

The China Impact: An Industry and Firm Perspective

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Most Vulnerable Industries & Firms

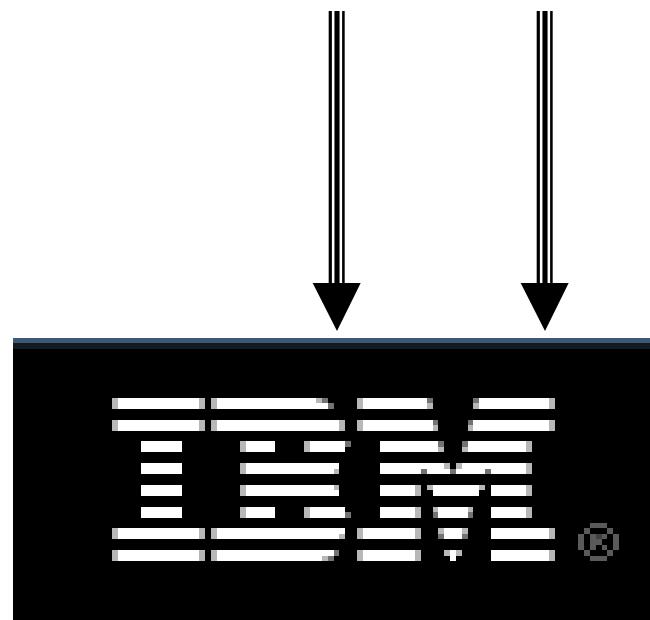
- Labor intensive manufacturers (e.g., apparel, furniture) who cannot shift production to low cost locations, lack a sophisticated supply chain and / or have reached the limits of automation
- Mid-industrial players (e.g., kitchen appliance producers, vehicle component makers) who are not rapid innovators
- Industries and players who are easily imitated or cannot protect against technology leakage (e.g., media)

Past responses may not work this time...

- **Climbing the technology ladder** (Chinese and other players are climbing too; technology can be copied)
- **Shifting to high end products** (with everyone escaping low margin business, it gets crowded up there)
- **Customization** (communication technologies and logistic improvements lower the value of proximity to client)
- **Foreign currency realignment** (A 30+ time wage differential trumps the value of a modest revaluation for anything with 20%+ labor content; vast foreign inputs in Chinese products also mean revaluation will have a negligible impact)
- **Branding** (A brand is vulnerable -ask Mattel-; it can be built over time, it can also be bought...)

Who will Benefit...

- Raw Material Producers
- Builders of infrastructure
- Agricultural producers (of food China imports)
- Aircraft Makers (but regional jet makers and motor vehicle manufacturers are at risk)
- Learning and Training Providers
- Logistic providers
- Technology players who defend their know-how
- Financial Service firms (in particular insurance)



Acquisition Targets for Chinese Multinationals

- Companies with know-how in industries Chinese multinationals are likely to dominate (e.g., appliances)
- Companies with established brand names but weakening competitive position
- Companies with unique and complex technologies that cannot be easily unbundled
- Companies in industries where value added is moving towards suppliers (e.g., automotive)
- Companies in the energy and food sectors

