Report on the Development of Chinese Enterprises in the EU

2019

China Chamber of Commerce to the EU, Roland Berger

October, 2019

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Preface

2019 marks the 70th anniversary of the foundation of the People's Republic of China. China began the reform and opening towards a market-oriented economy around 40 years ago, but at the beginning of this century Chinese enterprises began their oversea investments. In the wake of the global financial crisis in 2008-2009 and the subsequent intensification of the debt crisis in Europe, both the global investment demand in China and the international investment by China increased significantly.

As one of the representatives of Chinese banks investing in Europe, I have witnessed the rapid growth and prosperity. Next month, Bank of China will launch a branch in Athens, Greece. Within fifteen years, my colleagues and I led the creation of nine branches in Europe.

Bank of China is only a miniature of Chinese companies' activeness in Europe. I am surprised that in the past decade or so, the number of direct jobs Chinese enterprises have created in Europe has increased tremendously to 330,000; that of indirect ones reached millions. China and the European Union have long maintained strong economic and trade relations. For China, the EU has become the largest trading partner, the largest origin of imports, the second largest export market and the third largest origin of foreign investment; meanwhile, for the EU, China has become the second largest trading partner, the largest origin of imports and the second largest export market.

In order to facilitate China's economic and trading relations with Europe, to enhance the researches on EU’s policies, to promote communication with the EU and to create more business opportunities for Chinese enterprises in Europe, the China Chamber of Commerce to the EU (CCCEU) was successfully registered in Brussels, Belgium on 31 August, 2018. I am honored to be elected the first president to lead my team to serve Chinese enterprises and CCCEU members. So far, CCCEU has more than 50 members from various industries including finance, energy, transportation, machinery, communications, medical and metallurgy, and it represents more than 900 Chinese enterprises in the EU.

After the establishment of CCCEU, our team has been collaborating with Roland Berger, a renowned consultancy throughout the globe. In nearly half a year, we have conducted in-depth researches on Chinese enterprises in Europe, analyzed their development in Europe and assessed quantitatively the business environment in Europe. As a result, the main implications of the research are included in this report.

The overview of the results indicates that: on one hand, China's investment in Europe has grown rapidly in a short period of time, yet compared with the development and the potentials of China's economy and with the needs of EU's member countries, those investment activities are apparently inadequate; on the other hand, in face with today's rampant unilateralism and protectionism, the EU has a strong desire to promote globalization and multilateralism, yet Chinese enterprises are worried about the unpredictability.

However, opportunities still exist. China's intention to establish further economic and trading cooperation with the EU remains adamant. China is pursuing high-quality economic and social development, which focuses on innovation, coordination, sustainability, openness and sharing. China seeks to establish an open world economy. At the meeting between German Chancellor Angela Merkel and Chinese President Xi Jinping in September, President Xi said, “a wealth of economic and trading cooperation between our countries has been achieved within your visit to China, a proof that China is committed to expanding its openness.” I also believe that under the guidance of China's new development principles and the "do as promised" tradition of China, the business activities of Chinese enterprises in Europe will become more mature and frequent.

At the beginning of 2019, the leaders of China and the EU agreed that in order to further expand and deepen exchanges and cooperation after 2020, a new cooperation agenda will be formulated before the next China-EU summit. Additionally, China and the EU are committed to building bilateral economic and trade relations on the foundations of openness, non-discrimination, fair competition, transparency and mutual benefit. Both parties promised to make decisive progress in the negotiations in 2019, especially in terms of the commitment to investment liberalization, in order to reach a high-level China-EU investment agreement in 2020.

Soon, the new leadership of the European Union will take on its mandate for the next five years. Here, I am particularly honored to quote the policy guidelines of Ursula von der Leyen, the new President of the European

Commission, who will take office on 1 November. First, she said, " Multilateralism is in Europe’s DNA. It is our guiding principle in the world." I believe that she will also share the same concept with Chinese leaders, which is expected to be a "reassurance pill" for our Chinese enterprises in Europe.

Speaking of her five-year plan (2019-2024), she said, " In the next five years, we have to work together to allay fears and create opportunities. Europe must lead the transition to a healthy planet and a new digital world. But it can only do so by bringing people together and upgrading our unique social market economy to fit today’s new ambitions."

On behalf of more than 900 Chinese enterprises currently listed in the CCCEU, I sincerely appreciate the revolutionary political wisdom of the new EU leaders. As corporate citizens in Europe, we will also serve such European transformation through mutually beneficial and win-win business activities.

We also look forward to sending a positive signal through this report: Chinese entrepreneurs have confidence in the EU’s large market of 500 million people and in the professionalism of EU’s business partners and high-quality employees. As two civilizations and two markets, China and Europe have unlimited potential and many opportunities.

This report has been the first flagship publication issued by the CCCEU since its establishment. Your comments and advice are highly welcomed and appreciated.

Zhou Lihong, Chairman of CCCEU

Roland Berger

At a time when Chinese enterprises are going global, it is indisputable that the European Union (EU) has always been a vital geographic area for them, given the inherent advantages of EU countries, e.g. the strong consumption power, advanced technology & manufacturing capabilities, and so on.

Nevertheless, along with improvements of their scientific and technological strength in recent years, many leading Chinese enterprises have shifted their EU positioning strategies: the EU is no longer seen solely as a sales market and, instead, a growing number of Chinese enterprises are taking the EU as a key source of creativity by combining their own innovations with the technical advantages of European enterprises. Thus, what they are looking for in the EU is not only about financial performances, but more about the strategic stronghold with high-value output, long-lasting vitality, and a promising vision.

For the EU, these Chinese enterprises are playing a new role as "combustion improver", who will inject more vitality into EU countries, thus fueling the growth of EU industries, enterprises, communities, as well as talents. It is crucial to realize that there is significant potential to be unleashed for both Chinese and European enterprises, who share substantial common grounds and goals.

In such a context, we are looking forward to seeing this bond evolve even more. As a company with its origins in Europe, Roland Berger has devoted itself to encouraging and empowering the collaboration between China and the EU. In the past, we conducted Business Confidence Surveys of European business in China. This time, together with CCCEU, we would like to take this opportunity to clearly specify the situation of Chinese enterprises in the EU and to identify their current challenges. Despite thriving marvelously, Chinese enterprises still sense the existence of barriers to their business development, especially in light of global dynamics and all the uncertainties laying ahead.

The first step to solve a problem is to recognize that there is one. Hopefully, in this report we could articulate the issues and shed some lights on how governments in the EU, European enterprises, and Chinese enterprises could improve the business environment, moving towards an even closer and forward-looking cooperation between the two regions, which would generate a win-win effect and benefit the world.

Denis Depoux, Deputy Chairman of the Supervisory Board, Greater China CEO of Roland Berger

Abstract

The People’s Republic of China (hereinafter, China) and the European Union (EU) have maintained diplomatic relations for more than 40 years. As both sides are an important strategic partner of the other, cooperation between China and the EU in economic affairs and trade has formed a pattern of each having something of the other and a pattern featuring mutual benefit and win-win. In recent years, alongside the acceleration towards globalization, many Chinese companies took root and thrived in EU countries.

Enhancing investment and business development of Chinese enterprises in the EU

The investment made by China as a whole in the EU displays a slightly downturn trend as a result of the fact that the censoring of foreign direct investments (FDI) by EU countries and the censorship of investment abroad by China are becoming stricter. However, a further analysis reveals that investments by Chinese companies in the EU feature high efficiency and high quality, and they are in line with the development trend in EU countries.

A retrospective survey of Chinese companies' business development in the EU

shows that their overall business performance is improving. Although there are still large gaps in volume compared with countries such as the United States of America (US) and Japan, Chinese companies are accelerating their development and contributing with a rapidly increasing output value, thus demonstrating their vigorous development activity and potential.

In the long run, the development of Chinese companies in EU countries is not stuck at the marketing level. They regard the EU as an important strategic base for global development of companies. For this reason, Chinese companies also invested in R&D centers and manufacturing plants in the EU and attached importance to technological innovation, so as to lay a long-term development foundation.

In terms of overall connections, we find that the breadth and depth of the China-EU relationship, whether at policy level, at transportation level, or at the level of technical cooperation or cultural interaction, have all been enhanced.

Meanwhile, Chinese enterprises brought in economic benefits as well as innovation vitality to the EU

It can be observed that the steady development of Chinese companies in the EU can bring profit to both sides, thus creating a win-win situation.

With the continuous development of Chinese companies in Europe, many Chinese companies have been closely related to the local industries and people's livelihood. The EU has provided fertile ground for the progress and upgrade of Chinese companies, whereas Chinese companies have also brought enormous benefits to the development of Europe.

With regard to the development of industries, Chinese companies have driven the upgrade of European industries' value chain in all aspects. Through the collaboration of upstream and downstream segments in the value chain, companies can get breakthroughs in product quality via technical cooperation, and they can improve the operational efficiency of the industry itself. In addition, in some of China's dominant sub-sectors, Chinese companies fill the gap in the European local industry value chain, and promote the improvement of industry standards, with the effect of promoting the overall industrial upgrading. At the same time, many Chinese and European companies carry out deep cooperation based on their own advantages in order to complement the respective skills and share their resources, which has brought by/led to very gratifying synergies.

For the community livelihoods, Chinese companies are becoming more integrated into the local area and they are contributing to the community’s development. In recent years, the localization of Chinese companies has gradually increased and the number of local employees employed in the EU has increased significantly, at a compound annual growth rate of nearly 40%. At the same time, Chinese companies have taken a large number of pragmatic measures in the fields of infrastructure construction, environmental protection, sustainable development, charity and health, thus bringing actual improvement to people's livelihood. In addition, Chinese companies are also committed to assisting EU countries in introducing emerging technologies to enhance the efficiency of government governance.

In terms of technology development, Chinese companies being in the leading position of various industries aim at promoting the development of cutting-edge scientific and technological research in manifold ways, for example through the establishment of research institutions, through the promotion of cooperation between universities and enterprises, and through education and training for personnel. Chinese companies also drive innovation and development in EU countries by leveraging advanced technologies. For instance, based on leading technologies, such as cloud computing and AI, Tencent provides BMW advanced and integrated technology and platform for autopilot development. In addition, Huawei launched the "Seeds for the Future" program, to cultivate talents for future technology development, and there have been so far more than 1,347 participants from 31 European countries.

However, Chinese enterprises are facing numerous challenges during business development in the EU

At present, even though the global economy is gradually recovering, the foundation is still unstable and the number of uncertainty factors is increasing. In order to promote the development of China-EU cooperation and to grasp the opportunities for improvement, we launched the European Business Environment Index for Chinese companies, which can systematically evaluate the business environment, political environment, the economic and industrial environment, the infrastructure and supporting environment, the research environment and talents faced by Chinese companies in Europe. Overall, the EU's business environment for Chinese companies is satisfactory, but there is room for improvement, as the score of 73 points shows.

