China’s Strategy to Become a World Manufacturing Power

Challenges and Opportunities for the European High Tech Industries.

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In the News

China’s Midea to Become Largest Investor in Germany’s Kuka

by Daniela Wei and Sheenagh Matthews

BUSINESS NEWS | Fri Nov 11, 2016 | 4:59pm GMT

German union to oppose any Osram takeover bid

China Still Hungry for German Companies

After a worldwide slump in mergers and acquisitions deals in January, investment bankers are warning that 2016 won’t yield the record volumes seen in 2015. But German companies remain in demand among Chinese investors.

China’s Midea Offers $5 Billion for German Robot Maker Kuka

Bid aims to help satisfy Beijing’s ambitions to become high-end manufacturing power

Staatskonzern erwirbt Ex-Siemens-Sparte

Chinesen gehen auf Einkaufstour in Europa


29.05.2014, von Klaus Max Smolka
Recent Developments
China M&A deal value as Percent of total global M&A deal value

Source: www.dealogic.com
China M&A deal value as Percent of total Asia Pacific M&A deal value

Source: www.dealogic.com
In the first half of 2016, companies from China in Europe have made a total of 164 acquisitions - about as many as in 2014 as a whole and only 19 less than in 2015 as a whole.

Source: Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft: Chinesische Unternehmenskäufe in Europa, Juli 2016
The half-year comparison shows a sharp increase in activities in the first half of 2016. The number of deals has doubled compared with the previous year.

Source: Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft: Chinesische Unternehmenskäufe in Europa, Juli 2016
Reasons of Chinese M&A
The motives, targets, locations and sectors for Chinese acquisitions are increasingly diverse.

Yet, **strategic asset seeking** acquisitions aiming to strengthen global competences remain pivotal and …

The acquisitions are related to China’s master plan “**Made in China 2025**” …
China's State Council unveiled a national plan recently, dubbed **Made in China 2025**. It is the first 10-year action plan designed to transform China from a manufacturing giant into a world manufacturing power. Made in China 2025 Roadmap for Building China into a Manufacturing Powerhouse is a three decade plan:

- **2025**
  - Enhancing the manufacturing industry’s innovation capability, advancing industrialization and informatisation integration to a new level, and elevating China’s position in the global industrial division of labour and value chain

- **2035**
  - Reaching the medium level of the world's manufacturing powerhouses, raising innovation capability significantly and enhancing overall competitiveness considerably

- **about 2049**
  - Comprehensive strength to rank among the upper echelons of the world's manufacturing powerhouses, a leading technological and industrial system will be built

The 100th Anniversary of the People’s Republic of China
Made in China 2025: Nine Strategic Tasks

1. Enhancing innovation of the manufacturing industry
   This includes encouraging OEM enterprises to shift to designing and exporting own brand products

2. Advancing closer integration of informatisation and industrialization
   Devote great efforts to developing smart equipment and smart products, as well as advancing smart production

3. Strengthening fundamental industrial capabilities
   Strengthen development of basic core parts and components, advanced basic processes, basic key materials and basic industrial techniques

4. Enhancing quality and brand building
   Encourage enterprises to develop brand products with proprietary intellectual-property rights, and implement action plans to enhance the quality of industrial products

5. Proactively developing service-oriented manufacturing and producer services
   Advance innovative business models and business formats, and accelerate the development of producer services
Made in China 2025: Nine Strategic Tasks

6. Fully promoting green manufacturing
   Strengthen R&D of advanced energy conservation and environmental protection technologies, and quicken the pace of transforming and upgrading the manufacturing industry to green production.

7. Actively achieving development breakthroughs in key areas
   Focus is put on 10 areas (more details on the next slide).

8. Deepening restructuring of the manufacturing industry
   Promote traditional industries to move towards medium- and high-end manufacturing to gradually solve the problem of excessive production capacity.

