Reverse FDI
FDI theory originated in the United States since the sixties of the last century, Hymer noted that FDI of multinational corporation from developed countries is characterized monopoly advantage, which is lacking in the host country firms, multinational corporation from developed countries utilize FDI to expand the market, increase profits through cross-border operations. It was golden age of development of multinational corporations of developed countries, and in a long time almost all those engaged in theoretical studies of foreign direct investment are western scholars, and they pay attention to the multinational corporation of developed countries with monopoly advantage. However, nowadays, with the rapid development of developing countries’ economic, the multinational corporations of developing country have
become an important part of transnational operations. A growing number of firms in developing countries have requirement to move towards the internationalization, but because the multinational corporations of developing country have more difference with the multinational corporations of the developed countries in many aspects, therefore, the traditional FDI theory can not provide theoretical support for multinational companies of developing countries, and some scholars begin to mend their own theoretical assumptions, while some scholars shift to developing countries as the research object, but it still can not be formed on the basis of the original theory, a complete and consistent interpretation.

However, generally speaking, the investment that the company in developing country invests to developed countries with advanced level of economic and technology is commonly called as Reverse FDI, which can be divided into the improvements based on the premise of traditional dominance and non-monopolistic advantage theory. Non-monopolistic advantage FDI research results are not emphasized that foreign direct investment only can be carried out under monopoly advantage, but the activity of foreign direct investment could occur without some advantages.

In recent years, more and more studies have found that multinational corporations of developing country at a technological disadvantage increasingly take foreign direct investment as a powerful tool and means to seek technological advantage in the world. The kind of Reverse FDI in general does not have a monopoly advantage as the precondition in itself, multinational corporations of developing countries carry on Reverse FDI to invest to the company of developed countries in order to utilize local technical resources advantage to obtain reverse technology transfer. Moreover, this process can usually be divided into two phases, the first stage is the learning stage, which doesn’t pursue the interests as primary objective, but is to learn advanced technology, management methods and so on. The second stage is a profit-seeking stage, which utilizes competitive advantage through learning outcomes in the first phase to maximize profit.

The purpose of multinational corporations in developing countries carry on Reverse FDI is to acquire advanced technological knowledge instead of utilize some kind of advantage. When an enterprise closes to the market leader, it will benefit from the
spillover of technology. The existence of technology spillovers, Reverse FDI could become an important channel to access to technology.

5.2 SWOT analysis about the export condition of Yu-tong

5.2.1 Strength

(1) Cost advantage
Low cost is natural advantage of “made in China”. On the one hand, this point is reflected easier in that product whose added value is relevant low. One the other hand, its significance on automotive products is far more less than textiles. The very difference between buses and cars was determined by the characteristics of buses’ production.

Comparing with mass production of cars, buses are labor-intensive products and not suitable for large-scale mechanized production. While China’s advantage of low labor cost is extremely superior to that of developed countries, especially in the suitable for large-scale mechanized production is labor-intensive products, while China's labor costs in developed countries can not match , especially in the manufacture of mid-and low-standard buses.

At present, for Yu-tong, the main markets are developing countries. On the one hand, the gap between those countries’ technical merit of buses’ manufacture and that of China is too wide. On the other hand, those countries always used second-hand buses of developed countries. Buses are wealth-producing tool and they must match with customer’s ability. Therefore, for those countries, the competitive edge of cost performance of China’s buses is obviously. For this reason, China’s buses won great popularity. But we should also notice that the cost performance in high-end market is not the obvious advantages.

(2) Global sourcing advantage
From the global point of view, very few enterprises produce bus chassis as well as body production. In the buses field, Yu-tong has the integrated advantage. There is no Intellectual Property Barriers in this field. Yu-tong could make use of global component resource.
From this point of view, as a relatively lagging technology Chinese bus enterprise, Yu-tong owns the same opportunity with the competition of foreign competitors on the development of buses. It is reported that Yu-tong buses’ level on core components is not lower than others. It is reflected on the use of Cummins engine, ZF speed changer and so on. Global purchasing guarantees the quality of some enterprises which lack of independent research and development capacity on core components on the basis of guaranteeing the cost advantage. However, if Yu-tong can’t control the core technological advantage, it will still be the limitation of its development.