Further, we have conducted deep research into the core challenges and constraints encountered by Chinese enterprises in Europe, mainly concentrated in the following six aspects.

- Due to the increasing censorship of FDI by the EU, the access of Chinese companies in certain key areas is limited, and this may increase the overall time cost and uncertainty.
- For specific areas such as energy, artificial intelligence (AI), information and communications technology (ICT) etc., due to misunderstandings arising from political and public opinion, restrictions have been placed upon Chinese companies with regard to the development of specific business. For example, when the European Commission (EC) conducted an anti-monopoly review against China General Nuclear Power Group (CGNPC) and the French Power Group investing in the British nuclear power plant in Hinkley Point, it consolidated the turnover of the CGNPC and of a state-owned energy company in Europe that is not directly related to CGNPC, and took them as the main body of the transaction. Although the review was finally passed, it also set a precedent for taking the enterprise, which is in the same industry as China's State-owned Assets Supervision and Administration Commission (SASAC), and the SASAC as a whole in the review.
- When Chinese companies started their business in Europe, they made many detours due to unfamiliarity with local laws and business rules, having difficulties in finding international talents. Under these circumstances, support services for local investments are very important, but these institutions need to be further popularized and developed.
- At the same time, although some Chinese companies stood at the forefront of numerous global industries, they were not able to participate in the formulation and revision of relevant EU standards, because of not giving sufficient attention in the previous period. As a result, they can only passively accept and implement those standards, which has brought obstacles to the development of local business.
- The poor communication between China and the EU caused misunderstandings, which also affects the development of Chinese companies in Europe. Due to the lack of regular communication channels between Chinese companies and local governments, the latter do not understand the demands of companies, and the former often have difficulties in submitting their demands. On the other hand, European media and the public opinion have a negative impression of China because of their one-sided understanding of China, which may drive them apart.

Chinese companies are also misunderstood by local industry associations and by local public due to the lack of awareness of building corporate identity.

- Lastly, due to the different business traditions in China and in Europe, there are differences in corporate governance models, which results in some friction and conflict.

Although they did not shake the confidence and determination of the Chinese companies to develop their business in Europe, these challenges have inevitably slowed down the pace of these enterprises' development and, to a certain extent, inhibited the original potential for development.

Suggestions for EU governments, enterprises, as well as Chinese enterprises

As an important player in the global economy, China and the EU should actively promote mutually beneficial cooperation. First of all, the EU should adhere to the direction of globalization and free trade, refuse to politicalize business issues. It is suggested that the EU should hold understanding and respect to the differences with Chinese enterprises on ideology, political structure and culture backgrounds of each other from an open and pragmatic perspective. As acknowledging the difference between one another, the EU should also give more reconcilable space to Chinese enterprises, so as to push forward a long-term and steady development for both parties.

Secondly, it is unwise to allow some subjective de-globalization noise to cloud the collaboration prospects: for instance, by feeling alarmed by Chinese achievement in some rather specific fields, or by considering China-EU economic relationship as a zero-sum game. If we observe from a holistic perspective and take all industries in to consideration, the economic and trade relationship between China and the EU is, as a matter of fact, balanced and mutually beneficial. It is estimated that in 2018, the EU enterprises and their subsidiaries achieved a turnover of nearly 400 billion euro in China, while the turnover of Chinese enterprises in EU countries was less than 210 billion euro, only half of the turnover of European enterprises in China. At the same time, EU enterprises made net profits of more than 23 billion euro in China, while Chinese enterprises made net profits of only about 8 billion euro in Europe, about 1/3 of the net profits of European enterprises in China. In the past five years, EU enterprises have achieved a total turnover of over 1.7 trillion euro in China, while Chinese enterprises have made a total turnover of 760 billion euro in Europe, which is only about 44% of that European enterprises made. Meanwhile, European companies made more than 100 billion euro in net profits in China over the past five years, while Chinese companies made just over 22 billion euro in net profits in Europe, only about 22% of their cumulative net profits in China.We can see that the globalization of Chinese and European enterprises is of great benefit to the economic development of both sides and is a key thrust for the development of EU enterprises. As a result, it is only reasonable to create the conditions for further cooperation. Last but not least, it should not be limited to the present: we should focus on the long run, on the trends driving the global technology development and on the future. Up to now, China has laid out a large number of key global cutting-edge technologies like block chain, IoT (Internet of Things), supercomputer and so on, and achieved world-renowned achievements in terms of patent number and global ranking. Among the global supercomputer ranking, Sunway TaihuLight and Tianhe-2 is in the third and fourth place respectively. In contrast, in the European Union, only Germany's SuperMUC made the top 10, but only ranked ninth. In the future, the EU should seek cooperation with Chinese enterprises to drive the global technology development, and seek common growth in the growing market.

In addition, if the EU were to give Chinese enterprise some pragmatic assistance, such as information sharing, resource docking, process optimization, etc., it would be extremely helpful and beneficial. Even a little help can mean a lot to Chinese enterprises in terms of their development of Europe, as it could empower Chinese enterprises to further increase their development at local level. The China Center set up by many bureaus for the promotion of local investment has helped Chinese companies to take root in Europe. According to the research conducted by Roland Berger, more than 90% of Chinese companies believe that assistance from local Chinese centers and agencies for investment promotion is beneficial and indispensable to their business.

At the same time, one should not make the mistake of overlooking the fact that Chinese enterprises need to further integrate into local development in EU countries. Rather than establishing a Chinese company in Europe, we should hold the concept of building a European enterprise with Chinese genes in it, and the idea of working with EU companies and people to create a better development. In order to seek further development in this direction, Chinese companies can actively contact local industry associations and participate in standard setting. Normalized and transparent communication with European organizations and employees is even more crucial.

As of 2019, there is no doubt that both China and the EU have the ability to empower each other and the whole world. We should strengthen our mutual trust by actively seeking cooperation and growing consensus, so as to release each other's potential and seek a long-term common leap.

Chapter I

Current Situation of Investment and Business Development of Chinese Enterprises in the European Union

In the past 40 years, trade between China and Europe has grown by 250 times. For 15 consecutive years, the EU has been China's largest trading partner. In 2018, two-way trade reached a historical high level of $682.16 billion.[1]The economic links between the EU and China have become increasingly tighter and expanded to wider cooperation field. Chinese enterprises in the EU have not only brought in investments, but they have also been driving local economic growth, creating employment opportunities, and fueling the development of numerous industries.

1 Gov.cn

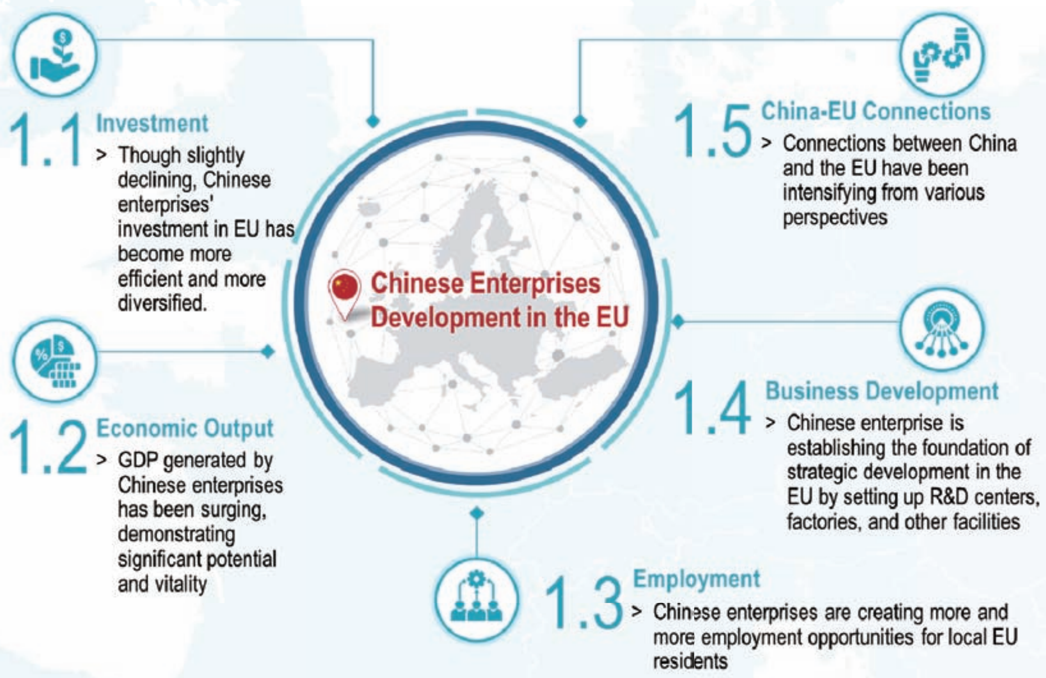


Figure 1.1: Overall trend of Chinese enterprises' current investment and business development in the EU

Source: Roland Berger Analysis

1.1 Though slightly declined in recent couple of years, Chinese enterprises' investment in EU has become more efficient and more diversified

1.1.1 Chinese outward foreign direct investment (FDI) in the EU has been fluctuating in recent years, while slightly declined in 2018

Observing the overall trend, Chinese FDI in EU countries has slightly declined in recent years as a result of the shifting investment environment. This downfall is driven by both sides, on the one hand, the governments of some European countries are tightening their censorship of FDI, on the other hand, China is also intensifying its regulation of investment abroad and restricting investment in sectors other than the real economy.

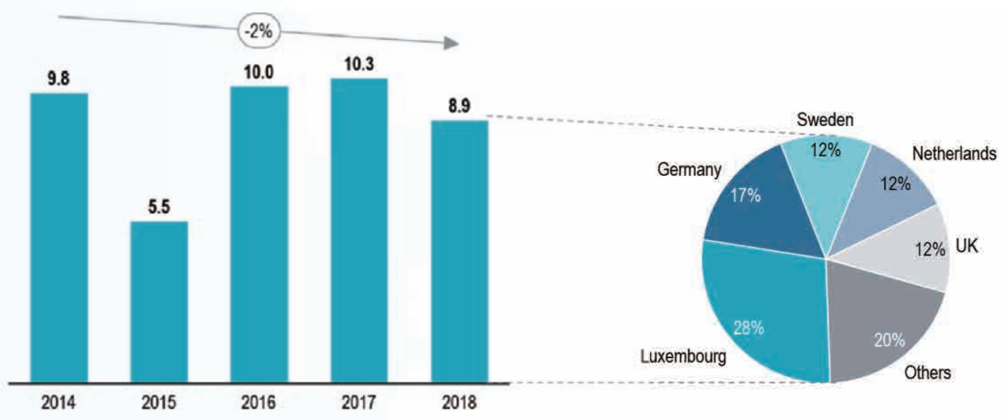


Figure 1.2: Chinese FDI in the EU [2013~2018, Billion Dollar]

Source: Ministry of Commerce of PRC, Statistical Bulletin of China's Outward Foreign Direct Investment

Luxemburg, Germany, France, the Netherlands, and the UK are the main investment destinations of Chinese capital, accounting for nearly 80% of total Chinese FDI to the EU. [2]

1.1.2 Deep dive into overall Chinese FDI to the EU, greenfield investment is developing robustly, while private enterprises have become the major players

For EU countries, Chinese enterprises provide an important driving force of development by virtue of their highly effective investments that are line with the development trend of the EU, even though Chinese FDI has been declining in the last three years.

