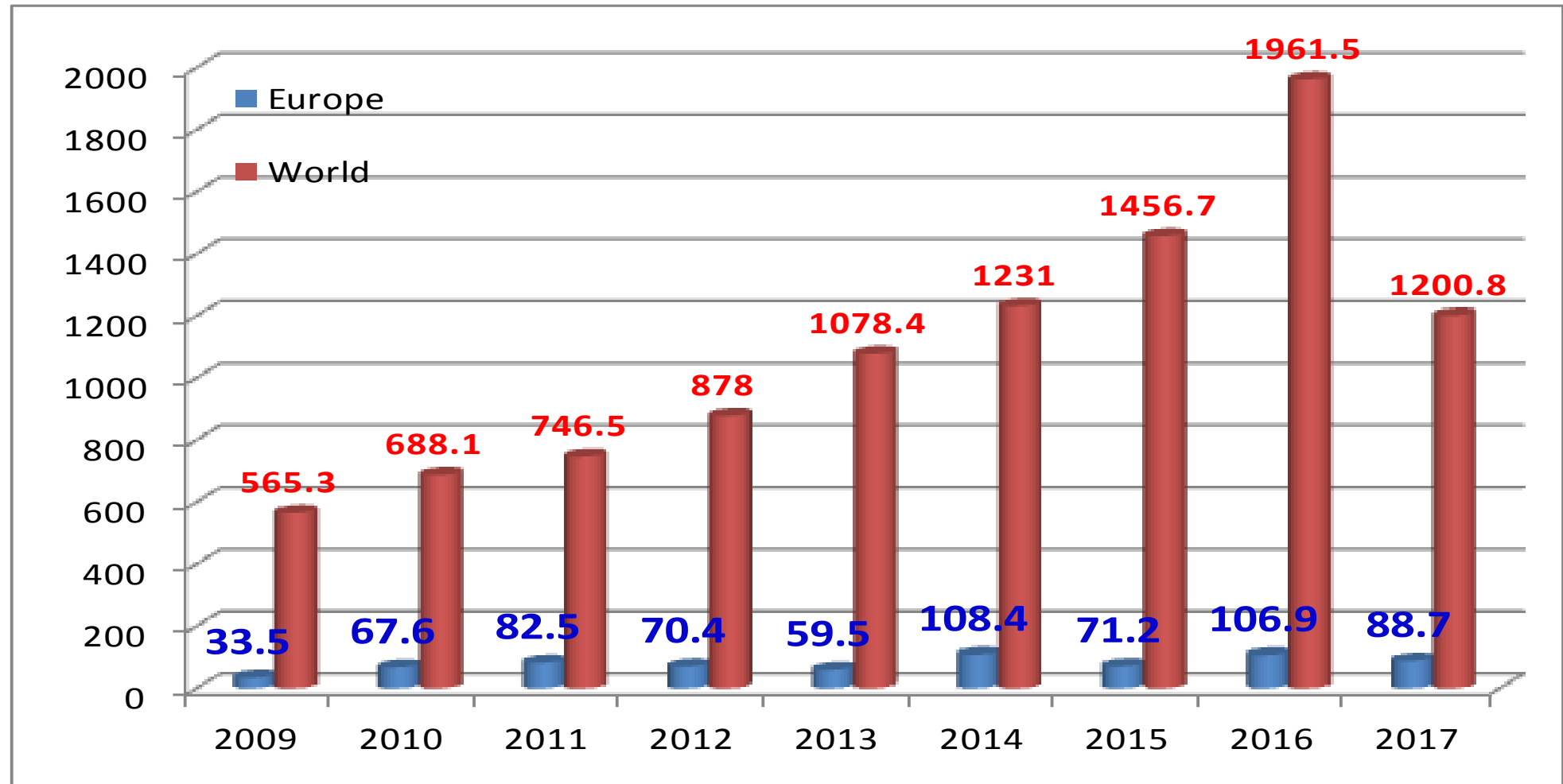


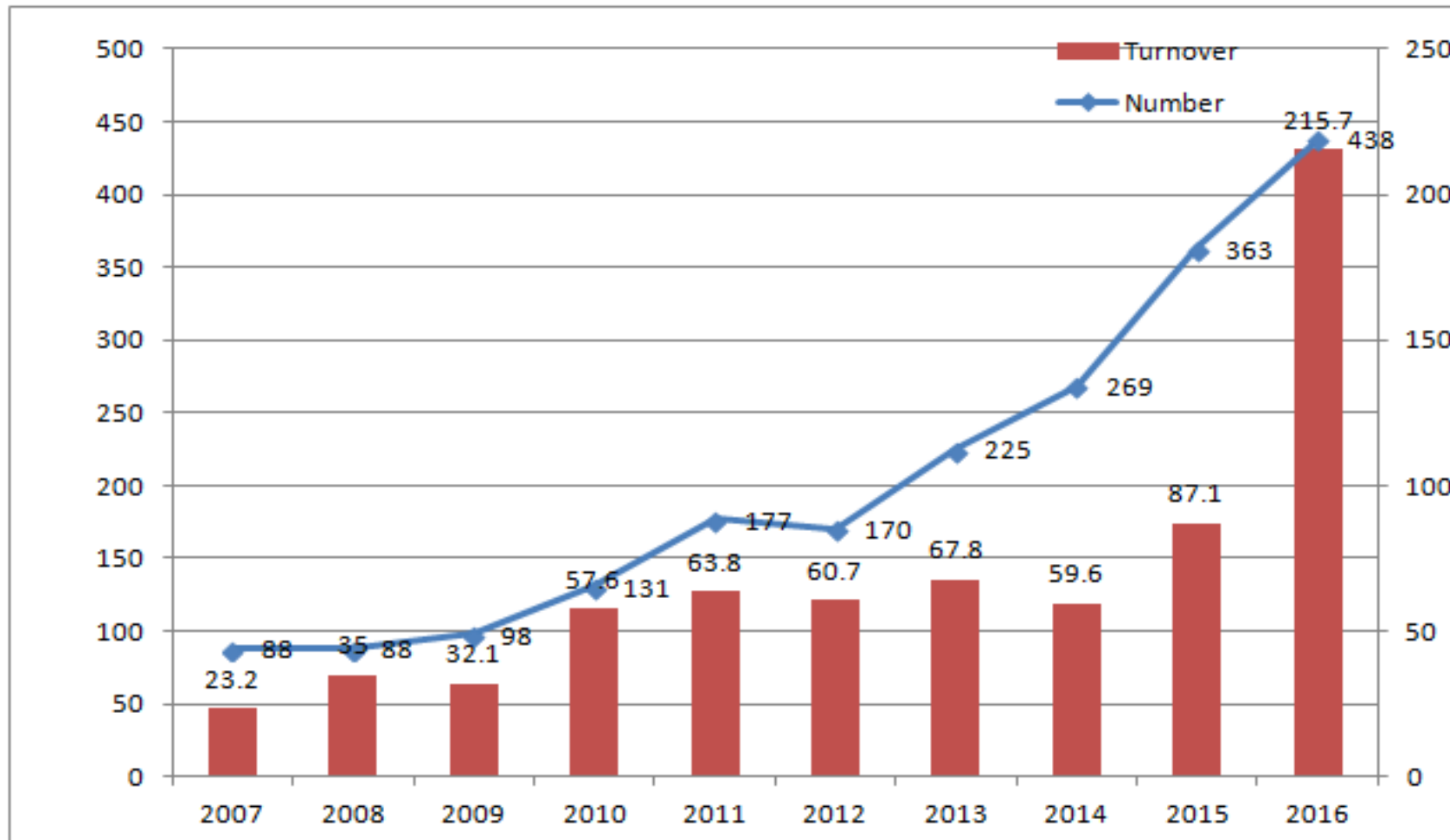
# China towards Europe... and vice versa?

Prof. Dr. Paul Matthyssens, Prof. Dr. Zhang Zhengrong (Zhejiang Sci-Tech University), Dora Munteanu