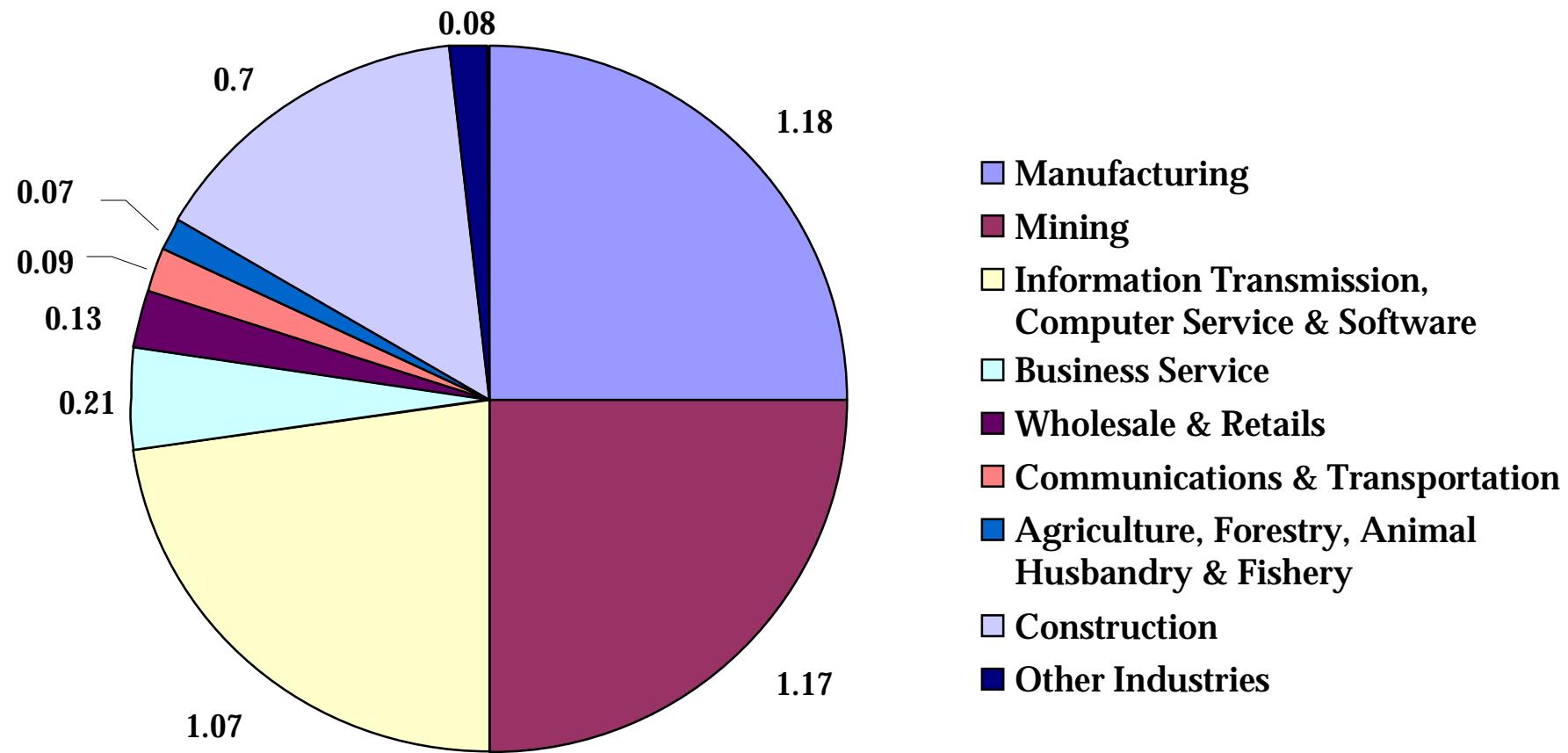
Outward Bound

Chinese Overseas Investment

	Value in billion \$	No. of deals
2001	1.49	36
2002	2.65	43
2003	1.50	41
2004	3.78	53
2005	8.84	50

Source: Dealogic

China Outward Foreign Investment 2005 (\$bn)



FDI Motivation of Chinese Firms (I)

Financial Motivation

- Cheap Capital (especially for pillar firms with state support and monopoly power)
- To mitigate Yuan exchange pressure
- Revaluation will lower foreign asset cost
- Relaxation of foreign exchange control for overseas asset acquisition 4/06

FDI Motivation of Chinese Firms (II)

Strategic and Managerial Motivations

- Develop **global champions**
- Fend off **foreign competition at home**
- Access **technology**
- Get **close to market**
- Shorten way to **global brands**
- Preempt **trade limitations**
- Develop **managerial capabilities in global business, marketing, logistics**

FDI Motivation of Chinese Firms (III)

Political Motivations

- To safeguard **energy** and raw material
- To overcome **protectionist sentiment** especially in the US and, to a less extent, EU
- To build **domestic constituencies** in the US and EU supporting China as provider of local employment
- To build **geopolitical standing**

TCL



RCA

Schneider



Wanxiang

Rockford Powertrain®

Mechanics® Driveshafts

Rockford® Clutch

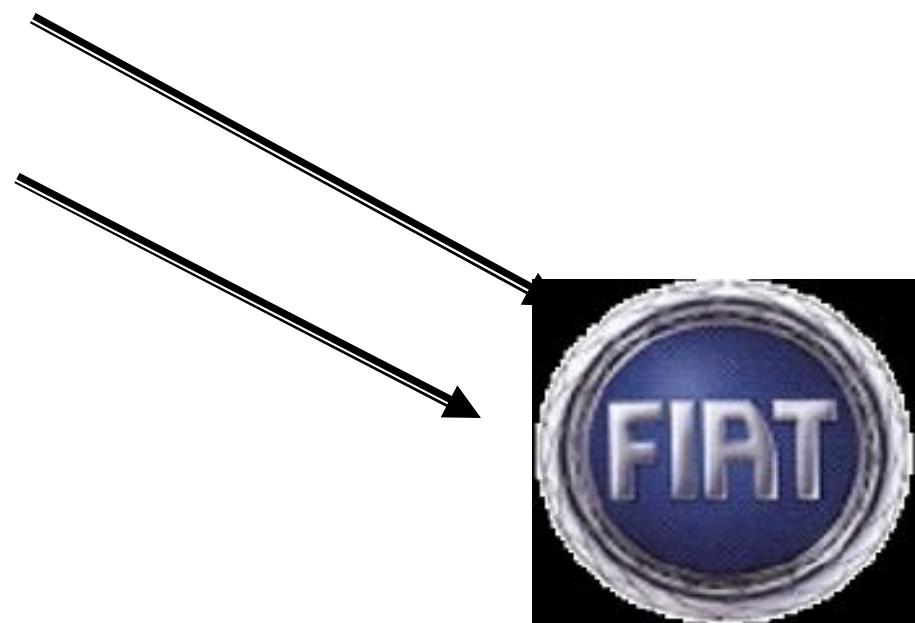
•Universal Automotive Industries, Inc.

•Driveline Systems, LLC

Who's Next?



第一汽車



Who's Next?