From an investment-type perspective, greenfield investments remain stable and less adversely influenced by restriction on mergers and acquisitions (M&As), because the EU is, and will always be, one of the most important strategic

2 Ministry of Commerce of PRC, *Statistical Bulletin of China's Outward Foreign Direct Investment*

markets for Chinese enterprises. According to a survey by Roland Berger, the majority of Chinese enterprises which have been doing business in the EU are optimistic about their business and commercial prospects in the EU, and they are looking forward to continuing their greenfield investment.

From a capital-source perspective, the share of capital from private-owned enterprises has been continuously increasing from 14% for 2010 to nearly 60% for today, surpassing the share of capital from state-owned enterprises and bringing in more diversified vitality to the EU countries[3].

From an industry perspective, Chinese FDI has becoming more diversified and consistent with the development trend of EU countries.

To be specific, the diversity of investments by Chinese enterprises in the EU significantly improved during the five years from 2013 to 2017. In 2013, the investment in traditional Chinese FDI fields, i.e. mining, financial services, manufacturing, leasing and business services, and wholesale and retail trade sectors accounted for 88% of the total investment stock, whereas only a small portion of investment was going to other sectors. In the four following years, the investment stock in information transmission, software and IT services industry, as well as in the culture, sports and entertainment industry grew rapidly at an compound annual growth rate of more than 120% in average[4]. By 2017, the investments in these emerging industries/sectors established its presence and diversified Chinese FDIs in the EU.

Furthermore, Chinese enterprises' investment in IT and entertainment industries also fits EU's policies for encouraging the development of those industries well.

3 Rhodium Group (RHG) and the Mercator Institute for China Studies (MERICS), *Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies*

4 Ministry of Commerce of PRC, *Statistical Bulletin of China's Outward Foreign Direct Investment*

EU countries had drawn up a series of policies and guidelines, including the Digital Single Market strategy (2017), the Industrial Policy of EU and European Approach to AI (2018), and Guidelines for Ethical AI and A Common EU Approach to the Security of 5G Network (2019).[5] The EU has, based on the preparation of a number of policies and plans in recent years including the Creative Europe program 2014-2020 which has been recommended to be continued in 2021-2028, aimed to promote the development of entertainment industries by virtue of the creative European culture.[6] It is noteworthy that Chinese enterprises' investment in EU countries not only focuses on mature industries and enterprises but also injects valuable funds to numerous startup businesses, thus fueling the long-time development of startup businesses and lending impetus to EU countries. For example, Hillhouse Capital invested nearly USD 60 million in Hookipa, an Austrian company, in 2018, to support its development of clinical biotechnology[7]; Tencent became a lead-investor in Lilium, a German electric drone researcher, in 2017 and invested a sum of USD 90 million in that company[8]; FOSUN Capital invested more than ten million Euro in NAGA Group, a German banking technology company[9].

1.2 Economic output brought by Chinese enterprises has been surging, demonstrating significant potential and vitality

Overall, the number of Chinese enterprises in EU countries is still smaller than those of the US and Japan. Yet, due to their higher growth rate in recent years, Chinese enterprises will hopefully play a crucial role in terms of FDI in EU countries. For sake of comparison, the average compound annual growth rate of US and Japanese enterprises in Germany, Italy, and the Netherlands over the period 2013-2018 was less than 5%, whereas the growth rate of Chinese enterprises was higher than 10% in all these countries, and even up to 25% in Germany.

5 Ministry of Commerce of PRC, Commercial Information Quick Channel
6 China Financial News
7 Ether Search
8 Xinhua Net
9 NAGA Official Website

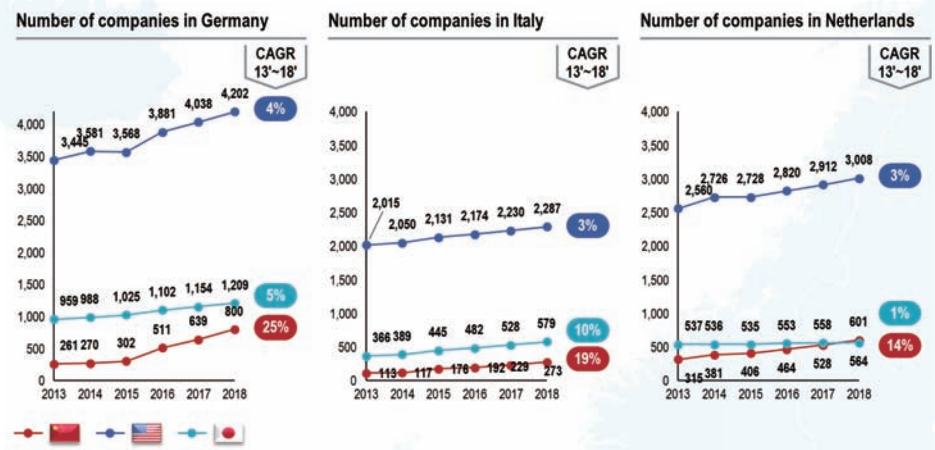


Figure 1.3: Number of Chinese, US, Japanese enterprises in Germany, Italy, the Netherlands [2013~2018]

Source: Eurostat; Roland Berger Analysis

1.2.1 Economic value generated by Chinese enterprises in EU countries has been growing significantly

Despite their low overall economic output compared with their US and Japanese counterparts in EU countries, Chinese enterprises display an impressive development activity. For example, the average compound annual growth rate of total production value of US and Japanese enterprises in Germany remains at 2~3%, whereas the growth rate of Canadian enterprises is continuously going down. In contrast, the economic output value of Chinese enterprises is growing fast, at a growth rate of 30%.

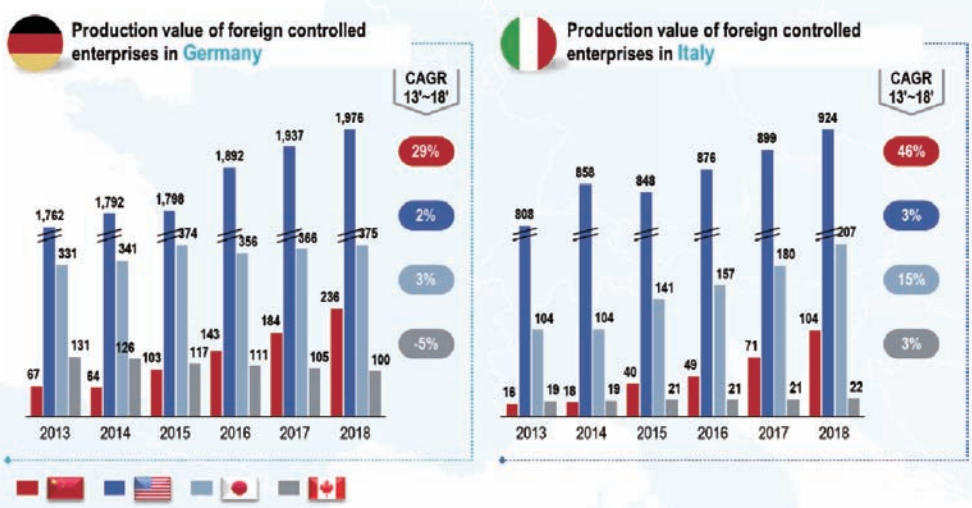


Figure 1.4: Production value of foreign controlled enterprises in Germany and Italy

Source: Eurostat; Roland Berger Analysis

1.3 Chinese enterprises are creating more and more employment opportunities for local EU residents

In general, the number of employees hired by Chinese enterprises in the EU is growing rapidly at an average compound annual growth rate up to 39% in recent years, and it increased from 90,000 in 2013 to about 327,000 in 2018. Moreover, the percentage of EU-native employees has been continuously increasing to about 75%. Consequently, the number of jobs created by Chinese enterprises for EU residents increases impressively as a result of the multiplier effect of the fast growth rate and of the increase in the proportion of native employees.

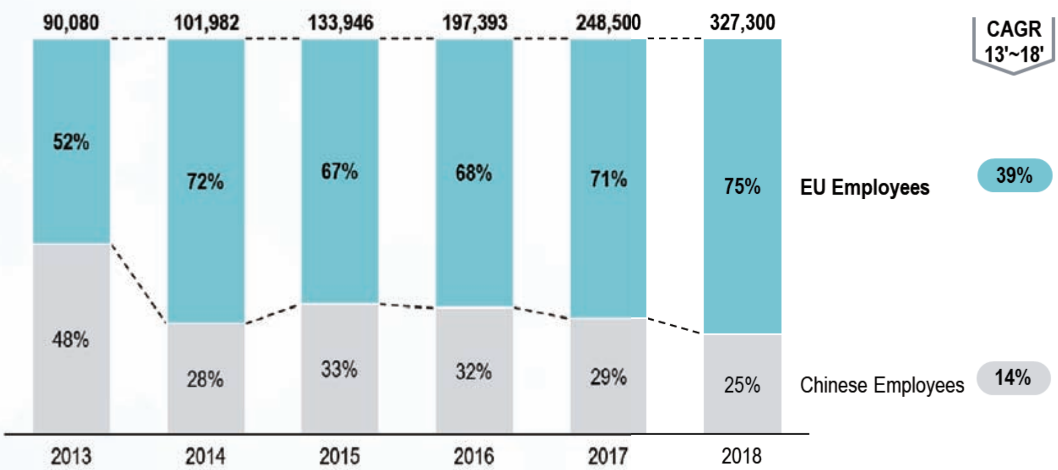


Figure 1.5: Production value of foreign controlled enterprises in Germany and Italy

Source:Ministry of Commerce of PRC, Statistical Bulletin of China's Outward Foreign Direct Investment; Eurostat; Roland Berger Analysis

1.4 Chinese enterprises are establishing the foundation of strategic development in the EU by setting up R&D centers, factories, and other facilities

1.4.1 Numerous enterprises choose EU countries as new stronghold for R&D and manufacturing

Nowadays, Chinese enterprises business activities in EU countries are not limited to financial investment, marketing and sales. In addition, an obvious trend shows that a growing number of Chinese enterprises foresee their long-term development in EU. Therefore, they set up R&D centers and/or production plants in EU countries and made considerable investment in fixed assets in order to lay down a solid foundation for their long-term development.