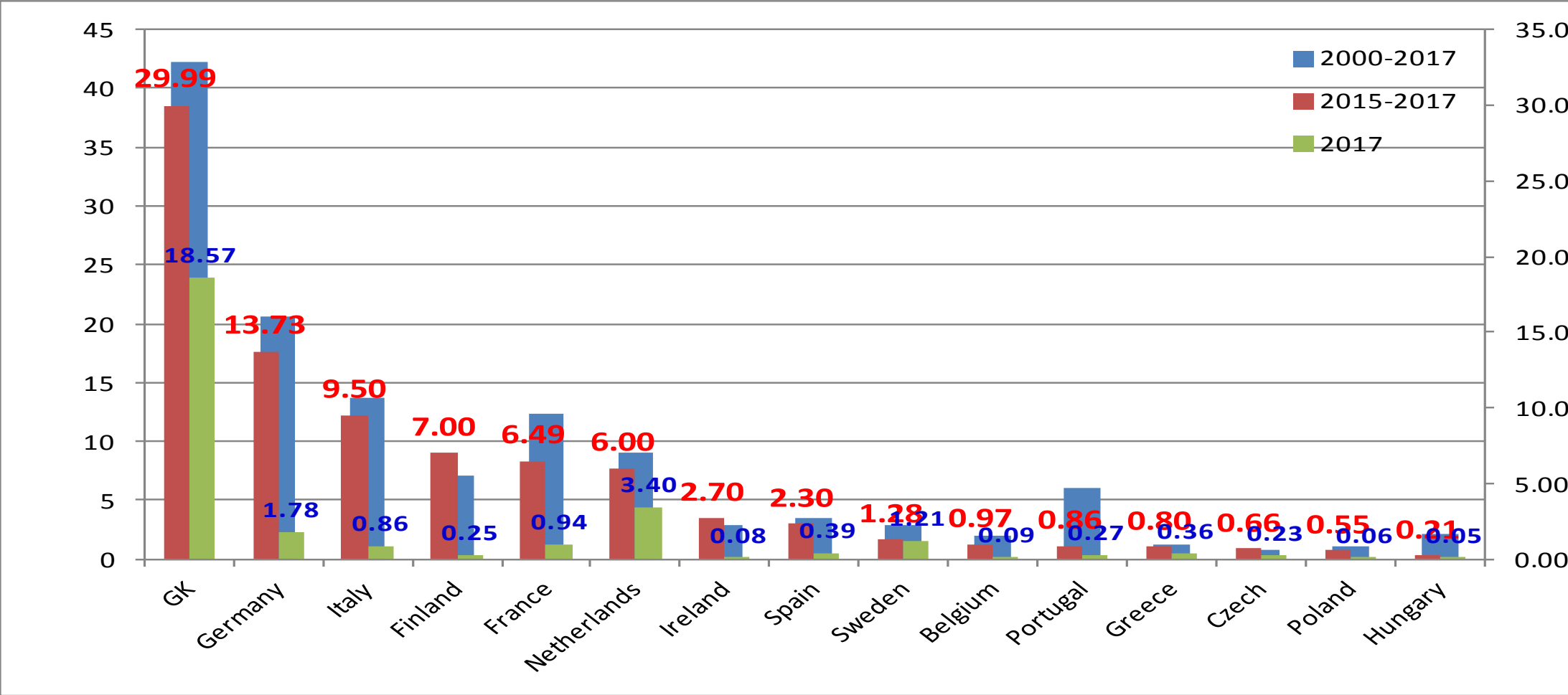
# China's Outward Foreign Direct Investment



# M&As as a preferred entry strategy



# Countries



# Two sides, Two views

What's in for us?  
How to react?

What's driving Chinese  
FDI?



# Two topics, Two speakers



**Dora Munteanu**  
Belt & Road:  
Drivers, SWOT,  
Investment patterns,  
Strategic scenarios  
*The European perspective*



**Zhang Zhengrong**  
Cases on FDI: Drivers,  
Sectors, Approaches,  
Benefits  
*The Chinese perspective*

# *Belgium and Antwerp, where China and Europe meet*

Opening minds  
Touching Souls  
Energizing Business



# Can Chinese FDI be an Opportunity for EU Companies to be successful in the Chinese Market?

**Prof. dr. Zhang Zhengrong**  
**Zhejiang Sci-Tech**  
**University**

作者本次参会受“中国纺织  
工程协会”支持





# 1. Introductory Case: Volvo Motor & Geely

A new type of FDI: Cooperation to develop market in the FDI Origin Country



**2008**

Volvo motor lost  
USD 1.5 billion.

Geely is not a  
leading private auto  
firm in China.

**M & A 2010**

Geely acquired  
Volvo Motor for  
USD 1.8 bn from  
Ford.  
But many people  
were ***not positive***  
about this M&A.

**Words from CEO**

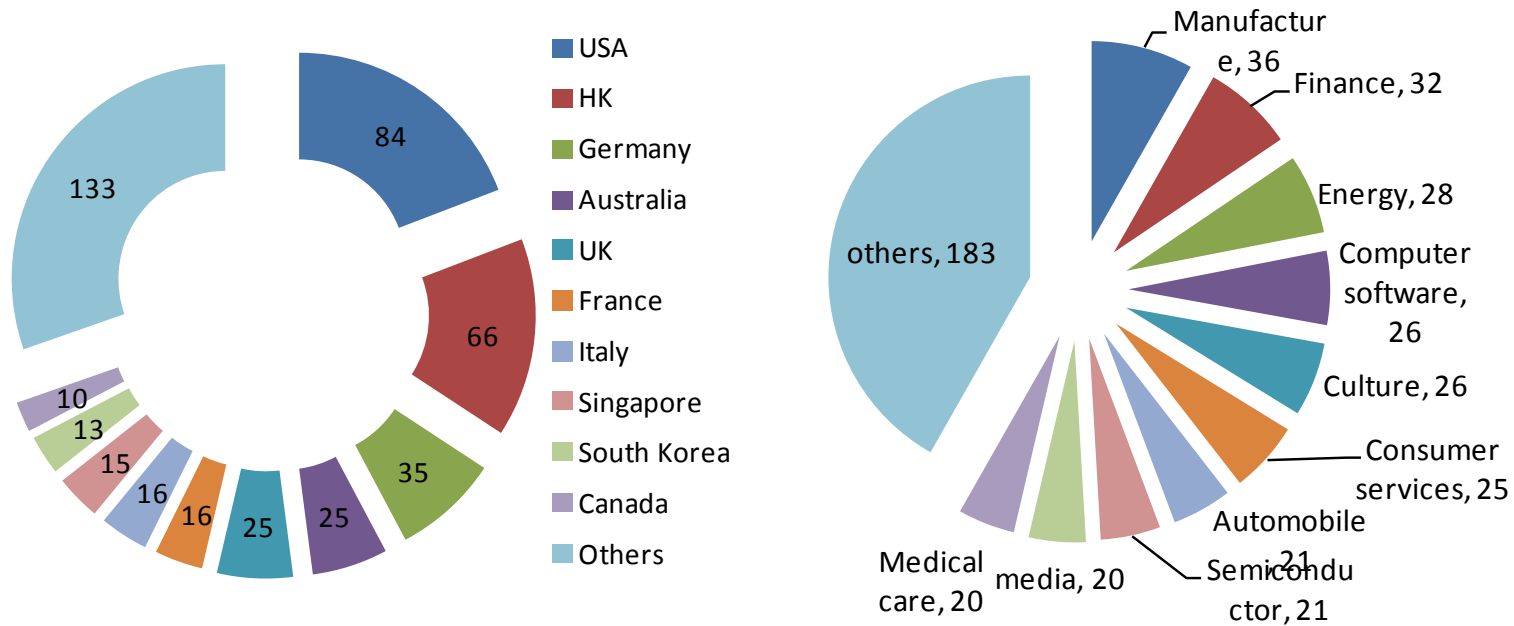
Mr. Lishufu: *"The  
relationship between  
Geely and Volvo  
Motor is like  
***brothers.***"*  
Operation &  
management of Volvo  
Motor is  
**independent.** Geely  
has no IP ownership.

**Nowadays**

Geely is **No.1 private  
auto firm** in China.  
**Volvo Motor** makes  
profits every year  
after the M&A.  
Volvo Motor  
increased 7% globally  
and 29% in China  
2017.  
China became  
**largest single  
market** for Volvo  
Motor.

This FDI is not a way for Geely to enter the EU market, but a chance for Volvo Motor to turn from deficits to profit, and enlarge the market in China.

## 2. Objective & Approach of This Research



### Research Questions:

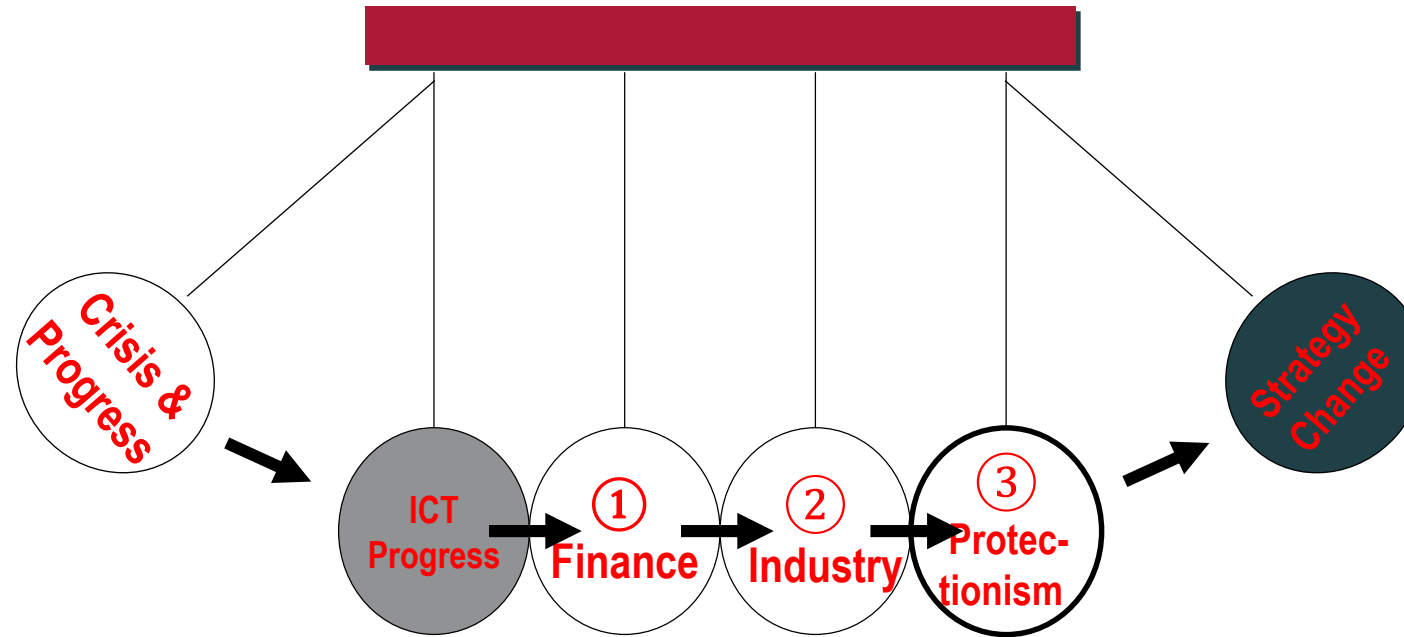
Why Chinese Companies devote FDI in EU?