(3) The accumulation of international experience
As mentioned in the findings part, in 2005, 400 Yu-tong Buses were exported to Cuba. Again in December the same year Cuba purchased 630 buses. The total contract value was close to 50,000,000 U.S. dollars, which refresh the largest bus export order of out country that created by Yu-tong itself. It is not a breakthrough in digital for large quantity of Yu-tong Buses exported to Cuba. It is of great strategic significance. At the same time of exporting the productions, Yu-tong exports its technology and brand. In the first export of 400 buses, 200 buses are parts and components and then assembled CKD production in Cuba. In the second export of 630 buses, there were 430 finished Automobile and 200 CKD parts. In that export negotiation of Yu-tong, it also comes to many aspects including the transfer of technology, trademark Licensing, capital operation, CKD parts and finished automobile transport, after service and so on.

After, every Yu-tong bus produced from Cuba must use Yu-tong’s trademarks, and pay for the use of the technology fee. Cuba hopes develop their own bus manufacturing by cooperating with Yu-tong and sells to the Caribbean and other offshore countries.

It is also in 2005, Yu-tong bus through the United States DOT certification and put into use as fast airport bus. Then in 2009, it entered the Iceland market the first time. On the one hand, that proved the quality of production of Yu-tong has reached the level of high-end market. On the other hand, it also proved the potential of Yu-tong to enter the European and American markets.

In recent years, Yu-tong Bus has been devoted to research and development of its independent brand and sought cooperation from the world-class bus manufacturers,
for example, the cooperation with MAN in 2002. Thereby it rapidly improved the technical basis of their own and shortens the distance among world-class manufacturers. Years of professional experience and endless pursuit for the bus performance ensure the performance advantages and brand trust. The success of Yu-tong success has given us a revelation, which is as long as you have excellent quality; the market will give you more opportunities. For Yu-tong, going overseas is not only simple transactions, but also takes into account the establishment of internationally recognized brand. The brand effect and capital from the accumulating the middle and low-end market laid the foundation for the extending of high-end market.

5.2.2 Weakness

(1) Limitation of brand recognition
Although Yu-tong has achieved widespread fame and reputation in its 5 main markets, it is still rarely known by the people of some regions, especially in high-end markets. As it shown in Figure 3, Yu-tong has not been accepted by British customers. The challenge is not only just survive among the strong competitors, but also building up its known brand.

(2) Limitation of export channels
Many Chinese bus enterprises are beset with export traffic problem. Yu-tong is no exception. Generally speaking, people transport by bulk carrier when the export volume is less and transport by ship when the volume is more. At present, Yu-tong has not his own ship. It can only use Japanese or Korean ship if High-volume passenger transportation is needed. Obviously, the transportation cost must improve. And the components of buses have the problems of Long transit time and high transport costs.

(3) Standards of technology and certification
As buses belong to public transport means, different countries have stringent requirements to security. Like the United States, the European Union, Australia and other developed countries, their requirements of vehicle safety performance is particularly high. China's buses in the design and quality control still can not completely meet these requirements of countries and regions and still could not make the corresponding certification. Yu-tong has been made certain progress on
certification issue in Europe and the United States, but still not enough to achieve full compliance. And recently the international community improve the requirements on environmental protection, energy saving, safety standards and other standards, which further narrow the survival space of the domestic buses enterprises.

(4) Quality of after sale service
As we all know, after service represents the ability of the enterprise. If the export buses can not get very good after service in -country, it would be the very big problem to the export. So after service is an extremely significant link for the export of buses. But the export of Yu-tong buses is a little late, after service network is not good enough and the export market concentration is not enough. If the export volume is small, to build a high cost maintenance station is not worthwhile. If the export volume is large, to build maintenance station is necessary and high investment is unavoidable. To ensure high-quality after service, it is necessary to establish a good local after service team, which means that the cost of the team will be very high and we must also consider the scale of what is best for them. If the scale is too large, that will be a waste of resources. On the contrary, they may affect the quality of services.