For example, Geely Auto established R&D centers in Germany and Sweden for the development of key technologies and components of new energy vehicles. CRRC set up R&D centers in Germany and in the United Kingdom for the development of technologies for light-weight rail transit equipment.

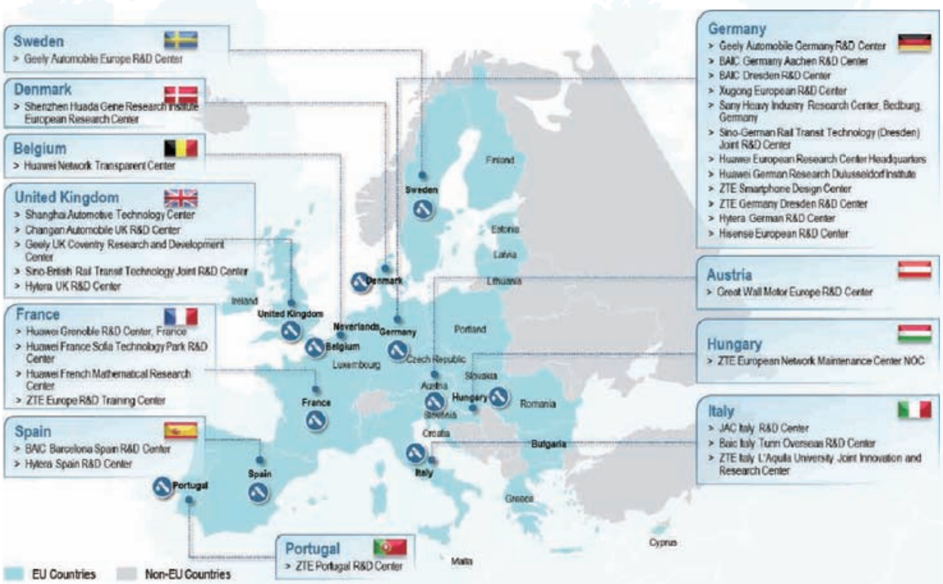


Figure 1.6: Examples of Chinese Enterprises setting up R&D centers in the EU

Source: Roland Berger Analysis

In addition, CATL chose Thuringia, a region in central Germany, for their new power lithium battery production plant, with an expected production capacity of 14GWh. Sany built up a plant in Bedburg, Germany, with a production capacity of 3,000 construction machineries.

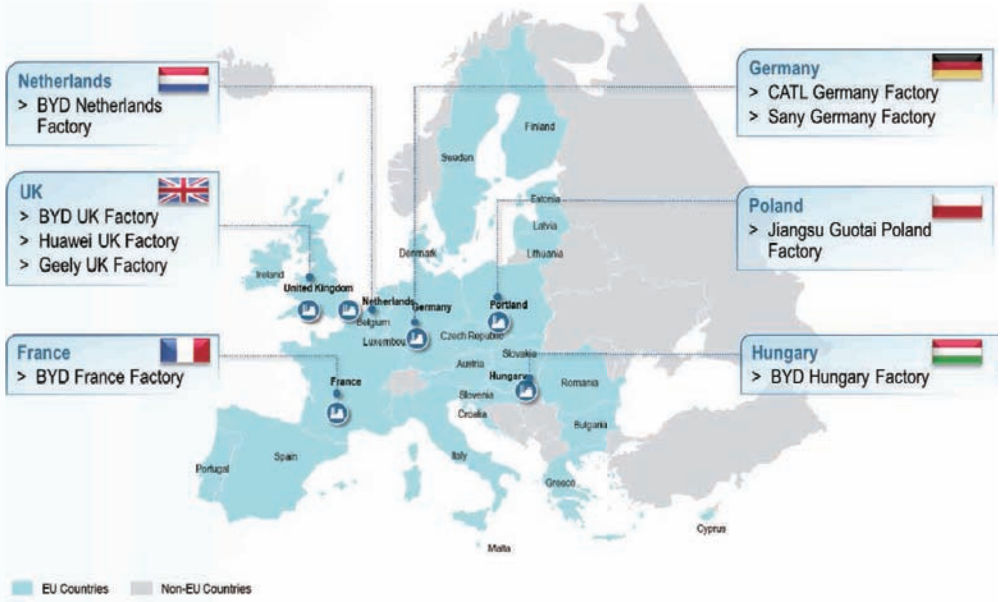


Figure 1.7: Examples of Chinese Enterprises setting up production plant in the EU

Source: Roland Berger Analysis

1.4.2 Technology development of Chinese enterprises in the EU

With regard to technological development brought about by Chinese enterprises in the EU, it is worth noting that the number of patents applied by or granted to Chinese enterprises is on the rise, and this is a clear sign of the quality of innovations by Chinese enterprises.
China ascended to the third place in terms of number of EU patents applied by non-EU countries, and the number of its patent applications increased rapidly from some 4,000patents in 2013 to approximately 9,000 patents in 2018, at an average compound annual growth rate of 19%. In only four years, its patent applications doubled. This growth rate of the number of patented technologies is conspicuously higher than that of the United States, Japan, and Korea.

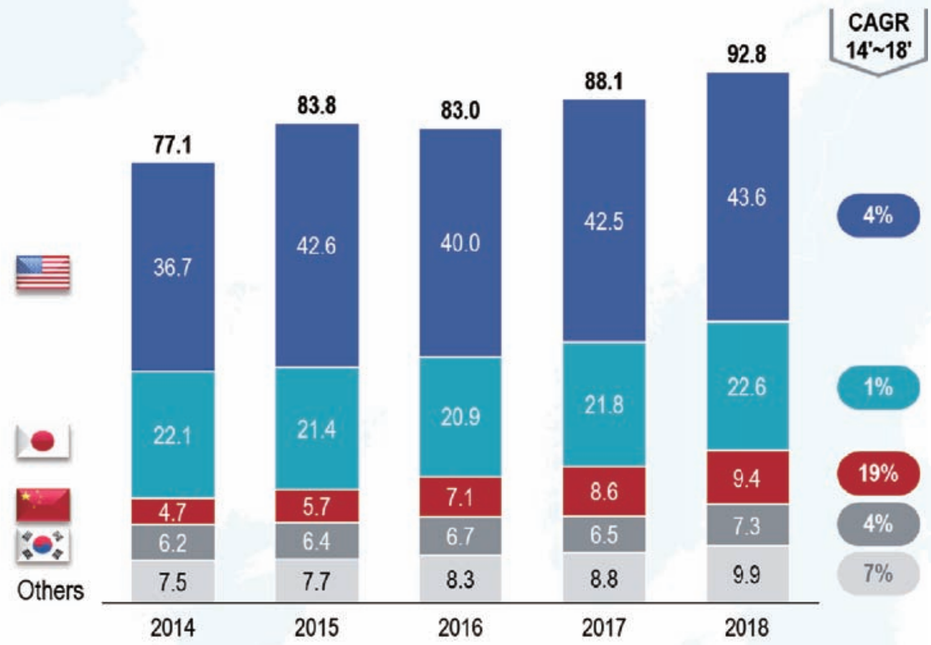


Figure 1.8: Number of foreign patent applications in the EU, by applicant country [2014~2018, Thousand]

Data source: WIPO

Meanwhile, the number of patents granted by the EU to Chinese enterprises had also been increasing at an average compound annual growth rate of 36% and tripled in the period 2013-2017, demonstrating the constantly rising trend of the quality of innovations by Chinese enterprises.

1.5 Connections between the EU and China have been intensifying from various perspectives

1.5.1 Numerous policies from both sides to boost China-EU economic relationship, and it is expected to reach agreement on China-EU Investment Treaty

China and EU have concluded agreement on the harmonization of their policies for promoting development.

In 2013, China and the EU jointly prepared the China-EU 2020 Strategic Agenda for Cooperation, which defines the bilateral development of trade and investment and informatization. In April 2019, the China-EU Summit released the Joint Statement of the China-EU Summit, covering issues of interest for both sides, such as non-discriminatory market accession and intellectual property rights (IPR) protection. It is expected that the EU and China will finally reach consensus on the China-EU Investment Treaty in 2020, after more than 20 times of leadership negotiations.

With regard to the harmonization efforts between China and individual EU countries, specific elements can be highlighted. In 2017, China issued with Italy the China-Italy Cooperation Action Plan for 2017-2020, with the purpose of promoting bilateral collaboration on environment protection, sustainable energy, agriculture, aviation, aerospace technologies and their application, infrastructure and communication. Likewise, in 2018 China issued with Spain the Joint Statement Between the Government of the People's Republic of China and the Government of the Kingdom of Spain on Further Deepening China-Spain Comprehensive Strategic Partnership in 2018, in order to promote their comprehensive strategic partnership, the expansion and deepening of their bilateral trade partnership, and the China-Spain cooperation on education, culture, sports and tourism.

1.5.2 Transportation between China and the EU has been flourishing

In recent years, transportation between China and the EU has been flourishing, as it has been continuously and intensively improved.

With regard to rail transport, the number of China-Europe freight trains has been increasing continually. The China-Europe freight trains achieved a booming development since the inception of the first train in 2011. In the years from 2011 to 2018, the annual number of China-Europe freight trains increased from 17 to 6,300 at an average compound annual growth rate of 133%, achieving a nearly 370-fold increase. In the meantime, the coverage of China-Europe freight trains has also expanded. By April 2019, a total of 62 domestic cities and 51 foreign cities in 15 countries were covered and the communication between China and the EU was substantially facilitated.

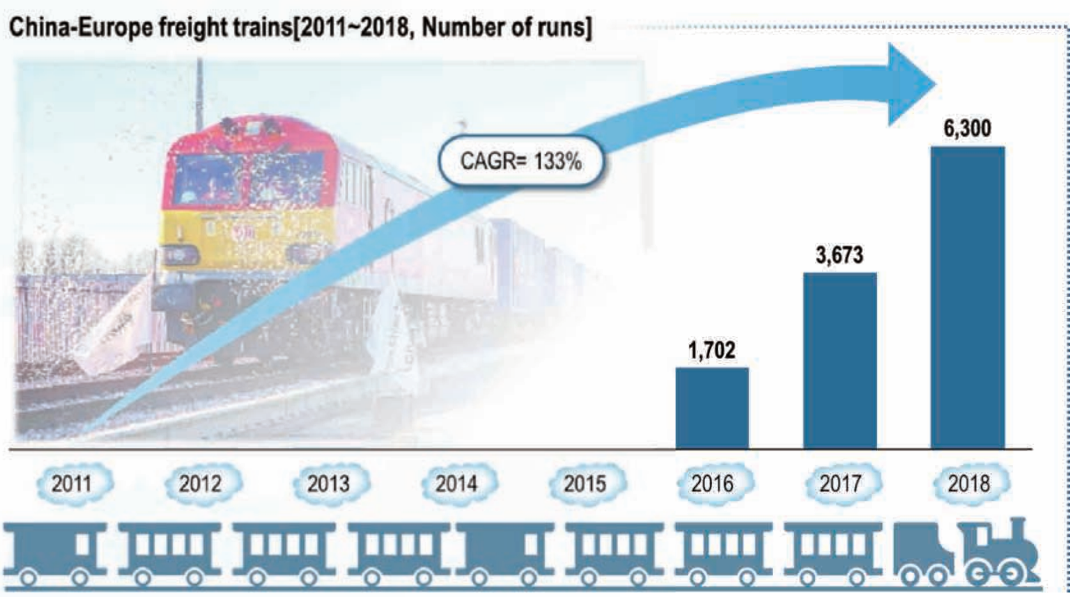


Figure 1.9: Change in frequency of China-Europe freight trains

Data source: Xinhua News Agency

As far as maritime transportation is concerned, China is an important maritime trade partner of EU countries, and the containers to and from China have played an important role in EU ports in. For example, Hamburg – the largest German port, and the third largest in Europe – established a close relation with China over time, to the extent that China has become its largest and most important maritime trade partner. In 2018, the containers to and from China accounted for 29% of the container throughput of the Port of Hamburg.