What sectors will Chinese FDI more in EU?

How to perform potential business model for cooperation?

Approach: Value/Capacity Analysis & Case Study

### 3. What is happening in the world? & Why is there a need for new forms of cooperation?



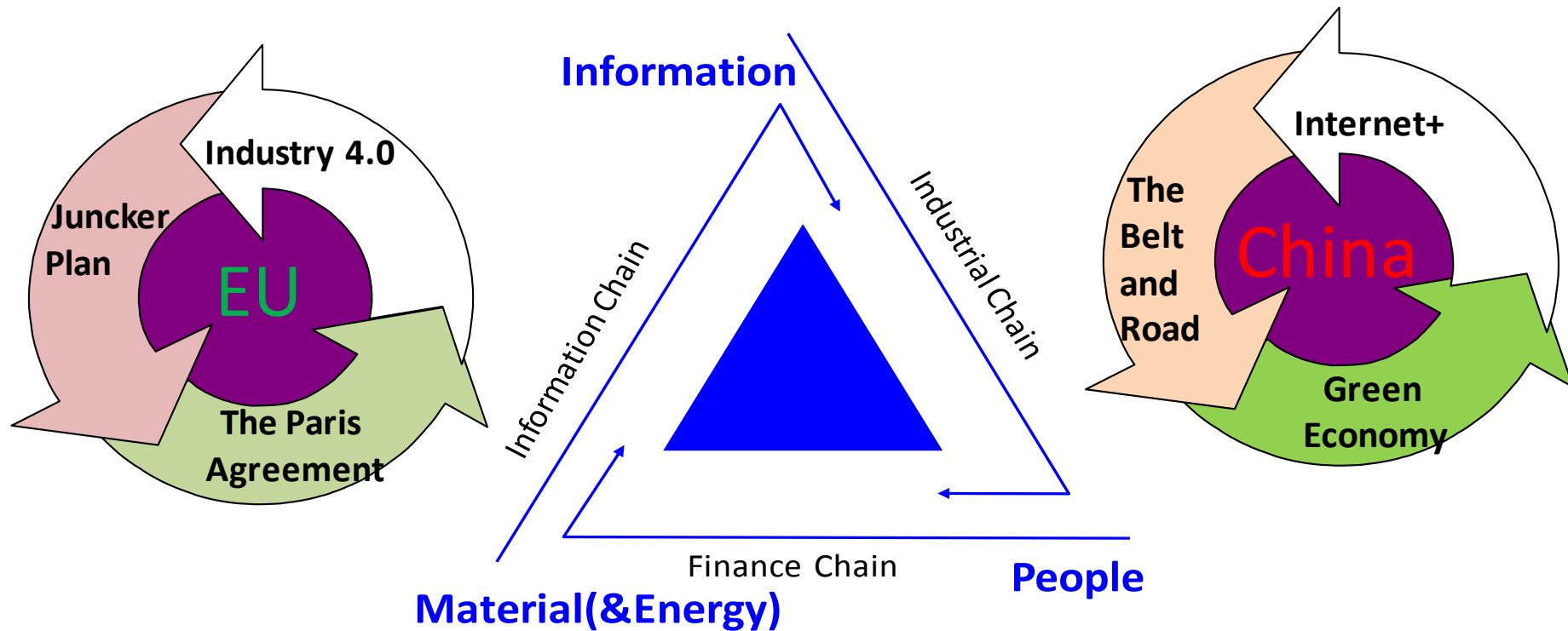
In the first 20 years of 21<sup>st</sup> century,

the world is stepping to Cyber Economy ,while

- ① Finance Crisis broke GVC and the trend of globalization;
- ② “Internet+”& “Industry 4.0” are changing the mode of economy;
- ③ Protectionism is more popular.

**Globalization needs new power and new mode to push!**

#### 4. EU & China are taking steps for future value system



**Two-way investment between EU & China is  
a way to cooperate future value ecosystem**

5. Largest China-EU FDI Projects 2014-2018

SECTORS	YEARS	2014	2015	2016	2017/18
	Internet		④S	①P/③P/⑤P/⑦P	
	Service	②P/⑤P	③S/⑤P/⑥P/⑧S	⑧P	④S/⑦P
	Finance	③P/⑥P/⑧P	⑦SH		⑥S
	Energy & Environment	①S		④S/⑥S	
	Manufacture	④S	①S/②P	②P	②P/③P
	Agriculture & Food & Health	⑦S			①S/⑤P/⑧P

①-⑧ :The scale rank of FDIs of the year  
S: State owned Acquirer; P:Private Acquirer



## 6.1 Agriculture & Food & Health Market in China

### EU/CN Companies Comparison

**Market Value:** Largest population is towards nutritious & healthy living, depending on domestic supply and global value chain.

**Phenomena:** 1) Largest food importer; 2) To reduce agriculture pollution is priority ; 3) More and more surgery in China.

C

#### Advantages of CN Companies

1. Large scale of production and service;
2. Large system of distribution to reach;
3. Tradition culture and local information;

E

#### Barriers to EU Companies

1. High cost and risk in entering a new market;
2. Difficulties enter state-owned channels;
3. Local culture of basic units of the system.



A&F&H  
Market in China

E

#### Capacities of EU Companies

1. High quality products;
2. Advanced R&D ability;
3. To reduce pollution, enhance efficiency and improve the basic living (food & health) of people

C

#### Shortcomings of CN Companies

1. The abuse of low quality products cause high pollution and risk of health;
2. People need more guaranteed food and health care;
3. The existing agriculture and Medical care system is inflexible



## 6.2 FDI in A&F&H: Improving living



**Food trade**

**Pesticides & seeds**

**Medical blood products**

M&A		Business Model	
Acquirer	Target	Price/ Value	Potential Cooperation
<b><u>COFCO</u></b> China's largest food Import and export firm and producers	<b><u>Nidera</u></b> International food trader	USD 250 m./51% H.Global food procurement, trade networks & seed businesses	<b><u>Channel coop.</u></b> To build international food trade platform
<b><u>CHEMCHINA</u></b> Largest Pesticides and Basic chemistry inc.	<b><u>Syngenta</u></b> most powerful enterprises focus Agri. Technology	USD 43 b. /H. Increase safety, reduce pollution and improve efficiency	<b><u>Horizontal coop.</u></b> Coop. to change the safety and efficiency .
<b><u>Creat Group</u></b> China's largest blood products company	<b><u>BPL /Biotest</u></b> 2 largest blood products R&D and producer	GBP 0.9 b. /USD 1.3/H. To help Creat to be largest blood products .	<b><u>Horizontal INT.</u></b> China 's large Blood market for operation and sustain life mainly cancer

## 7.1 Manufacturing Market in China & EU/CN Companies Comparison

**Market Value:** “Made in China” need higher quality and transform to automation/smart manufacture

**Phenomena:** 1) Some Chinese prefer foreign brands more than domestic ones; 2) Smart, new energy & higher quality; 3) Manufacture is upgrading to “Industry 2.0/3.0/4.0”.

C

### Advantages of CN Companies

1. Large scale and variety of production;
2. Marketing channels fit to local culture;
3. Low cost in production.

E

### Barriers to EU Companies

1. Industrial service market is more inflexible;
2. High cost in production and marketing;
3. Higher price than Chinese product.