5.2.3 Opportunity
(1) World bus demand
Worldwide demand for buses is forecast to over 350,000 vehicles in 2010. Demand for buses tends to follow a cycle that depends on region-specific trends, such as demographics, income levels, per-capita passenger vehicle density, and others. Rising fuel prices worldwide should boost demand for buses. Economic crisis also stimulated the development of public traffic. Other forces that effect bus demand include increasing congestion levels in major metropolitan centers worldwide, the establishment of dedicated bus rapid transit systems and "bus ways" in key cities. All of these provide the increasingly market for the bus manufacturers.

(2) The opportunities of China automobile industry
In the current situation of global financial crisis, the automobile industry in China is facing two opportunities: one is the "market opportunity" formed by the transition of world automobile industry's focus toward the market of China; the other is the "technology opportunity" brought by new energy automobile revolution. In recent
years, China has made enormous progress in new energy technology and has lessened the difference with the internationally advanced level. It's quite necessary to seize these opportunities so as to realize a new breakthrough in new energy vehicle technology of China.

5.2.4 Treats

(1) Domestic competitors

Compared with foreign markets, there is increasingly competition of China's market as a result of homogenization which leads to increasingly virulent price competition and further causes confusion. Chinese bus export manufacturers are more than 90; they adopt various methods to seize the market shares. Such as in some small countries of Eastern Europe a number of small national markets, the number of Chinese export buses reach as high as more than 10 export enterprises. In order to seize market shares, they even keep the prices down. Although the national control measures have been taken, but it still need more time to regulate the market.

(2) International competitors

As it shown in Figure 4, although Yu-tong is second only to Benz in sales volume, even far surpassed such as VOLVO and Man which are world-famous enterprises, its saleroom is just the other way. From the aspect of distribution sales territory, in the high-end markets, Yu-tong has no advantages on either sales volume or saleroom. To seek the breakthrough in high-end market, it is inevitable for Yu-tong to face the competition with these powerful enterprises, ranging over the fields of quality, technology, capital, management, etc.

5.2.5 Summary

Through the SWOT analysis, according to the practical situation of Yu-tong, we found that Yu-tong has basically met the conditions of implementing Reverse FDI and it also has the necessity of using Reverse FDI. Therefore, based on the theory, we conduct the further analysis of the internationalization of Yu-tong from the aspects of low and middle-end market and high-end market respectively.

5.3 Analysis of the internationalization of Yu-tong

Yu-tong in China’s market is already the first. To compare with the global bus market,
China's bus market is the fastest growing in the world, China's bus market is certainly very important for Yu-tong, but make a general survey of the development of international large-scale bus companies, and in the long-term view of the development of Yu-tong, it has a long way to become the world's leading bus companies for Yu-tong. If Yu-tong wants to become the world famous bus company, the internationalization of Yu-tong has to be an important step. Through anglicizing the whole international bus market environment, the internationalization of Yu-tong is very tight. Therefore how to use Yu-tong’s accumulated international experience and advantages in the Chinese market to seek a breakthrough in the international process of Yu-tong is an important issue for our discussing. Combining of the Yu-tong’s actual situation and FDI theory and other related theories, we have decided to divide into two different level markets to discuss Yu-tong’s internationalization. The high-end market is a higher level of bus manufacturer market, for example in Europe and the U.S. market and in low and middle-end market is the general level of bus manufacturer in the world, and we ultimately seek the breakthrough in the international of Yu-tong.

5.3.1 In the low and middle-end market

The low and middle-end market in the world is very important to internationalization of Yu-tong and follow-up high-end market. On the one hand, Yu-tong’s international expansion in the low-end market could help to gain new profit growth, on the other hand, some practical experience on the middle-end market can help play a great role for the future of Yu-tong into the high-end market.