Lastly, during the past ten years flights between China and the EU doubled from 1,300 to 2,600 per month, while the number of routes nearly quadrupled (from 20 to 76), greatly reducing the distance between the two continents.

1.5.3 Engineering projects undertaken by Chinese enterprises in the EU are shifting from mega projects to small and medium ones

The number of contracts for engineering projects in the EU that Chinese enterprises won in recent years increased rapidly, from 469 in 2015 to 7,749 in 2017. However, the aggregate amount of the contracted projects remains relatively stable over the same period because China gradually got rid of its dependence on megaprojects and began to provide supports to a wider variety of small- and medium-size projects across all industries and sectors in EU countries.[10]

1.5.4 EU countries has become a major destination for Chinese tourists

In 2017, about 12 million Chinese tourists visited the EU, the third country of origin in terms of foreign tourists in the EU. With the launch of the EU-China Tourism Year in 2018, which aimed at promoting culture communication and exchanges between the two regions, the number grew even further and it is expected to increase by 77% by 2020[11]. Similarly, the economic value that Chinese tourists brought to the EU tripled during the past decade, from 3.4 billion Euro in 2009 to 11.6 billion Euro in 2018. Interestingly, the average daily expenditure of a Chinese tourist is around 385 Euro, higher than that of a tourist from the US (around 312 Euro per capita) or from Japan (around 350 Euro per capita).[12]

Overall, the investments of Chinese enterprises in the EU and their development has advanced at a surprising speed, with high quality, efficiency, and a long-term vision. It should not be ignored that during these impressive advances, Chinese enterprises brought considerable benefits to the EU, which the following chapter will further examine.

10 National Bureau of Statistics of PRC, *China Trade and External Economic Statistical Yearbook*
11 European Travel Commission
12 Eurostat

Chapter II

Benefits that Chinese Enterprises' Development Brought to EU Countries

As Chinese enterprises invest and develop in EU countries, not only do they bring economic benefits to themselves, but they also make substantial contributions to local societies and communities, thus achieving a win-win situation and fostering mutual economic growth. The benefits brought by Chinese enterprises to EU countries are all-dimensional and multi-angle, including promoting the development and upgrading of industrial chain, creating jobs, participating in infrastructure construction, promoting local people's livelihood, optimizing government governance enabled by digitalization and other technologies, and helping EU countries to build core competitiveness through institutional investment.

Figure 2.1: Overview of benefit that Chinese enterprises' development brought to EU countries

Source: Roland Berger analysis

2.1 Chinese enterprises fuel the upgrade in various industry in EU countries

The EU is a key sales and marketing area for Chinese enterprises. The cooperation between the EU and China is intensive and multi-dimensional. In addition to setting up local offices, the Chinese side also founds research institutions and builds production plants in the EU, so that both the European and the Chinese side can gain their respective advantages, they can complement and help each other, and cooperate as strategic partners to drive business and industrial upgrading and optimization, thus empowering the development of national economies.

Figure 2.2: Chinese enterprises fuel the upgrade in various industry in EU countries

Source: Roland Berger analysis

2.1.1 Chinese and Europe enterprises work together to improve product quality

Chinese and European enterprises launch technical cooperation to join hands in strengthening and promoting technological breakthroughs together. In addition to achieving win-win cooperation, they work together to facilitate quality improvement for products, further optimizing the development of industrial chains.

For example, in the software industry, Huawei worked with the German software maker SAP to develop the SAP HANA solutions, which feature a ten times greater data loading capacity, and a 100 times powerful report generation capability. As a result, this cooperation with Huawei enhanced the quality of mainstream HANA supply within the industry.[13]

13 Huawei Official Website

In the electric vehicle (EV) industry, German car manifacturers have been leading the world over the past decades, whereas China is now the world's largest EV market. The two countries contribute the largest input and support to intelligent electric vehicles, hence cooperation between China and Germany is the general trend for this sector. An example of this can be the in-depth cooperation of NIO with the German-based SGL Carbon, on the development of a prototype for battery cases in carbon fiber reinforced plastics (CFRP) for EV. In comparison to traditional aluminum and steel materials, the CFRP battery case is 40% lighter and it features both high rigidity and low thermal conductivity. At the same time, it performs well in water tightness, air tightness, and has enhanced resistance to corrosion. Clearly, this product will advance the lightweight development of EV products[14].

2.1.2 Chinese enterprises drive operating efficiency optimization in many EU enterprises

As China's outstanding enterprises going global, they bring their advanced experience in industrial investments, their overseas business practices and their internal operation modes into EU countries. By building new infrastructure and facilities, by initiating activities for improvement on the model of Kaizen, by re-engineering processes, and so on, they could help the industries to optimize and improve their operational efficiency, thereby opening up broad

14 D1ld.com

prospects for local economic development in the EU.

For instance, COSCO acquired a number of national ports in the EU, which – after being expanded, maintained and/or renovated – achieved dramatic growth in their operational efficiency and overall throughput. In addition to making the most of the unique geographical advantages of each port, the company contributed to promote the significant growth of local trade-based economy.

In 2010, COSCO acquired the port of Piraeus, located in Athens, southeast Greece. Due to inefficient operations and poor infrastructure, the port had had an unsatisfactory performance. On the one hand, COSCO updated the bridge crane equipment in a timely and effective manner. The Terminal 2, which is the major wharf of the port, could originally handle 15 containers/bridge crane each hour, and now it has capacity was updated to 27containers/crane per hour, thus becoming nearly twice as efficient than before[15]. On the other hand, it undertook a series of measures to significantly enhance the port's throughput of containers, including the expansion of the cruise terminal, improvements in the dock for ship reparation, the construction of new multi-storied garages for ro-ro dock.

Thanks to COSCO's efficient operations and management for 8 years, the world ranking of the Piraeus climbed from 93th to 36th, and the Port proved to be one of the fastest-growing container ports in the world. The port has also played an important role in accelerating Greece's economic rise.

Likewise, the other EU ports where COSCO invested and operated also demonstrated impressive performances[16] in the past year: Zeebrugge (Belgium) accomplished a container throughput of 390,000 TEUs, 24.1% higher year-over-year (YOY); Vado Ligure (Italy) reached 70,000 TEUs, with an increase of 68.6% YOY; and the Port of Noatum (Spain) hit 3.62 million TEUs, 554% higher YOY.

2.1.3 Chinese enterprises fill in the blank in various field along industrial value chain

In the EU, as enterprises focus on different businesses and industries evolve, some gap along the value chain come into existence, for example certain parts are not manufactured anymore. As Chinese enterprises enter the EU, they would establish production facilities, implement local procurement, and perform other activities to fill those gaps along the industrial value chain, while applying higher standards of procurement and production in order to boost the optimization of industrial ecosystems.

Building battery plants to fill the gap in the industrial value chain

In Germany, even though there are local suppliers of raw materials in the upstream section of the power battery industry, the

15 Guancha.cn

16 China Federation of Logistics & Purchasing (chinawuliu.com.cn)

industrial chain is not complete, as it lacks manufacturers specialized in producing cells. Therefore, the German car manufacturers have to buy cells from Asia, the major place of origin - thus encountering greater complexity with the production processes and higher costs of production.

In 2018, CATL announced the establishment of Germany's first power battery plant in Erfurt[17], making up for the gap of cell manufacturing in Germany's Neighborhood Electric Vehicle (NEV) industrial chain. CATL signed an investment agreement with the government of Thuringia, amounting to 240 million euros. The battery plant is expected to be operational in 2 years and to reach a capacity of 14GWh in 2022. The move was welcomed by the major members of the German car industry, for it offered opportunities for NEV development and car manufacturing in the country. To date, BMW placed purchase orders for 1.5 billion euros. The battery plant is expected to be put into operation in 2 years and reach a capacity of 14GWh in 2022. The move was welcomed by the major automakers in Germany, for it offered great convenience for NEV development and manufacturing in the country. Now BMW has placed purchase orders amounting to 1.5 billion euros.

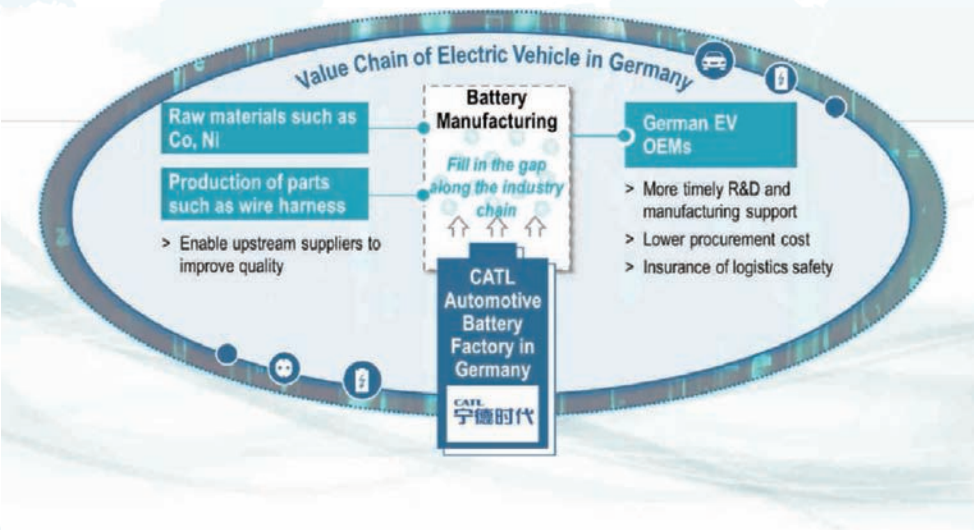


Figure 2.3: CATL fill the gap in electric vehicles industry supply chain by setting up a battery plant

Source: Roland Berger analysis

17 News Center, escn.com.cn

Optimizing each part of industrial chain and enhancing core benefits

Moreover, CATL helped to further optimize the upstream and downstream section of the power battery industrial chain, enhancing the core benefits of the upstream component suppliers and downstream vehicle manufacturers.