E

### Capacities of EU Companies

1. High quality products;
2. Advantages of automated production service;
3. Famous brands.

C

### Shortcomings of CN Companies

1. Some people do not trust domestic brands;
2. High awareness of foreign brands;
3. Lack of R&D ability.

Manufacturing  
Market in China

## 7.2 FDI in Manufacturing: Upgrading



**Industrial Robot**

**Tire Industry**

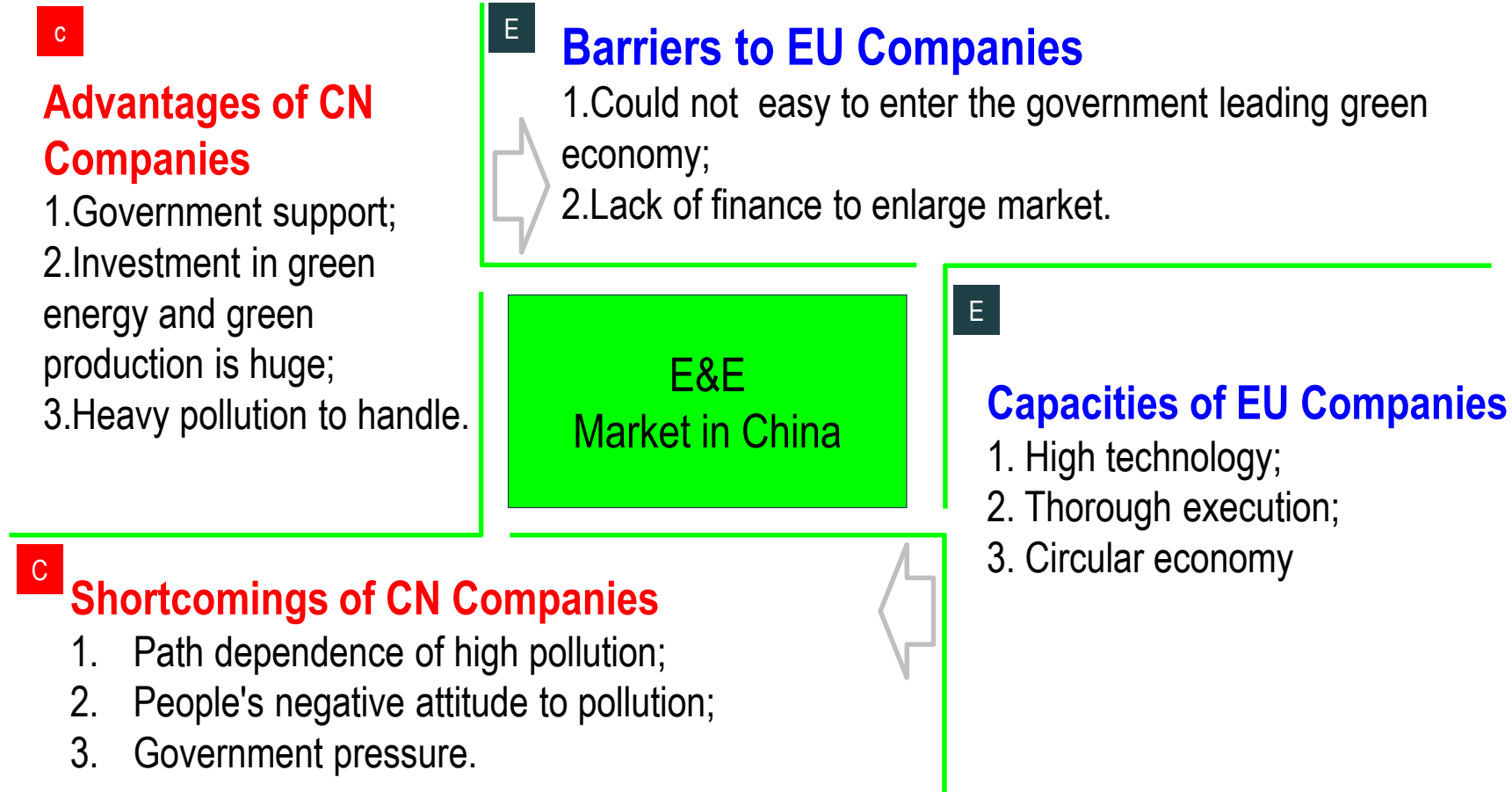
**Automobile Industry**

M&A		Business Model	
Acquirer	Target	Price/ Value	Potential Cooperation
<b><u>Media</u></b> One of largest Electric Appliance Producer .	<b><u>KUKA</u></b> major automation R&D and Provider	EUR 4 b./ H. to update the mode of “made in china”	<b><u>Vertical coop.</u></b> Take media as customer first and enlarge in China.
<b><u>CHEMCHINA</u></b> Annual about 20 m. sets of various types of tires, export	<b><u>Pirelli</u></b> Global fifth tyre Producer & brand & technology	USD 5.29B /G 26.2% to 65% Higher tech. pro. Ability, Global brand	<b><u>Horizontal INT.</u></b> to upgrade Global and Chinese market scale
<b><u>GEELY/LI</u></b> Largest private car enterprise InC. New energy car 90% to 2020	<b><u>DAIMLER</u></b> one of largest vehicle manufacturer and leading in new.	USD 9 b./ to 9.69% ss. For coop. in new energy/smart car production	<b><u>Coop. Asking</u></b> for opportunities for coop. in new energy and intelligent car

## 8.1 Energy & Environment Market in China & EU/CN Companies Comparison

**Market Value:** Heavy Pollution is related to multiple disease. China have to transform to clean energy and clean production model.

**Phenomena:** 1) Government plan to Change to a clean way; 2) More and more garbage and pollution needs new technology to deal with.





## 8.2 FDI in E&E: Pollution reduction

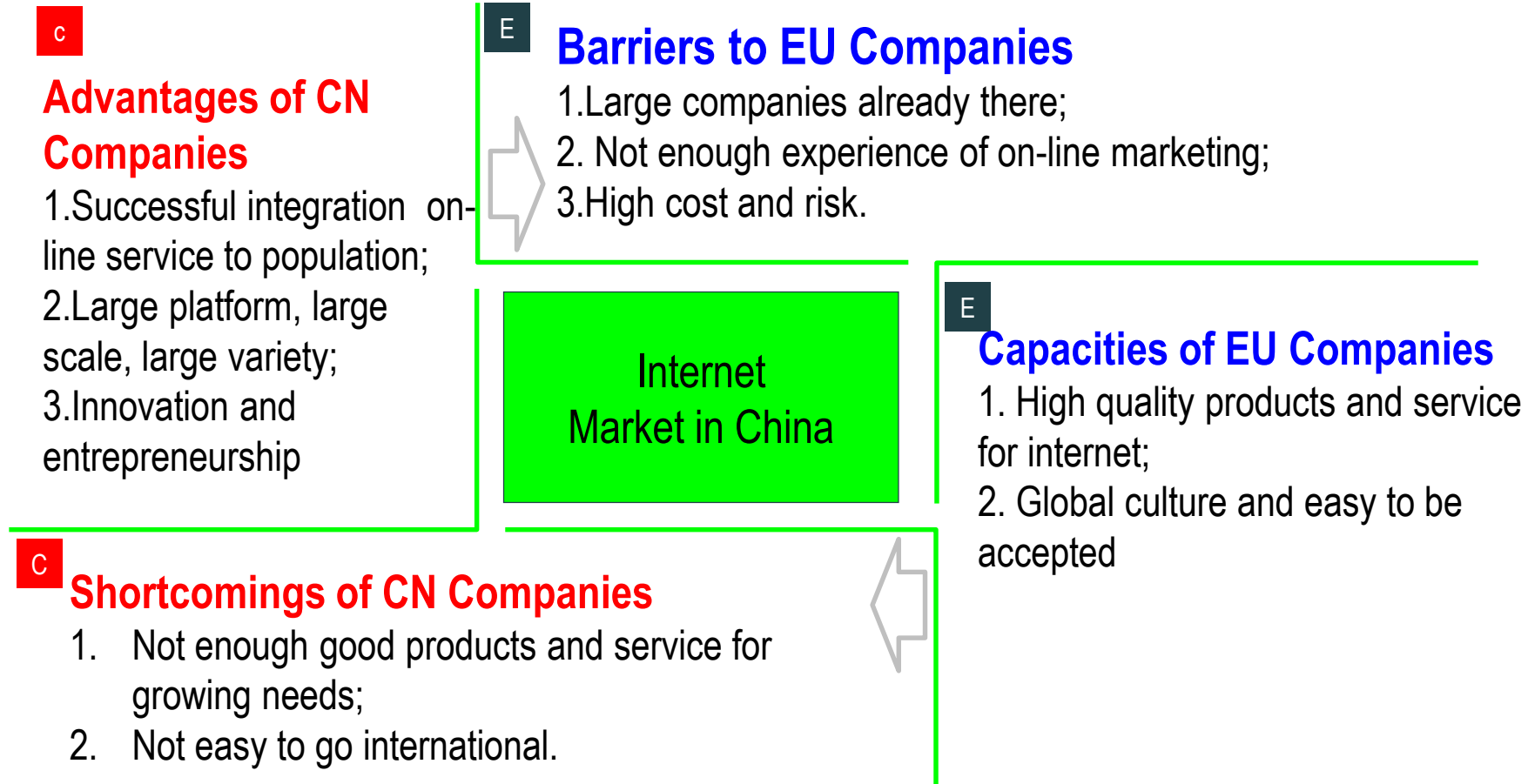


	M&A		Business Model	
	Acquirer	Target	Price/ Value	Potential Cooperation
Market for upgrading				
Energy Finance	<b><u>STATE GRID</u></b> The world's largest Power Grid company	<b><u>CDPRETI</u></b> Transmission network, natural gas network	EUR 2.1 b./ ss. Financial investment and study	<b><u>Asset Investment</u></b> Internationalization and study of energy finance mode
Natural gas pipe network	<b><u>China Investment</u></b> state-owned, engaged in foreign exchange capital investment and management	<b><u>NATIONAL GRID</u></b> Natural gas pipeline distribution business	GBP 1.6 b. / 10.5% Financial investment	<b><u>Asset Investment</u></b> International investment and management
Garbage disposal	<b><u>BEHL</u></b> Beijing infrastructure and public utilities investment and financing platform	<b><u>EEW</u></b> An enterprise focusing on waste incineration	EUR 1.438 b./ H. 100% Garbage dispose has positive externality for larger population	<b><u>Public Goods Investment</u></b> Usage in China, to better people's living

## 9.1 Internet Market in China & EU/CN Companies Comparison

**Market Value:** China has already successfully integrated largest “on-line market and community” which could apply every ICT progress in and out of China.