9. Elevating development of the manufacturing industry to international level
   Devote greater efforts to integrating the “bringing in” and “going out” development strategies, and raise the level of international cooperation.
**Made in China 2025: Ten Key Areas**

- Aerospace equipment
- Agricultural machinery equipment
- Electric power equipment
- Energy saving and new energy vehicles
- High-end CNC machine tools and robotics

- Information and communication technology industry
- New materials and composites
- Rail transportation equipment
- Marine engineering equipment and high technology ships
- Biological medicine and high-performance medical apparatus and instruments

China’s Strategy to Become a World Manufacturing Power
Made in China 2025: Ten Key Areas

To master these ten key areas, China needs competencies in technologies which the European Union is calling “key enabling technologies”:

- micro and nanoelectronics,
- nanotechnology,
- industrial biotechnology,
- advanced materials,
- photonics,
- advanced manufacturing technologies.

Source: European Union: Horizon 2020 - Key Enabling Technologies (KETs), Booster for European Leadership in the Manufacturing Sector, 2014
The Five Tenets of the Five Year Plan

President Xi Jinping ambitious 13th Five Year Plan to close the middle income economic trap:

- 6.5 GDP growth annually,
- increase annual income per capita to reach 12,600 RMB (approx 1.715,00 Euros),
- create 25 million new jobs annually,
- reduce the population living in rural poverty by 70 million and through regional shift support this with policies of urbanization.

- The Hukou Reforms of 2015 already demonstrate an intention to encourage greater flow of talent to secondary and tertiary cities with these developmental clusters serving as growth hubs.
Chinese Investments in Europe
Chinese Investment Sectors in Europe

Chinese investment sectors in Europe are:

- **Financial Service**
- Tourism
- Trade Intermediary
- **Retail**
- **Business Services**
- Food
- Fashion
- Household Goods
- Pianos
- Real Estate & Infrastructure Development
- **Infrastructure Operations**
- Fixed Assets Leasing
- High-End Buildings
- Football Clubs
- Luxury Yacht Shipyards
- Vineyards
- **Engineering and Manufacturing “Industry 4.0”**
- Cars and Car Components
- Environmental tech
- E-Commerce
- Biotechnology
Chinese Investment Sectors in Europe

Financial Service
Infrastructure Operations
Trade Intermediary
Retail
Business Services

China’s Strategy to Become a World Manufacturing Power
Chinese Investment Sectors in Europe

Engineering an Manufacturing „Industrie 4.0)
Cars and Car Components
Environmental Tech
E-Commerce
Biotechnology

China's Strategy to Become a World Manufacturing Power
## Largest Chinese Direct Investments in Germany