Firstly, for upstream suppliers of raw materials and components, CATL was able to spur the improvement of product quality. CATL, as a world-leading power battery manufacturer, adopts a strict high-standard appraising system for upstream components. Hence, if parts and components provided by the local upstream suppliers in Germany failed to meet these standard, CATL would help the suppliers to improve the product quality via a collaborative improvement program, in order to gradually reach its higher requirements.

Secondly, for downstream vehicle manufacturers, the core benefits that CATL could bring include more timely and efficient R&D support, lower procurement costs, and logistic safety guarantees.

In respect of NEV R&D, safety verification is a critical part. Since CATL has built a local plant in Thuringia (Germany), it is able to address any concerns in the first place when the client finds problems and difficulty in safety verification. CATL thus help the original equipment manufacturers (OEMs) to carry out R&D adjustments and optimization in a timely manner, and to improve the overall efficiency of NEV research & development. Let's take BMW for example: with regard to its battery procurement, BMW's domestic purchase – instead of importing from other countries could – greatly reduces its overall procurement costs in power batteries. I n terms of battery transportation, since vehicle batteries feature heavy weight and high requirements for transportation safety, CATL – a closer option in Erfurt – could help to significantly reduce safety risks during the transportation to BMW's assembly plants.

2.1.4 Chinese enterprises sharing various of resources with European enterprises to create synergy, driving incremental growth for both parties

As Chinese enterprises become more and more engaged in M&A activities in the EU, the purpose is no longer limited to technology import, but it gradually turns towards joint development, resource sharing, and collaborative benefits. By sharing internal technologies, resources and channels, enterprises can conduct R&D cooperation and joint procurement to achieve cost efficiency, and to eventually achieve the "1 + 1 > 2" target of collaborative benefit.

Sany acquires Putzmeister and promotes product, marketing and cost optimization

After the Chinese company Sany acquired the Germany-based Putzmeister, it fulfilled resource sharing-based actions including product category expansion, marketing channel sharing and cost optimization. Firstly, soon after the acquisition, Putzmeister's products further expanded from concrete pump trucks only, to mixer trucks and mixing stations, and so on, with a significant enrichment of its product category range. Secondly, Sany introduced its global network of distributors to help Putzmeister expand the sales network to be 30% larger, and it helped Putzmeister to carry out product sales in a wider range of areas including China, the Middle East and Eastern Europe. At the same time, Putzmeister made use of Sany's high-quality and lower-cost components to reduce procurement costs by about 20%, and thus to enhance its price competitiveness around the globe.[18]

Geely acquires Volvo, achieving collaborative effect and seeking long-term development

After Geely acquired Volvo Cars, collaborative benefits in R&D, procurement and production through collaborative cooperation were achieved. Moreover, the two cooperated in setting up a new sub-brand to seek new momentum for future their respective development.

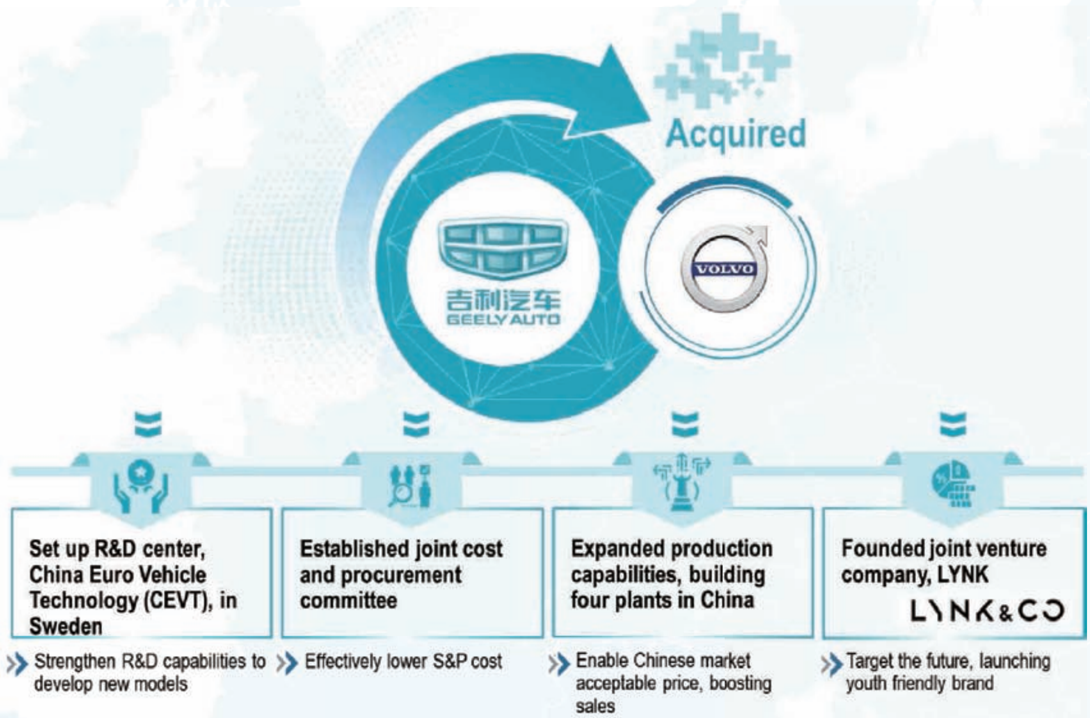


Figure 2.4: Geely and Volvo Cars collaboration model

Source: Roland Berger analysis

18 Sany Offical Website

Firstly, Geely partnered with Volvo to establish CETV in Sweden, to strengthen research and development. In 2018, Geely's R&D center invested over 30 billion krona, boasting a personnel of 3,000+ researchers and developers. In this R&D center, the two sides jointly developed the first compact modular architecture (CMA) for mid-size car, which later drove the birth of Volvo's second international best-selling vehicle, XC40, and of the more efficient, eco-friendly, and energy-efficient Drive-E powertrain platform.

Secondly, upon integration of Geely and Volvo, a joint cost and procurement committee was established to achieve collaborative purchasing effect. On the one side, The committee conducts group purchasing of larger scale to enhance the bargaining power and, on the one side, it gives full play to Volvo's strict management and assessment system on the quality of suppliers, and to the control of product quality. Therefore, in the procurement process, Geely focuses on business negotiations while Volvo focuses on supplier quality management. They perform effective cooperation to achieve effective reduction of procurement costs. For example, the engine plant in Zhangjiakou, founded in 2012, achieved a 20% reduction of procurement costs.

Thirdly, as Geely completed the acquisition of Volvo Car in 2010, it immediately launched the application for localization of 4 Volvo projects, helping Volvo to achieve capacity expansion. Prior to that, Volvo had no local plants in China, and now it was allowed by the State Council to conduct production, from engines to vehicles. Some vehicles are even supplied to the European and American markets: for example, the Chengdu plant exported 3,500 S60L vehicles to the US market in 2016.

Fourthly, Geely Holding Group, Geely Automobile Holdings Ltd. and Volvo Car Group joined hands to set up a joint-venture named Lynk & Co in 2017, attempting to seek new momentum for long-term development. Lynk & Co is based on the Volvo-Geely CMA platform, positioned for the younger consumer group that varies from Volvo and Geely, aiming to explore new power for long-term development of both. The pre-production model Lynk & Co 01 and the concept vehicle Lynk & Co 03 received overwhelming response, because the Chinese market contributed with a cumulative sale of 180,000 vehicles in over a year since its debut, with dealers ranging across 230+ cities in China. Lynk & Co has therefore created massive economic benefits for both Geely and Volvo.

Since the acquisition in 2010, the business performance of both achieved considerable growth. Volvo succeeded to come back from death, doubling its sales and number of employees. And Geely, depending on Volvo, rose from a low-end Chinese domestic brand to one taking up the forefront of the automotive sector. That's indeed a win-win situation.

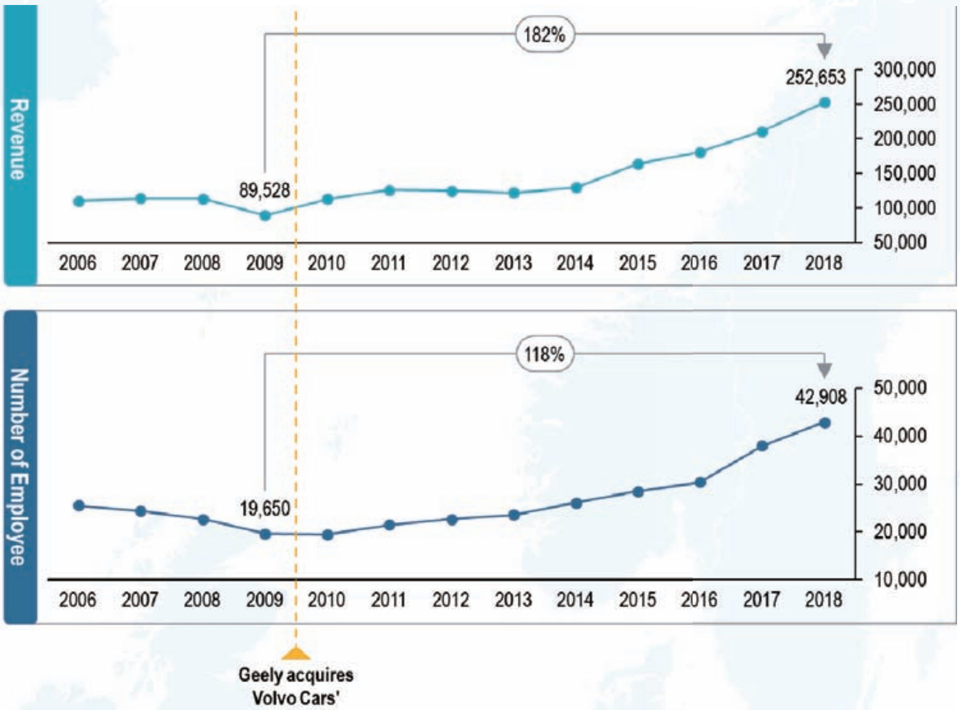


Figure 2.5: Volvo Cars' revenue and number employee after acquisition by Geely [2006~2018, Million Swedish Krona, number of people]

Source: Volvo Cars annual report; Roland Berger analysis

Jack Sewing Machine acquires the German-based Topcut-Bullmer to expand in the global market

Ten years ago, Jack Sewing Machine Co., Ltd. acquired Bullmer and Topcut, two world-renowned enterprises in the automatic cutting bed sector, and formed the German company Topcut-Bullmer GmbH, to jointly expand in the global market. On the one hand, Jack introduced its own sewing machine technology and capacity to Topcut-Bullmer to enrich the latter's product line, making the sewing machine a new member in the original range of cutting bed products, thus expanding its business market. On the other hand, Topcut-Bullmer, previously being rarely popular among Asian customers, made use of its technological capabilities to provide high-standard product designs, which, supported by Jack's cost-effective and efficient production capacity in China, were then brought to China and other Asian markets, in order to jointly develop the global market potential.