**Phenomena:** 1) 1) China's on-line market is No.1 in scale and scope; 2) China is mostly innovative in application of internet new business model; 3) Giants appear.



## 9.2 FDI in Internet: merge service and community



Market for  
upgrading

**On-Line  
Games**

**E-  
Commerce**

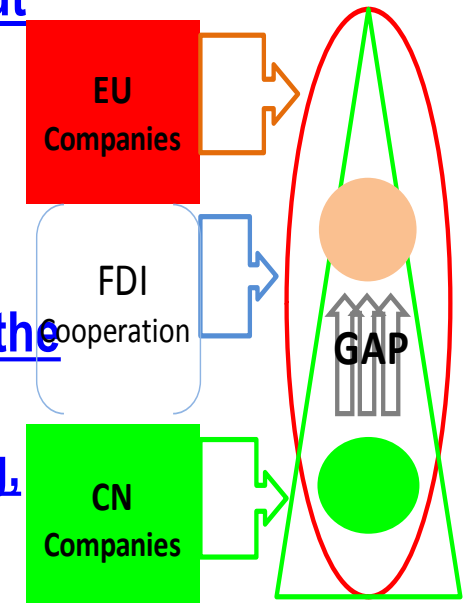
**On-Line  
Tickets**

M&A		Business Model	
<u>Acquirer</u>	<u>Target</u>	<u>Price/ Value</u>	<u>Potential Cooperation</u>
<b><u>Tencent</u></b> Forming the largest on-line community	<b><u>Supercell</u></b> Innovative on-line game developer & small teams	USD 4.1 b./ H. 89% Bring content to community	<b><u>Vertical coop.</u></b> Offering Supercell' s games to Chinese.
<b><u>Alibaba</u></b> Largest e-commerce platform , supply chains integration	<b><u>Lazada</u></b> from <b><u>Rocket Internet</u></b> Largest e-commerce platform in Asia	USD 4 b./ H. Expand Alibaba platform mode to south-east Asia	<b><u>Horizontal &amp; Horizontal INT.</u></b> Enlarge platform and networking, platform for supply chains
<b><u>Ctrip</u></b> Largest on –line hotel booking website and others	<b><u>Skyscanner</u></b> Largest on –line air ticket booking platform in EU	GBP 1.4b./ H. Inter & intra regional professional cooperation	<b><u>Vertical and Horizontal coop.</u></b> Mutual on-board and in-between business

## 10. Conclusion:

### FDI as a cooperative way to EMO Market

1. With economic development, most of Chinese people are quickly emerge from BoP to EMO(Emerging country's Middle Olive demand). EMO market is different for new middle class market in developed country by it is reached by Emerging country's unique channels.
2. China is largest EMO market now. Chinese companies could provide product and service to BoP market, but could satisfy EMO market.
3. EU companies could provide product and service to EMO market, but could not build the unique channels as Chinese companies.
4. The unique channels in China are combined with the traditional distribution system, industrial networking system, and internet-based ecosystem.
5. With FDI, EU and Chinese companies could cooperate to develop the EMO consumers.
6. These FDI to EU are popular in the sectors of living, manufacturing, energy & environment and internet service. Cooperative business model could be designed based on this view.



# China's Belt & Road Initiative (BRI) & Europe

**Dora Munteanu**

**27/4/2018**



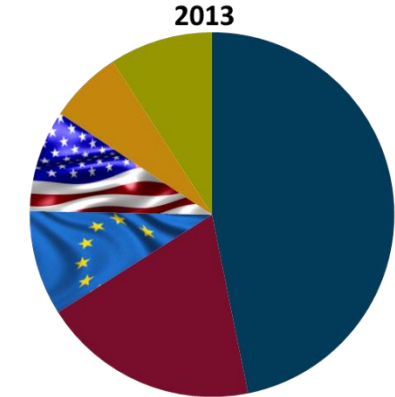
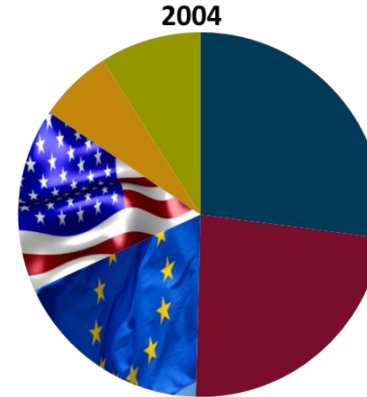
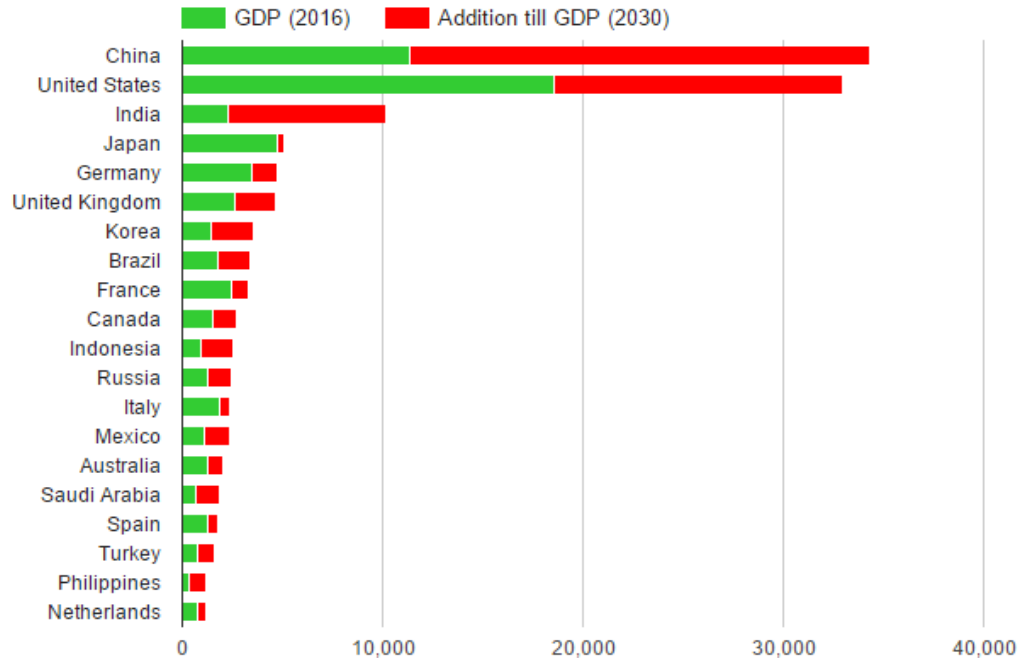
# BRI Driver 1: China Leading the 'Asian Century'

China reinforcing its global position...

Increasing orchestration by China?

