

The China Impact: An Industry and Firm Perspective

Oded Shenkar

September 24, 2007



Most Vulnerable Industries & Firms

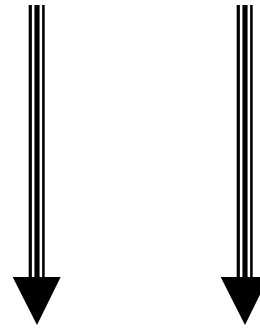
- n Labor intensive manufacturers (e.g., apparel, furniture) who cannot shift production to low cost locations, lack a sophisticated supply chain and / or have reached the limits of automation
 - n Mid-industrial players (e.g., kitchen appliance producers, vehicle component makers) who are not rapid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

Past responses may not work this time...

- n **Climbing the technology ladder** (Chinese and other players are climbing too; technology can be copied)
 - n **Shifting to high end products** (with everyone escaping low margin business, it gets crowded up there)
 - n **Customization** (communication technologies and logistic improvements lower the value of proximity to client)
 - n **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)
 - n **Branding** (A brand is vulnerable -ask Mattel-; it can be built over time, it can also be bought...)
-

Who will Benefit...

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



Acquisition Targets for Chinese Multinationals

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

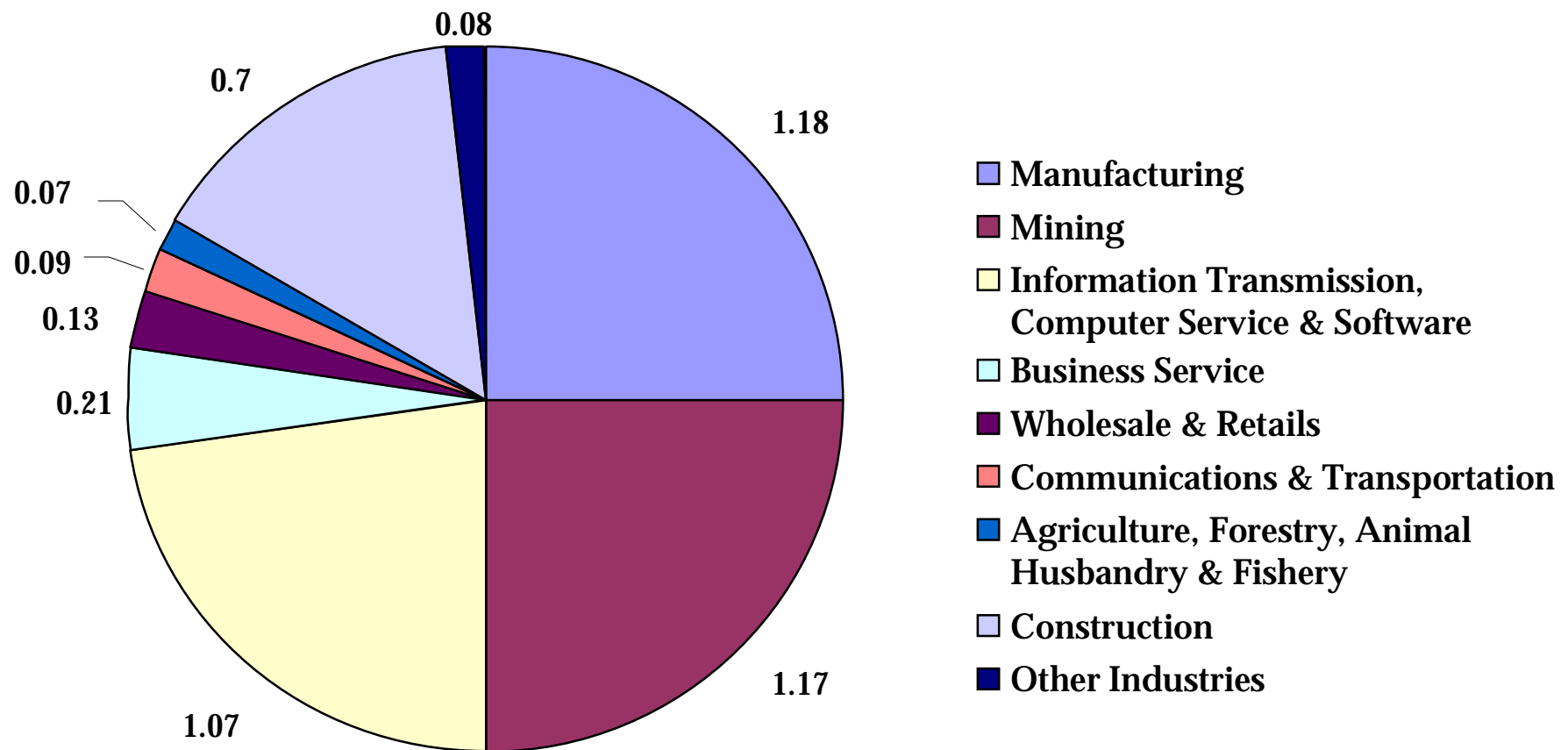
Outward Bound

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

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

FDI Motivation of Chinese Firms (II)

Strategic and Managerial Motivations

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

FDI Motivation of Chinese Firms (III)

Political Motivations

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

TCL



THOMSON
Look Listen & Live™

 **Schneider**

RCA



Wanxiang

Rockford Powertrain®



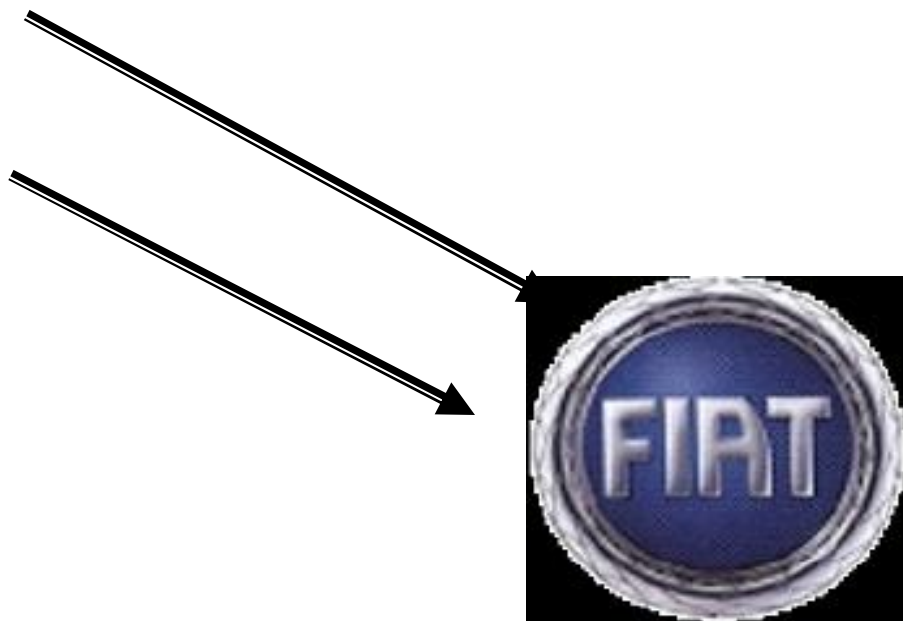
- Universal Automotive Industries, Inc.

- Driveline Systems, LLC

Who's Next?



第一汽車



Who's Next?