2.1.5 Promoting international advancement of EU standard setting

Standards are the cornerstone of industrial progress. Chinese enterprises have been always actively involved and engaged in technology development and standard setting, working closely with EU policy makers and research institutions, exporting their industry experiences, and being committed to enhancing the advancement of industry standards, thereby achieving sustainable industrial development.

Huawei and the 5G standard setting

Huawei has been engaged in 5G research and development for 10 years. Since the Council of Europe launched its research on 5G standards in 2012, Huawei has been an active participant in the EU's METIS[19] project. Huawei's European Research Center in Munich (Germany) made important contributions to the project in the 5G technology radio link concept and design. And Huawei is still one of the core participants in the EU's Horizon 2020 project. In the past 7 years, it completed 13 pieces of 5G construction and research work within the EU system. Today, Huawei's major push Polar Code is recognized as the final solution for control channel coding, which can simultaneously meet the major needs of the International Telecommunication Union (ITU): ultra high rate, low latency, and big-

19 METIS, *Mobile and wireless communications Enablers for the Twenty-twenty Information Society*

connection mobile Internet and IoT[20].

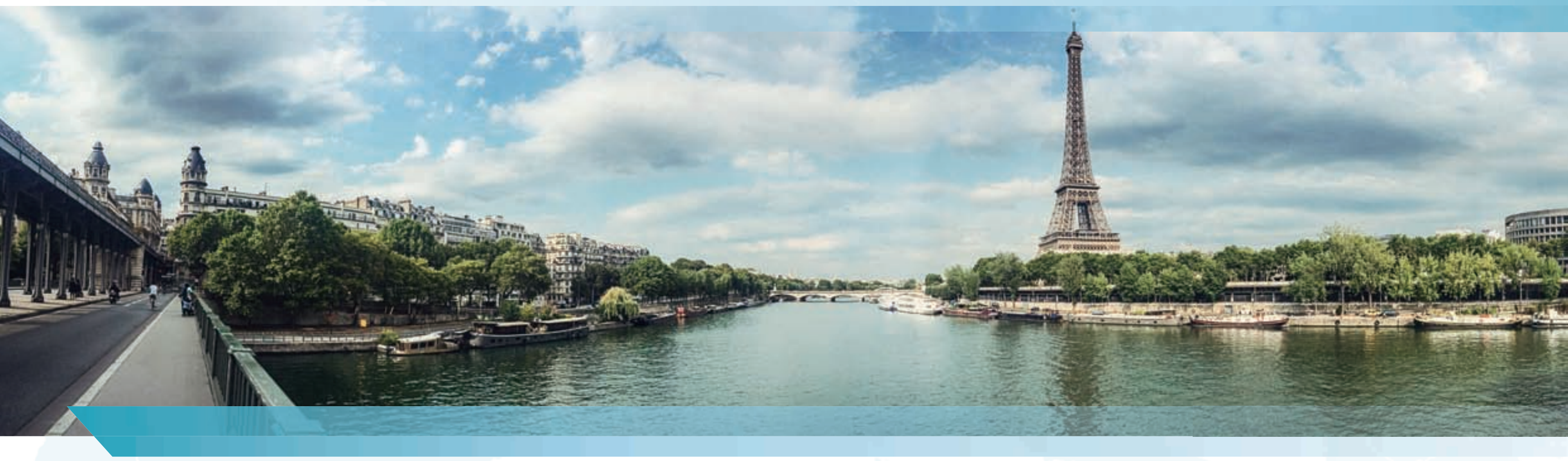
DJI's participation in UAV rulemaking of the EU

The European Aviation Safety Agency (EASA) released the European common regulations on the use of UAVs in June 2019, covering UAV operational approval and UAV technology[21]. As a cutting-edge drone technology company, DJI was invited to participate in the rule-making process, thus contributing to the construction of the EU's regulatory environment for UAVs.[22]

International footwear standard led by Chinese enterprises is likely to be transformed to EU standard Chinese In the manufacturing sector, the ISO/CD 19574 test is being developed to assess antifungal properties against filamentous microfungi for footwear. The creation of this international standard is led by experts and enterprises of the footwear and antibacterial field, including China Leather & Footwear Research Institute, NANUP, Anta (China) Co., Ltd., and Henan Bangni Biological Engineering Co., Ltd. The test was initiated for transformation voting by the CEN Technical Committee (Footwear) in 2019. It is also expected to become an EU standard. The development of Chinese enterprises in footwear antibacterial standardization shall offer effective standards support for the EU in footwear and footwear components evaluation.

2.2 Chinese enterprises help to improve the livelihood of local European communities

As Chinese enterprises conduct business and promote local economic development, they are also increasingly active and involved in the local communities. They create more and more jobs, they assume social responsibilities, they participate in environmental protection and public welfare undertakings, and they contribute to upgrade medicine and education, infrastructure construction, and overall to tourist and cultural life in Europe.



20 Tencent Technology
21 81uav.cn
22 Netherlands Foreign Investment Agency (NFIA)

Figure 2.6: Chinese enterprises help to improve the livelihood of local European communities

Source: Roland Berger analysis

2.2.1 Create employment opportunities

In the past five years, Chinese enterprises hired more and more local employees in EU countries, by a CAGR of 39%, thus creating more jobs and helping to improve people's well-being. At the end of 2018, China had set up a total of 3,100+ direct investment enterprises in all the 28 EU Member States, employing about 250,000 people as local staff.

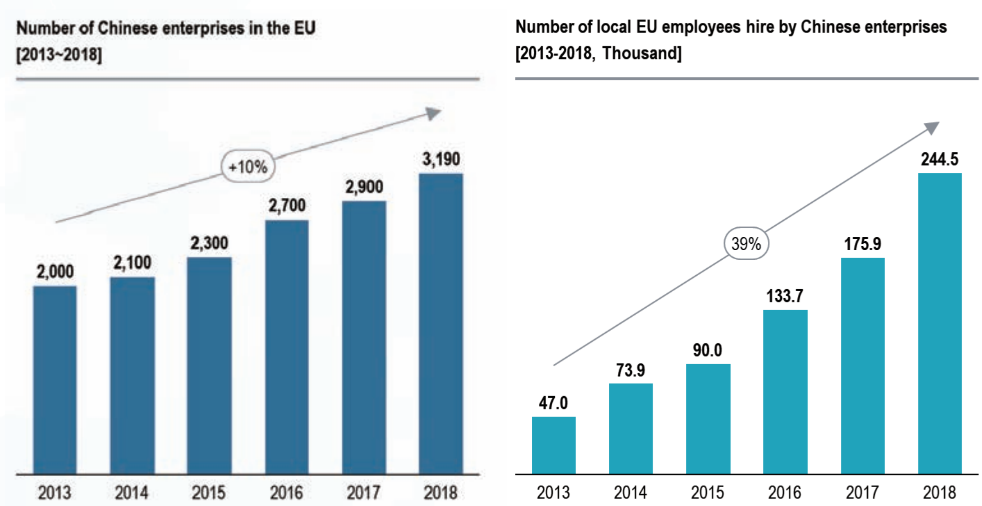


Figure 2.7: Number of Chinese enterprises and corresponding EU employee

Source: Roland Berger analysis

2.2.2 Chinese enterprises support to upgrade infrastructure in EU countries

Urban infrastructure is the foundation of urban development, and sound infrastructure construction is an important guarantee to further enriching people's lives, and to carrying out governmental affairs. Chinese enterprises have been actively exporting advanced technologies in construction of railway and network facilities to improve the life and travel experience of European people.

CREC builds Hungary-Serbia Railway to make travel convenient between both countries

China National Railway is involved in the construction of a high-speed railway connection between Hungary and Serbia, which will provide a more convenient mode of transportation for people of both countries. The railway is 350 km long and, when open to traffic, it will shorten the travel time between the two countries from the original eight hours to 2.5 hours, thus significantly improving the travel efficiency and allowing travelers to have a more convenient trip.

Huawei renovates network of German rail to achieve multi-service and three-dimensional networking

Deutsche Bahn is an advanced railway network operator in Europe. As railway communication networks advanced toward convergence, broadband and innovation, the network infrastructure needs to be upgraded to keep up with these rapid developments. Therefore, Huawei participated in Deutsche Bahn's GSM-R network renovation project in Northern Germany, and it provided a full range of base stations and controllers for the project. It helped the German side to dramatically improve the railway scheduling, rail operations, and the passengers' experience. The broadband networking and converged communication needs were well met, and Huawei helped to make the overall rail network in Germany more three-dimensional and multi-service oriented, benefiting routes covering 12,000 km of railways in Northern German, which account for 40% of the whole rail network of communication within the territory of Germany.

Huawei participates in 5G construction of EU countries to improve the network experience

Huawei signed cooperation agreements on 5G technology with a dozen countries in Europe, including Spain, Austria, Germany, France, and Portugal, and it will provide people of the European countries with better network and IoT experiences. Featuring high bandwidth and low latency, 5G can meet thousand times greater demand for mobile data in each area, allowing ten to hundred times more devices to be connected and increasing the user data rate in a similar scale, but with ten times lower energy consumption. Once the construction is completed, the European governments and people will benefit from more rapid and smoother communication, from convenient information and entertainment services, such as high-definition video at any time and anywhere, VR video conferencing, live sports programming, smart home and office.

2.2.3 Actively implementing environment conservation and sustainability development initiatives

At present, ecological environment is a topic of global concern. Chinese enterprises are paying increasing attention to environmental protection and biodiversity conservation in their business operations: they prepare biodiversity reports, they use clean energy, and they reduce environmental pollution and harmful emissions. Chinese enterprises in Europe are making continued efforts in green ecology, working with the EU to ensure environmentally sustainable development.

For example, the China Elion Resources Group established "Elion Europe Technology Innovation Center" in West Holland, which, using 100+ patents in ecological restoration, aims at seeking technical cooperation with environmental protection and clean energy enterprises in Europe and neighboring areas, in order to join hands with European research institutes for R&D on ecological and environmental protection and to help conduct ecological optimization.

Hina's leading technology in environmental protection materials also made significant contributions to the green environment in Germany, Holland, and other EU countries. In 2010, Hina completed the construction of a thin-film rooftop power generation project in Theilheim (Germany). The project could save 9.87 tons of standard coal per year, reduce 0.74 tons of sulfur dioxide emissions and 29.8 tons of carbon dioxide - equivalent to planting 1,303 trees per year. In 2016, the city of Zevenaar (Holland) installed Hina Miasolé 600kWp thin-film solar modules in order to replace conventional electricity with clean green electricity, thus cutting about 300 tons of carbon dioxide emissions per year.