<table>
<thead>
<tr>
<th>Vol. in Mio €</th>
<th>Purchaser</th>
<th>Seller</th>
<th>Target</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.121</td>
<td>MECCA International (BVI) Ltd (Midea)</td>
<td>Free Float</td>
<td>KUKA AG</td>
<td>2016</td>
</tr>
<tr>
<td>3.500</td>
<td>Consortium incl. Allianz Capital Partners</td>
<td>Terra Firma</td>
<td>Tank &amp; Rast</td>
<td>2015</td>
</tr>
<tr>
<td>1.600</td>
<td>China Three Gorges</td>
<td>Blackstone</td>
<td>BCP Meerwind</td>
<td>2016</td>
</tr>
<tr>
<td>1.440</td>
<td>Beijing Enterprises</td>
<td>EQT</td>
<td>EEW Energy from Waste</td>
<td>2016</td>
</tr>
<tr>
<td>925</td>
<td>ChemChina</td>
<td>Onex Corporation</td>
<td>KraussMaffei</td>
<td>2016</td>
</tr>
<tr>
<td>751</td>
<td>Fujian Grand Chip Investment</td>
<td>Aixtron SE</td>
<td>Aixtron SE</td>
<td>2016 (canceled)</td>
</tr>
<tr>
<td>738</td>
<td>Weichai</td>
<td>Kion</td>
<td>Kion (shares)</td>
<td>2012/2013</td>
</tr>
<tr>
<td>538</td>
<td>Jiangsu Jinsheng Group</td>
<td>Oerlikon Saurer</td>
<td>OC Oerlikon</td>
<td>2013</td>
</tr>
<tr>
<td>532</td>
<td>Sany Heavy Industry</td>
<td>Putzmester</td>
<td>Putzmester</td>
<td>2012/2013</td>
</tr>
<tr>
<td>506</td>
<td>Lenovo</td>
<td>Medion/Brachmann</td>
<td>Medion</td>
<td>2011</td>
</tr>
<tr>
<td>473</td>
<td>Avic</td>
<td>3i</td>
<td>Hilite</td>
<td>2011/2014</td>
</tr>
<tr>
<td>400</td>
<td>Consortium incl. M.L.S.</td>
<td>Electronics Osram</td>
<td>LEDVANCE</td>
<td>2016 (ongoing)</td>
</tr>
<tr>
<td>386</td>
<td>Hanergy</td>
<td>Q-Cells</td>
<td>Solibro</td>
<td>2012</td>
</tr>
<tr>
<td>324</td>
<td>CITIC Dicastal</td>
<td>Cognetas</td>
<td>KSM Casting</td>
<td>2011</td>
</tr>
<tr>
<td>320</td>
<td>Avic</td>
<td>KHD Humboldt</td>
<td>KHD Humboldt</td>
<td>2013</td>
</tr>
<tr>
<td>300</td>
<td>XCMG</td>
<td>Schwing</td>
<td>Schwing</td>
<td>2012</td>
</tr>
<tr>
<td>291</td>
<td>Ningbo Joyson</td>
<td>Preh/DBAG</td>
<td>Preh</td>
<td>2011/2012</td>
</tr>
<tr>
<td>290</td>
<td>Zhuzhou TMT</td>
<td>ZF Friedrichshafen</td>
<td>now: BOGE Rubber &amp; Plastics</td>
<td>2013</td>
</tr>
</tbody>
</table>
In the first six months of 2016, Chinese investment in Germany has already jumped to €10 billion including acquisitions of 37 German companies.

So far in 2016, Germany has been the largest recipient of Chinese investment in Europe (Mercator Institute for China Studies).

Source: http://www.chinadaily.com.cn/business/2016-10/18/content_27092732.htm
Economic and Investment Environment in Germany

- **77%** stable political/ economic relationship between China and Germany
- **62%** Germany's geographic location
- **60%** Germany's international standing
- **53%** fledged tax and economic system
- **48%** good reputation of "made in Germany"
- **45%** improved infrastructure and logistics network
- **33%** strategic decision of company
- **27%** innovation capability
- **23%** high qualified employees
- **2%** exchange rate between EUR and RMB
- **1%** investment immigration
- **1%** other

Source: A Survey of Business Environment for Chinese Companies in Germany, 2015, Chinese Chamber of Commerce in Germany
## Difficulties of Chinese Investors in Germany

- **cultural differences/ management problems**: 45.9%
- **difficulties in applying for long term work permit**: 36.7%
- **tax issues**: 27.6%
- **lack of direct access to information**: 25.5%
- **bureaucracy**: 22.5%
- **HR related issues**: 22.5%
- **difficulties in arranging research fundings**: 13.3%
- **local trade protectionism**: 8.2%
- **IP related issues**: 7.1%
- **Anit-dumping and countervailing**: 7.1%
- **others**: 7.1%

**Source**: A Survey of Business Environment for Chinese Companies in Germany, 2015, Chinese Chamber of Commerce in Germany
Challenges and Opportunities for the European High Tech Industries
Europe’s Strategy to Modernize the Industrial Base and Drive the Development of New Industries.

What the European Commission does:

To make sure that Europe leads the current industrial revolution, the Commission uses all the instruments at its disposal to support the modernization and digital transformation of industries, both of their production processes and business models, for the benefits of all Europeans.