(1) The advantages of Yu-tong in the low and middle-end bus market

On the one hand, in the low and middle-end bus market, because the demand of bus is the low and middle level, the world's leading bus companies are often little concerned about the low-end market, so Yu-tong is the lack of strong competitors in this area, in the low and middle-end bus market, Yu-tong has a relative strong competition

On the other hand, in the low and middle-end bus market, Yu-tong has an obvious technical advantages in these countries comparing with the local bus companies, in these countries that are not a very high level of bus development, Yu-tong company could use relative advanced technology in exchange of market to seek international success in low and middle-end bus market.
(2) The performance of Yu-tong in low and middle-end market at this stage
Yu-tong company has achieved good performance according to explore and practice in international low and middle-end market. Yu-tong has won the orders of Middle East, Latin America, Africa, Russia and other low and middle-end market, especially in the end of March 2007, after Yu-tong company with Russia signed the 500 buses export, it signed with Cuba again, from 2007 to 2009, Cuba purchased 5348 buses, the total value is up to 370 million U.S. dollars. This is also the largest exports orders in the China bus industry over the past decade. From 2005, the first time Yu-tong begins to export 400 buses to Cuba, as at the end of 2006, Yu-tong exports to Cuba nearly a total of 1200 Buses. Now, Yu-tong has occupied the most of the share in Cuba, and all this, only just more than two years. It should be said that Cuba is only an epitome of Yu-tong in the international low and middle-end bus market, but in the process of repetition and accumulation, Yu-tong company think a lot of the access to international experience, the accumulation of capital and technology, all of these should lay a good foundation for seeking breakthrough in international high-end bus market in the future for the Yu-tong company.

5.3.2 In the high-end market
In China’s domestic bus market, Yu-tong passenger has a higher technical level compared with the other domestic bus companies, which is the highest market share. But Yu-tong wants to become the world's leading bus company, the future must enter the higher margin high-end bus market and export their own bus to the more developed countries with higher technical standard, and compete with the world's well-known bus companies with advanced level. However, according to the present situation, the gaps also exist in terms of technology, management, and brand and the understanding and grasp of high-end market comparing with world-renowned bus companies. Particularly in the technology, the gap is quite big. Therefore, we believe that Yu-tong’s the biggest obstacle is the technological gap in the process of internationalization in high-end market

Through investigation and study, there are two major parts in bus, one is part of the body, and the other is part of the chassis. The distance is getting smaller and smaller in the part of the body comparing with foreign advanced level, including the structure,
shape, and pattern. However, this part of the chassis is still a large gap comparing with foreign countries, bus’s chassis technology is the key technology, which has an important influence on the driving force of bus, economical efficiency, security, environmental protection performance, in other words, good or bad in the chassis technology impact on the evaluation of bus users, but also determines the quality of bus. Chassis technology gap was mainly attributable to negligence of large Chinese chassis companies, which now produce less chassis compared to cars, because the number of bus is smaller than the cars, many companies do not attach importance to investment in research and development in this area. At this stage Yu-tong’s high-end chassis is mainly from import. In view of the world's leading bus companies, the key technologies in the bus has its own core technology, so Yu-tong wants to be successful in internationalization, it is necessary to compensate for their lack of chassis technology.

It seeks international cooperation to raise their technological level through Reverse FDI. Normally, there are two ways to upgrade the technology, the first is to upgrade skill levels through their own research and development, and the other is through the cooperation with world-renowned bus companies with advanced technology to enhance the technology. Because China's bus chassis technology did not receive attention in a long period of time, as a result the current gap is very large in this area, so through self-R&D to improve technology, upgrading the chassis technology to advanced level abroad can not be achieved in a relative short period of time, it is not in conformity with Yu-tong international strategy. Therefore, choosing a suitable advanced foreign bus companies through the acquisition of technical cooperation to carry out digestion and absorption of advanced technology is a better choice to Yu-tong.

Typically, The investment that the company in developing country invest to developed countries with advanced level of economic and technological is commonly called as Reverse FDI, Which is generally a strategic investment in developing countries, Yu-tong cooperating with the world's leading bus companies in technology through investment belongs to Reverse FDI, Yu-tong investing in developed countries through the Reverse FDI is determined by its strategic goal of internationalization.
5.3.3 Feasibility analysis of Yu-tong’s Reverse FDI

According to the theory of Reverse FDI, for a specific foreign direct investment projects, enterprises need to have a series of conditions to start the project and maintain the continued operation of the project. Invested enterprises in their accumulated capital, technology, human resources and international business experience is to determine that whether these enterprises stride over "threshold" of foreign direct investment. When the need of improving the technology becomes enterprise's strategic objectives of foreign direct investment, and its ability to invest in foreign direct investment is across the "threshold", the enterprise’s foreign direct investment behavior may occur. At the same time, when the developing countries carry on the Reverse FDI, this process is divided into two stages--- the "experience phase "and" get the profits stage.” In the previous phase is for testing, familiarization or learning stage, at this stage, investors need to grasp the business elements through a variety of operating activities, so as to enhance their overall advantage capabilities. At a later stage, it is mainly about the pursuit of profit maximization.