**Projected GDP Ranking 2030**

Source: IMF

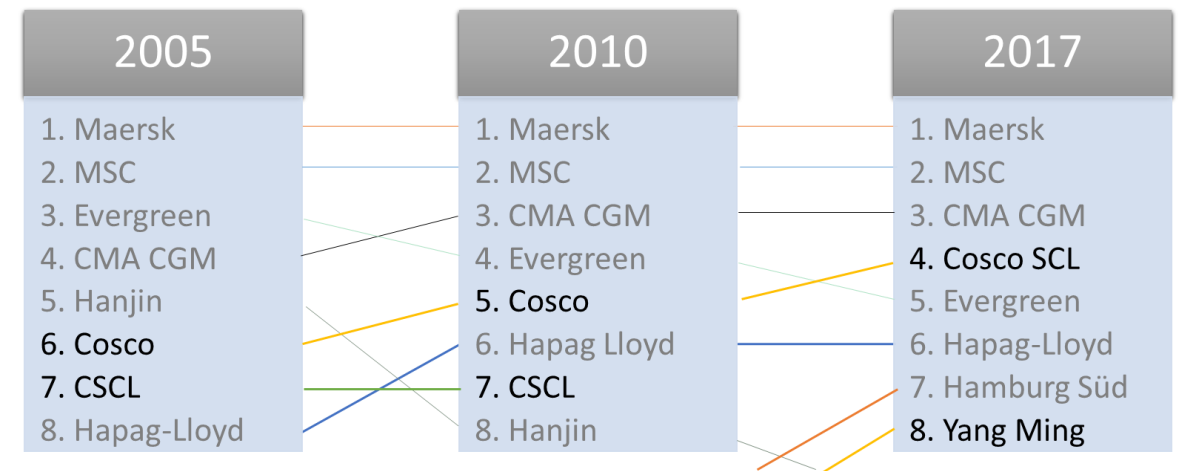


Source: Wordsteel organization

**28%** Of Global containerized maritime export

**34%** Of Global containerized export growth

<http://www.worldshipping.org>



# BRI Driver 2:

## Chinese domestic consumption Ramp-up

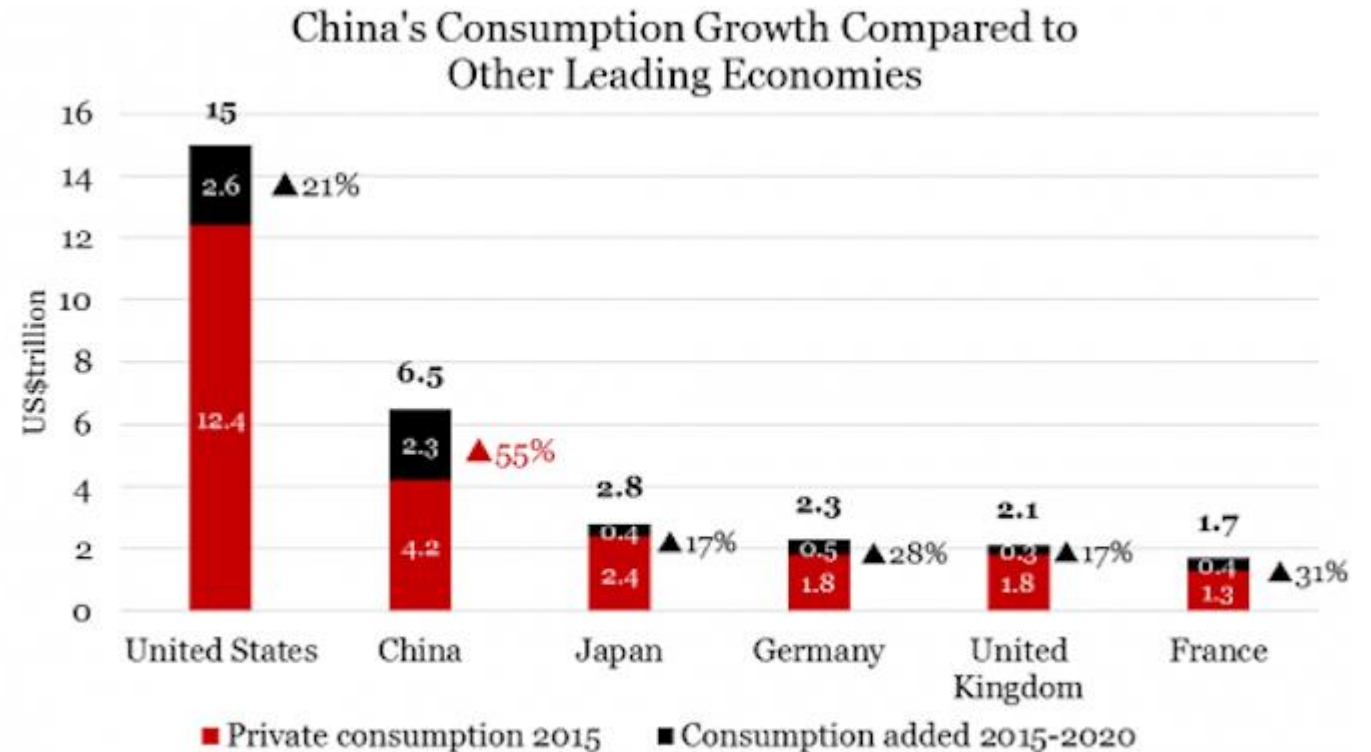
Toward a growth model to a model based on **domestic consumption**

Consumption now contributes **more than half of China's growth**

Positive impact on **consumer goods imports**

New inland economic and logistics **hubs**

**E-commerce and online** platforms development



Source: Economist Intelligence Unit, BCG Research

[www.truewealthpublishing.asia](http://www.truewealthpublishing.asia)

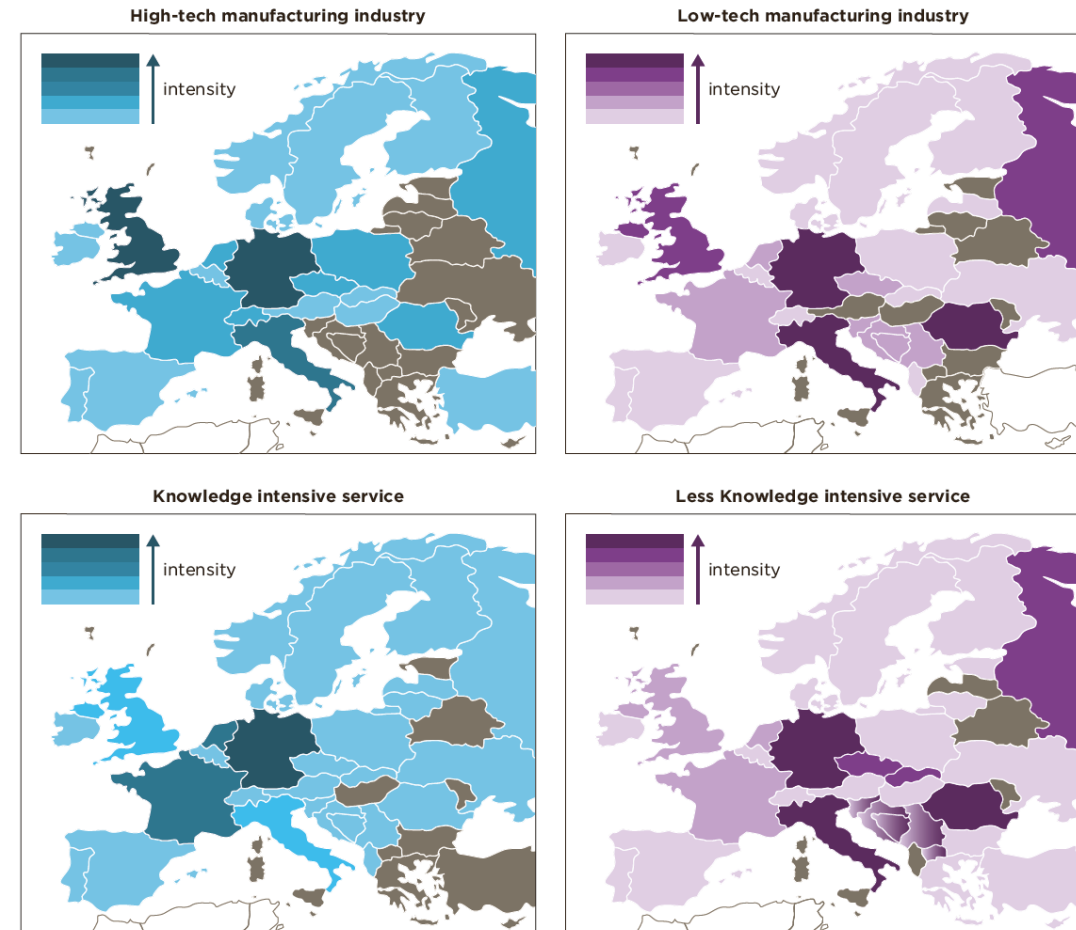
# BRI Driver 3: Export Growth of 'Made (& Created) in China'



2 targeted regions for Chinese exports & investments:

- ❑ **Developed countries** for knowledge-intensive products (NW Europe)
- ❑ **Developing countries** for less knowledge-intensive products (CEE, CIS countries)

MAP. 3.1, REGIONAL DISTRIBUTION OF CHINESE COMPANIES IN EUROPE  
(Total number of companies), APRIL, 2015



# BRI Driver 3:

## Export Growth of 'Made (and Created) in China'

- Accelerating China's innovation engine and support of internationalization of 'Chinese Champions' and export of Chinese products + Sustaining position in the global value chain of Chinese OEM's (e.g. Electronics)
- Global players such as Huawei, Alibaba, BYD, DJI, Haier, etc. receive government support for innovation & globalization

***“Investment cases from Chinese Champions is a strong basis for attracting other OBOR related investments and Vice-versa.”***