It provides an overview of actions undertaken and puts forward new ones to:

- mainstream industrial competitiveness in other policy areas,
- maximize the potential of the Single Market, notably through standards and market surveillance,
- use the instruments for regional development to support innovation, skills and entrepreneurship,
- develop the skills that industries need and facilitate labour mobility,
- promote access to critical inputs (energy and raw materials) to encourage industrial investment,
- facilitate the integration of EU firms in global value chains.
Europe’s Strategy to Modernize the Industrial Base and Drive the Development of New Industries.

1. **Competitiveness**
   
   Competitiveness is a key determinant for growth and jobs in Europe and industrial competitiveness is a horizontal objective in all EU policies. The Commission monitors competitiveness in the EU and analyses the impact of policy on competitiveness. It also aims to improve the quality of public administration, as an important driver of competitiveness.

2. **Innovation**
   
   Innovation is a key factor in the competitiveness of European industry. The EU implements policies and programmes that support the development of innovation to increase investment in research and development, and to better convert research into improved goods, services, or processes for the market.

3. **Key enabling technologies**
   
   Key enabling technologies (KETs) are a key element of European industrial policy. They provide the basis for innovation in a range of products across all industrial sectors. They underpin the shift to a greener economy, are instrumental in modernizing Europe’s industrial base, and drive the development of entirely new industries.

4. **Intellectual property**
   
   The Commission works to harmonise laws relating to intellectual property rights (IPR) in EU countries to avoid barriers to trade and create efficient EU-wide systems for the protection of such rights. We work with authorities at all levels to strengthen the enforcement of IPR. We aim to help small businesses access and use IPR more effectively.
Europe’s Strategy to Modernize the Industrial Base and Drive the Development of New Industries.

5

**Sustainability and circular economy**

The Commission aims to ensure coherence between industrial, environmental, climate and energy policy to create an optimal business environment for sustainable growth, job creation and innovation. To support this, we have established an ambitious agenda to transform EU economy into a circular one, where the value of products and materials is maintained for as long as possible, bringing major economic benefits. The Commission also supports European industry in the move to a low-carbon economy and improves the energy efficiency of products through ecodesign legislation.

6

**Corporate social responsibility**

Corporate social responsibility (CSR) refers to companies taking responsibility for their impact on society. The Commission believes that CSR is important for the sustainability, competitiveness, and innovation of EU enterprises and the EU economy.

7

**International aspects**

*We help the internationalisation of EU businesses by ensuring a level playing field for them through bilateral, regional and international dialogues. We also contribute to the process of enlarging the EU.*
Conclusion
Decision makers in politics and business will have to identify adequate responses to the powerful Made in China 2025 strategy.

The following thoughts are inspired on key recommendations by the German Mercator Institute for China Studies.
Conclusion

**Strengthen on-the-ground information gathering and sharing.**
Decision makers urgently need more information on China’s industrial policies applied in the context of Made in China 2025. Industry associations, through their presence on the ground, are in a strong position to improve information gathering on smart manufacturing policies in China.

**Increase information through intensified dialogue.**
Deepening exchange with Chinese smart manufacturing associations, industry partners and alliances as well as policy institutes will help provide early information about policy planning and implementation. In addition, regular dialogues can serve as a platform for discussing and solving technical issues that do not require decision making at the political level.

**Use opportunities to influence standardization processes.**
The window of opportunity for influencing technological standardization in China is still open. Foreign industry associations and large corporations should expand their activities and capacities in this regard.

Source: Mercator Institute for China Studies: Made in China 2025 - The making of a high-tech superpower and consequences for industrial countries, 2016
More Information
More Information and Sources

One “Made in China 2025”:
- https://www.csis.org/analysis/made-china-2025

One China’s Investment Strategy:

One the European Strategy for KETs:
- https://ec.europa.eu/growth/industry/key-enabling-technologies/european-strategy_en

Understand the Chinese Business Playground:
China's Strategy to Become a World Manufacturing Power

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(new website will coming until the end of February 2017)