Yu-tong established R&D institutions in developed countries and strategic alliances with similar enterprises of developed countries, absorbing advanced technology and the results.

Over the years, Yu-tong is through the accumulation of capital, technology and talent in China, which tries to carry on its international road. In 2002, Yu-tong Company and the German MAN company together build a joint venture in China, one of the most important of the joint venture is that Yu-tong Company spend huge money in cooperation with the German MAN company to set up R&D center in Munich, Yu-tong’s R&D center in Munich digest and absorb on the international advanced technology, and in the aspect of product research and development, it also use the most stringent European standards as evaluation criteria. At relatively short period of time, Yu-tong company in many technical aspects have been improved, in particular Yu-tong had improved significantly in relatively more backward chassis technology in China bus industry, and developed a series of luxury buses products with their own intellectual property rights. It belongs to the first phase of Reverse FDI, in this phase, Yu-tong is familiar with and adapts to international business environment, learning and mastering advanced technology, production methods, management skills and the
accumulation of experience in international business.

In 2005, Yu-tong is in accordance with the laws and regulations of U.S. Department of Transportation, combining with the actual road conditions and the requirements of technical indicators together, overcoming many technical difficulties, and ultimately produced high-end bus in line with the requirements of the U.S. market. The export to the United States marked the beginning of Yu-tong access to high-end European and American bus market in developed countries. It belongs to the second phase of Reverse FDI. Yu-tong exports the bus to high-end bus market through the achievement of the first phase of Reverse FDI and gets relative high profits.

From the above practice, when Yu-tong carries on Reverse--FDI, through cooperating with the well-known bus company to improve technology, it could achieve relatively good results and the purpose of improving the technology.

Judging from the current situation, Yu-tong Company comparing with the world's leading bus companies is still gap in the technology and management, it is in order to reverse the adverse situation of competition, through reverse-based FDI, Yu-tong Company can take full advantage of well-developed market mechanisms to reduce market transaction costs and expenses, are familiar with and adapt to the international business environment, learning and mastering advanced technology, production methods, management skills and so on., and then the accumulation of experience in international business, gradually form and develop their own integrated competitive advantage. At the same time, it shows that Reverse FDI could get success in practical operation. We also believe that Reverse FDI could be regarded as a theory guide for Yu-tong in the process of international high-end bus market. Through the Reverse FDI, Yu-tong Company obtains the accumulation of experience and product reputation, brand and lays the foundation for follow-up expansion in developed country. Therefore, we can see that the acquisition of advanced technology and experience through Reverse FDI is an effective breakthrough ways into international high-end market for Yu-tong.
6 Conclusions

After conducting various analysis and investigations, we can draw some conclusions as following. At present, Yu-tong is in a leadership position in Chinese bus industry, which has a good performance in domestic market and has accumulated a certain extent comprehensive strength. At the same time, Yu-tong has achieved relatively good results in low and middle-end bus markets in some regions, which not only got a new profit growth point, but also gained international experience. All of these have laid a foundation for the extending of high-end market. But Yu-tong’s achievements mainly depends on its relative advantages in these market, in contrast to some well-known multinational bus manufacturers, we found that big gaps in many aspects still exist. According to the analysis of the actual situation of Yu-tong at this stage, it is not easy to fill these gaps in a short period by simply relying on its own development. In our thesis, we made the discussion of Reverse FDI, and we regard this theory as an effectual investment way for developing technological advantage. Combining with the actual situation of Yu-tong and the relevant theories, we believe “Reverse FDI” is more appropriate and effective way for international development, at the same time, we think that Reverse FDI can be as theoretical direction for multinational corporation of developing country in internationalization.
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