***(Chai Hui, Former Director ICBC Branch Belgium)***



# BRI Driver 4:

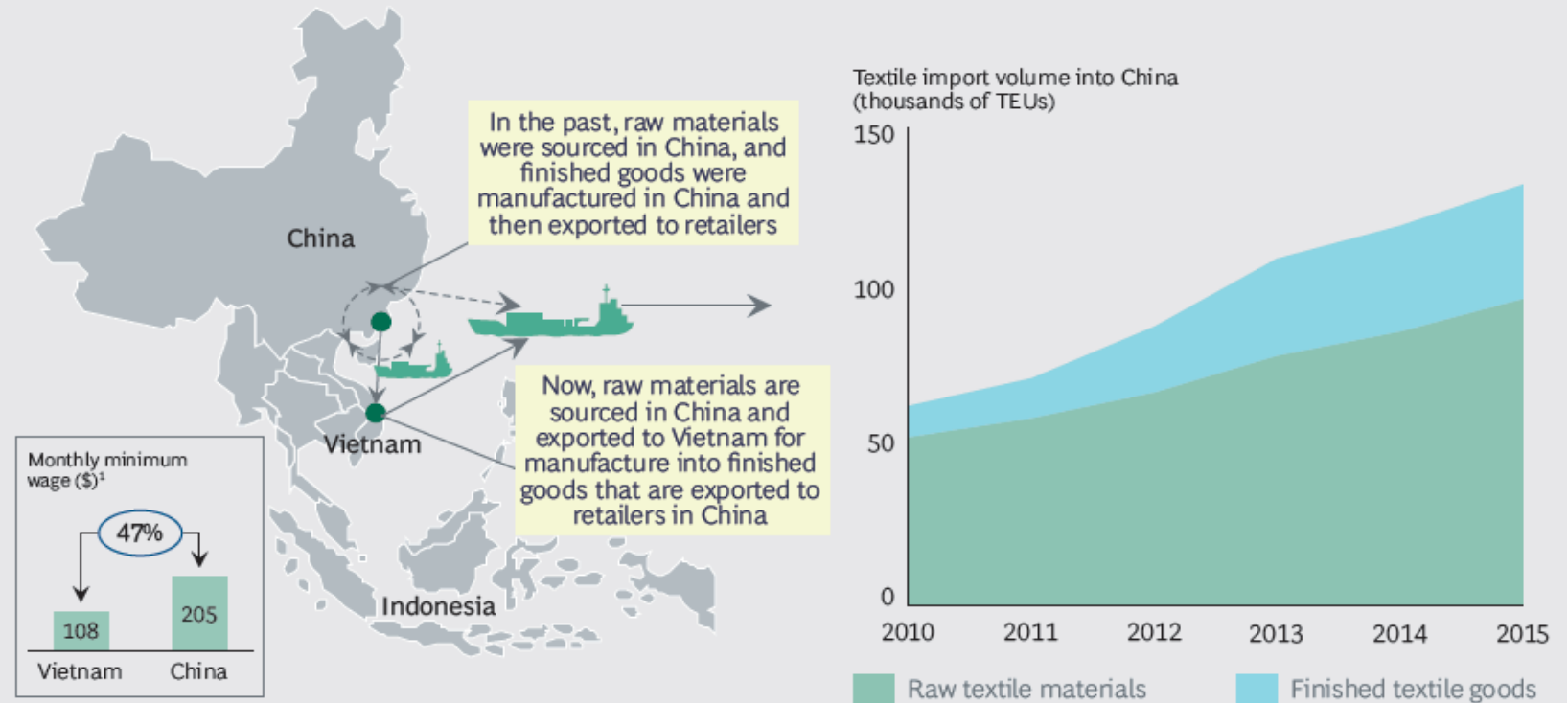
## Manufacturing Relocation Outside China

- Low-cost / high-volume is offshoring further: Vietnam is one of the new manufacturing hubs
- Also China's export markets for overcapacity in certain industries (e.g. steel) and acquired expertise in industrial technology, manufacturing processes, delivery of transportation technology and engineering/construction works. (high-speed railways, highways, buildings, etc)
- Co-investing or supporting developments with expertise – a way to position in these new supply chains

### EXHIBIT 6 | Textile Supply Chains Are Moving from China to Southeast Asia

CHINA IS SHIFTING MANUFACTURING OF LOW-VALUE TEXTILE PRODUCTS TO CHEAPER LOCATIONS...

...AND IMPORTING THEM AS READY-FOR-CONSUMPTION GOODS

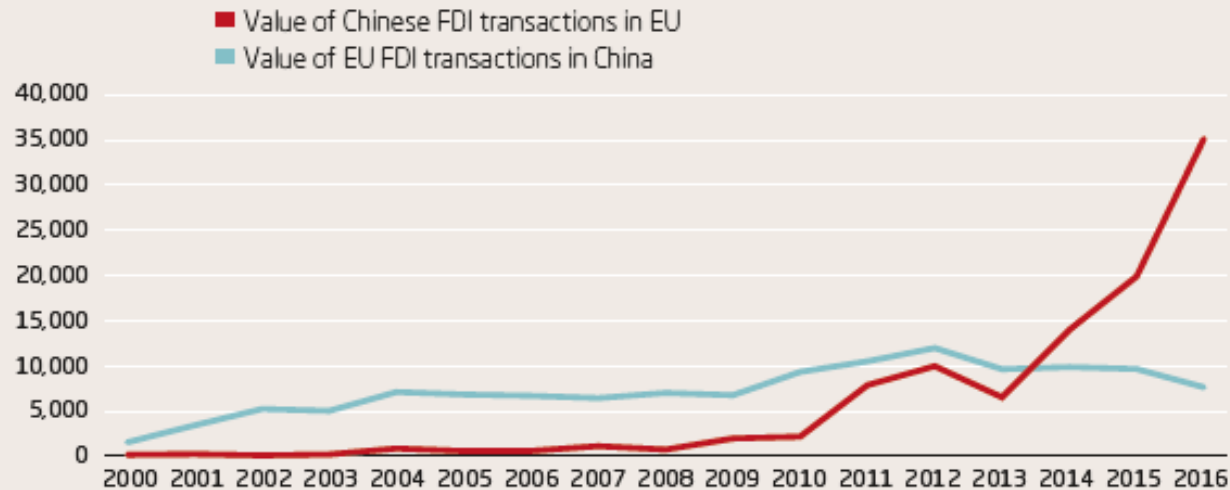


Sources: International Labour Organization; IHS World Trade Service; Statista; Wall Street Journal; BCG analysis.  
<sup>1</sup>In 2014 dollars.

# BRI Driver 5:

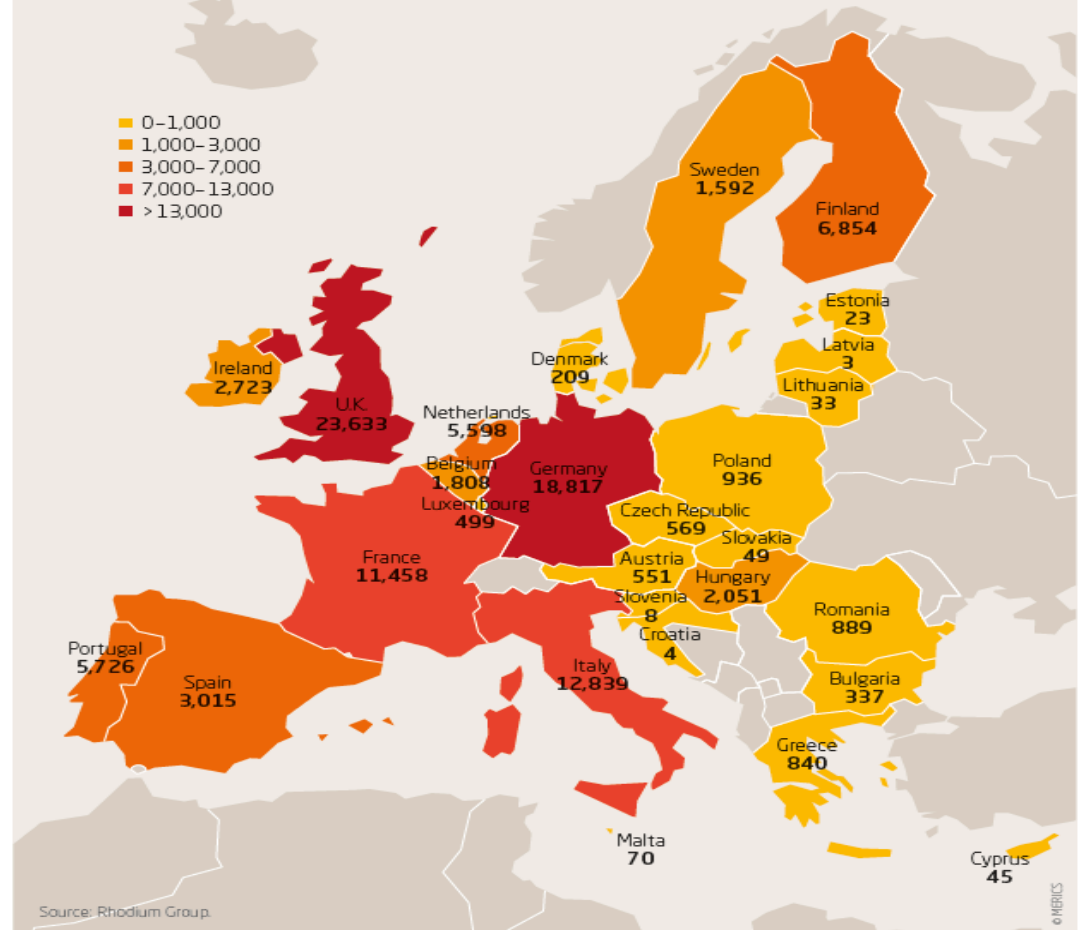
## Acquiring Strategic Assets Worldwide

**Chinese FDI in Europe Surges, while EU FDI in China Declines**  
Value of FDI transactions between the EU-28 and China, EUR million



Source: Rhodium Group. Combined value of FDI transactions includes completed acquisitions resulting in ownership stake of 10 per cent or more and greenfield projects that have broken ground.

**Chinese FDI in the EU-28 2000-2016**  
in EUR million



# Understanding BRI by following the investment and projects trail

## WHY?

**Driver 1:**  
CHINA LEADING THE 'ASIAN CENTURY'

**Driver 2:**  
RAMPING UP DOMESTIC DEMAND

**Driver 3:**  
EXPORT GROWTH OF 'MADE (and  
CREATED) IN CHINA'

**Driver 4:**  
MANUFACTURING RELOCATION

**Driver 5:**  
ACQUIRING STAKES IN STRATEGIC  
ASSETS WORLDWIDE



## OPPORTUNITIES

1. Play the BRI game: involve in co-financed projects in developing and emerging economies (Asia, Africa)
2. Increased trade flows with emerging Chinese local manufacturing & **logistic hubs/ports supported by OBOR** e.g. Xia An, Chongqing, etc
3. **Chinese Champions** investments – become their supply chain partner!
4. Play out connections with **upcoming trade and logistics hubs** in Asia, Eurasia and CEE
5. Play the card of smart specialization and collaboration within regional logistical corridors and specific supply chains

## THREATS

1. BRI = G-to-G initiative; the information is not easily available/transparent to business
2. Chinese Coastal production hubs moving inland (Go-West) – subsidized railway routes vs. maritime transportation routes
3. Increased inter-region trade (Asia) vs. Europe-Asia-Europe trade flows
4. Fast upgrading of the Chinese industry leads to decreased competitiveness of the European counterparts (?); pressure to innovate!



# BRI Investment Patterns

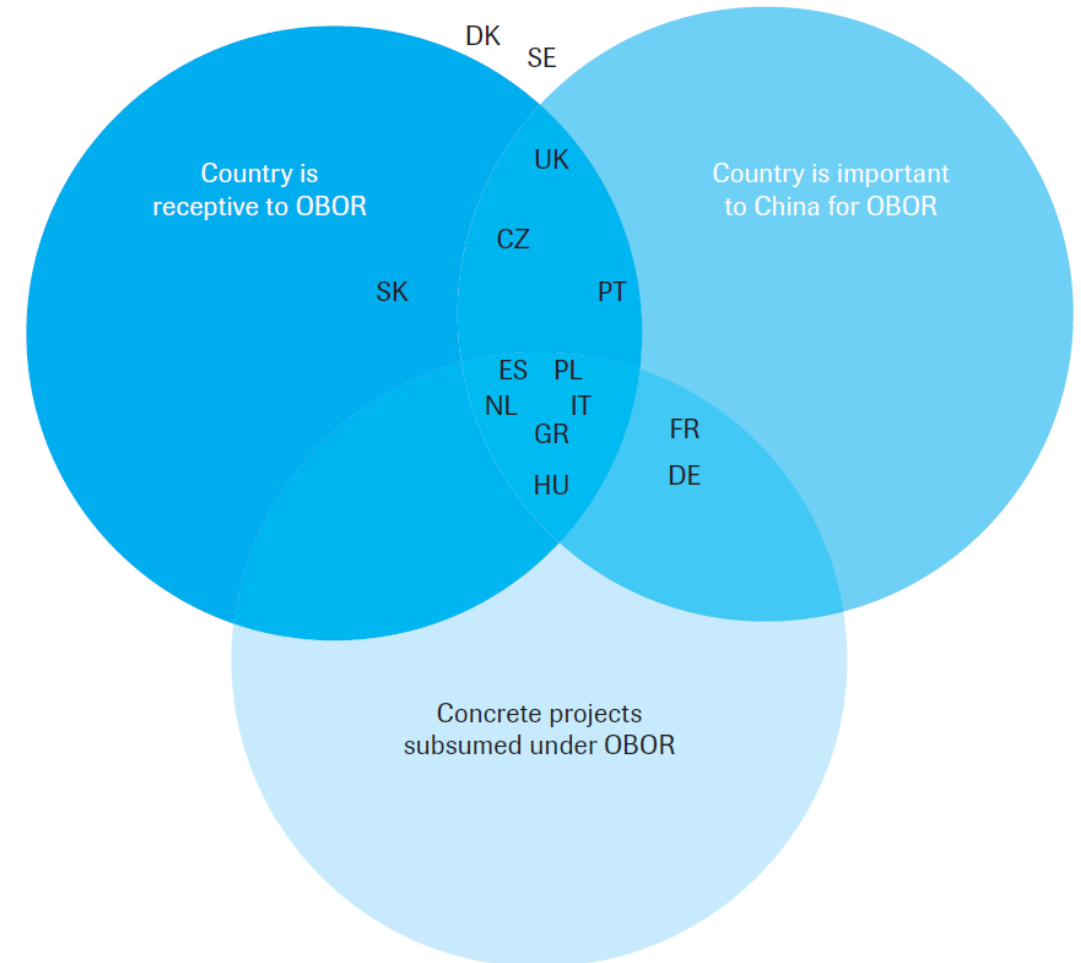
- Port infrastructure leads investments
  - When consolidated, inland transport infrastructure follows
  - Then energy infrastructure
- Follow path of least resistance
  - & then consolidate around hubs
  - & Build inland corridors
- Shipping companies lead the way
  - Backed by investors (AIIB, CMB, ...)
  - Followed by utilities & construction

# BRI & EU Countries

3 factors are used to categorize European countries in relation to BRI:

1. Countries with major BRI projects
2. Countries which are important to China in terms of its BRI outreach
3. Countries which are strongly receptive to China's BRI initiative

Figure 1 Selected European Union Member States and OBOR



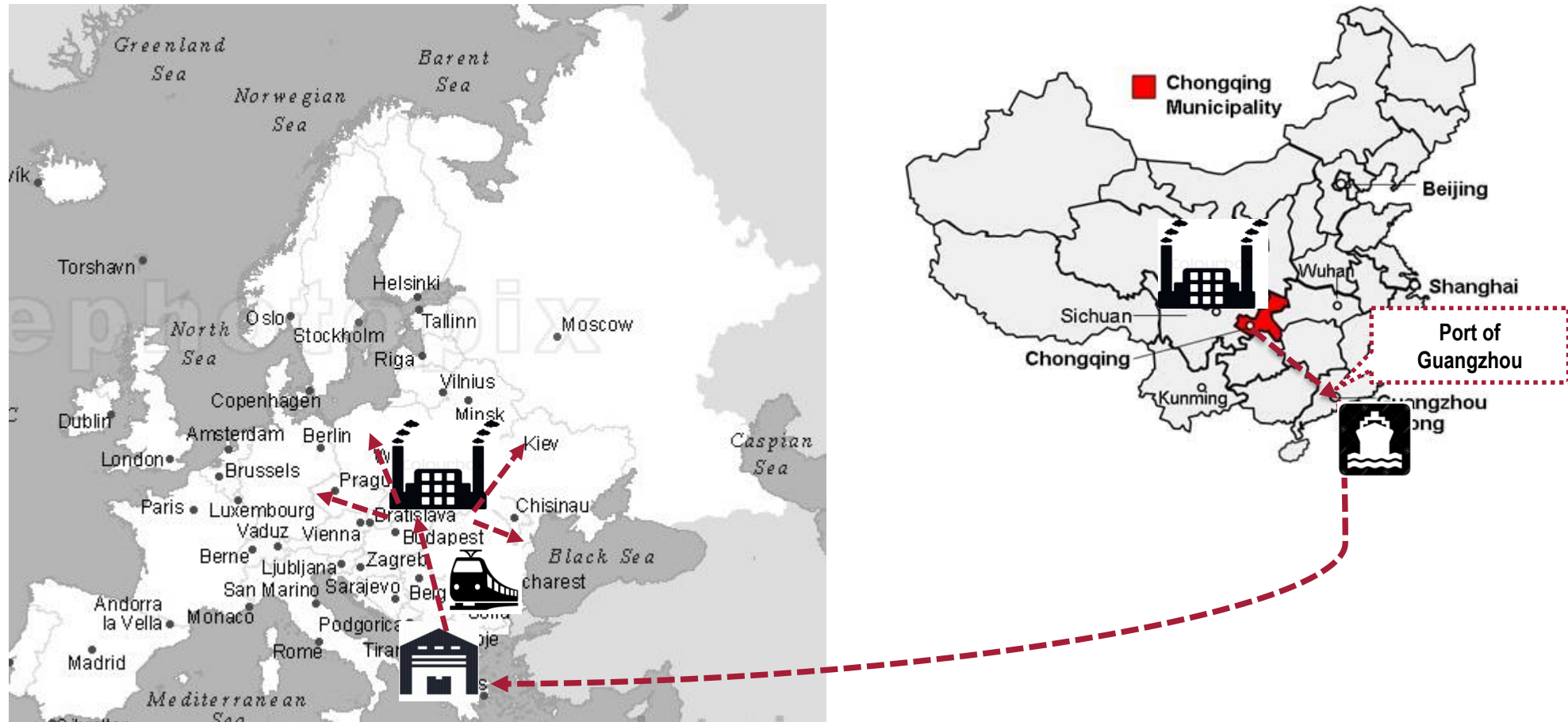




# BRI in Europe: 4 scenarios...?



# Piraeus, COSCO Logistics & HP's Supply Chain



COSCO Shipping designates the China-Europe supply chain for HP from its OEM manufacturing plant Foxxcon up till its assembly plant in the Czech Republic and further the distribution markets in Europe

# Conclusions

- **BRI is more than a slogan, it is a fact...**
- **It is a bundle of initiatives and emergent strategies**
- **It triggers ecosystems – ‘coalition(s) of the willing’**
- **Opportunities can be negotiated, but are for those who step into the ‘BRI’ mindset**
- **Map your S&W, and search/build an ecosystem that fits within BRI**

# *Belgium and Antwerp, where China and Europe meet*

Opening minds  
Touching Souls  
Energizing Business