In the UK, China General Nuclear Power Group (CGN) cooperated with Electricite De France (EDF) to build genset for the Hinkley Point C nuclear power station, which can reduce 9 million tons of carbon dioxide emissions per year in its 60-year operation period.

2.2.4 Chinese enterprises proactively participate in public welfare activities to promote social harmony

In recent years, Chinese enterprises - Huawei and Geely being the representatives - have been carrying out many public projects in EU countries with the purpose of supporting education and offering care to children and disabled people, hence allowing the power of China to contribute to the creation of a harmonious world.

Huawei's "One Thousand Dreams" public welfare program is intended to train a total of 1,000 ICT talents from 16 countries in Central and Eastern Europe within 5 years, to donate 1,000 books to libraries and 1,000 toys to children's hospitals in each country. It is designed to inspire young people to join the ICT field and to help build a smart society. Likewise, Huawei and Web@cadémie, a nonprofit educational organization in France, cooperated to provide trainings for young people who have not obtained the secondary school diploma. Courses are given by engineers and researchers, so that students can obtain cutting-edge technical knowledge that allows them to integrate into the society and achieve self-worth. Another example is Geely's sponsorship for the "Children’s Magical Taxi Tour in London." Geely's electric taxis would drive children suffering from chronic diseases or from inconvenience in daily life to Disneyland Paris. In the next five years, Geely will continue to donate 10 million pounds for the "Magical Tour". In Germany, the Chinese enterprises in NRW e.V. initiated a tree donation activity in 2015, and donated 50,000 euros to the city of Dusseldorf, which had been just attacked by hurricane, to help the government rebuild green ecology.

2.2.5 Helping to enhance healthcare and education capacity

Healthcare and education are both important aspects of people's livelihood and well-being. As Chinese enterprises establish factories and industrial parks in the EU, they could steer the economic development by promoting education and health care construction, by training outstanding reserve personnel and by improving the overall health care layout. In some well-developed cities in the EU, the medical level is in a leading position, and Chinese enterprises could exert their technological advantage to help to further improve the diagnosis and treatment efficiency of hospitals.

Yantai Wanhua acquires BorsodChem in Hungary and helps with local education and health care building

After the acquisition of the Hungarian company BorsodChem in 2011, Yantai Wanhua founded an economic and trade cooperation zone based on BorsodChem. The park provides enterprises with public works, transportation and logistics, and other convenience services, and it also offers public services like education and health care for 10% of the local population. For example, the park brought together Miskolc University and Beijing University of Chemical Technology to build an educational institution specialized in chemical sciences, to provide enterprises in the park with a reserve of quality talents with a chemical background. Moreover, the park owns a medical center staffed by a highly professional medical team to offer medical and emergency ambulance services.

Huawei uses ICT technology to help hospitals in the Netherlands to improve diagnosis and treatment efficiency[23]

Huawei built an intelligent network by means of smart antenna in MCL Hospital, the largest private hospital in the Netherlands, to carry out targeted coverage of different distances

23 Huawei Official Website

and scenes in wireless transmission, and to effectively connect the medical staff and the patients. The network can carry more data related to medical cases, as itboasts more powerful business-processing capabilities.It can also provide efficient office foundations for hospital administrators and medical workers, thereby improving MCL's overall diagnosis and treatment level and patients' clinic experience.

2.2.6 Provide the platforms for China-EU mutual understanding

Chinese enterprises' development in Europe can not only promote economic and trade cooperation and development, but also present a good opportunity for cultural and tourism exchanges between China and the EU.
For example, Shanghai Yuyuan Tourist Mart Co., Ltd. established a European tourism center known as "Hamburg Yuyuan" in Hamburg (Germany), located near the University of Hamburg and neighboring the Museum of Ethnology. The main building demonstrates Chinese characteristics, like a mid-lake pavilion and zigzag bridge. It is a good place for everyday casual life of local people. And in Hamburg Yuyuan, people can find Chinese tea and pastries, restaurants to serve tourists with delicious Chinese food: overall, the park allows the European public to go deeper into the traditional Chinese culture.
In addition, Wanda and Auchan jointly founded a large commercial project of cultural tourism in Paris, dedicated to building a new commercial landmark that serves tourists from around the world. The project allows tourists to learn more about the French culture, thereby greatly enriching the leisure life of local people.

2.3 Chinese enterprises introduce new technology to enhance governance efficiency of EU countries

In the digital age, people demand higher efficiency of governmental affairs, as technology advances. Due to operation and maintenance of network facilities, business development requirements and other factors, the original government processes and government system can no longer meet the needs as it used in the past. Therefore, the modalities though which efficient governmental administration can be achieved are a key point that government officials must now pay attention to.
By developing advanced technologies and referring to existing application cases, Chinese enterprises are helping some local governments in the EU to conduct researches on effective governance, and to co-buildsmart cities.

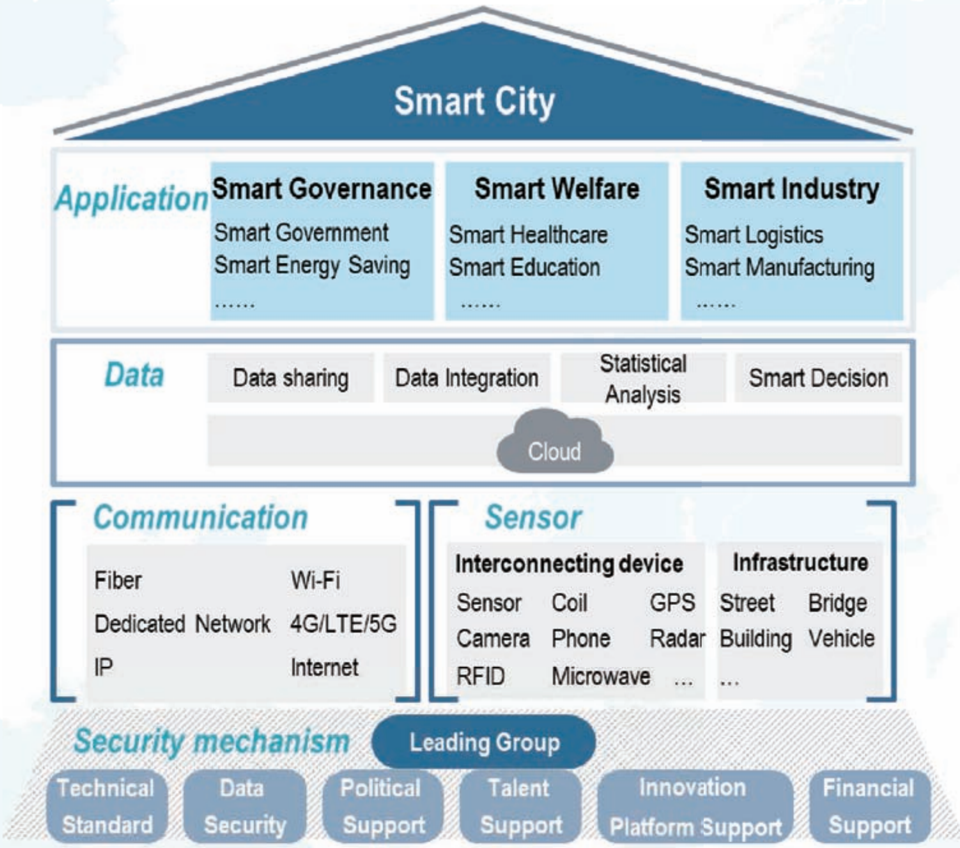


Figure 2.8: An example for smart city platform

Source: Roland Berger Analysis

In the Dutch town of Haarlemmermeer, the ratio of civil servants to the population in is only 1:160. Using information technology to improve the overall efficiency in handling governmental affairs, and to improve the quality of public services, is the core issue that the government officials of Haarlemmermeer must be concerned with. By introducing Huawei's agile government park solution – which resulted in a comprehensive upgrading and empowering from the perspectives of convenient services, security & compliance, and efficient operation & maintenance - the municipality of Haarlemmermeer achieved efficient collaboration in handling governmental affairs, with smoother bureaucratic procedures[24]. Huawei and German technology service provider GELSEN-NET cooperated to deploy Germany's first safe city solution in Gelsenkirchen[25]. Huawei managed to integrate, operate and apply the

24 Huawei Official Website
25 Huawei Official Website

city's various public service information via network technology and IoT. Huawei managed to fuse urban and administrative data to achieve all-sided intelligence on business, governance, and people's livelihood. Likewise, with Huawei's assistance the city of Rivas (Spain) succeeded to build a neural network for the smart city, thus enhancing its urban security construction[26]. As a system for visual scheduling security is put in place, the police in the city demonstrates a significantly enhanced ability and efficiency in responding to major events, especially insofar emergency response and daily police affairs are concerned, thus achieving overall improvement of public safety.

2.4 Chinese enterprises conduct cutting-edge research to improve the core competitiveness of EU countries

Technological innovation is an important means to improve the growth rate of a national economy and the quality of economic development, and cutting-edge industrial research is the goal that every country must aim for, by means of institution set-up, capital investments, cooperation between universities and enterprises, talent development, Chinese enterprises turn competition into cooperation, and they aid Europe to conduct basic research on various front-end technologies, thus empowering EU countries to enhance their core competitiveness for future development.

Figure 2.9: Chinese enterprises conduct cutting-edge research in the EU

Source: Roland Berger analysis

26 Huawei Official Website

2.4.1 Establishing research institutions to lay the foundation for innovation

Cutting-edge fields, such as information technology, data processing, the development of new energy sources, and heavy industries, have been extremely relevant to technicians due to the existing broad room for development. Therefore, when Chinese enterprises set out to conduct operations in the EU, they would implement in the meanwhile the strategy for establishing R&D centers, based on fundamental disciplines and technological research, keeping a close watch on core technology breakthroughs.

For example, XCMG invested 36 million euros to found a European R&D center in Krefeld (Germany) committed to research on advanced hydraulic and transmission technologies, to the supply of components with cutting-edge technology on the markets, and to the provision of R&D and product base for continuous growth of the high-end market of heavy industry in Europe.

In July of 2019, Tencent and leading auto OEM BMW also announced deeper cooperation in autonomous driving. Tencent will leverage its world-leading technology advantages in cloud computing, big data and AI, provide a high-performance infrastructure platform, and also, tools and platform for the whole R&D process of automated driving, to help BMW to realize the global-leading autonomous driving R&D and technical innovation.

Moreover, Huawei set up more than 23 research institutions in 14 EU countries, grouping altogether 2,383 R&D employees. By establishing a research center for mathematics in France, it could dig deep into mathematical resources in Europe andlead the industry to attaching importance to fundamtental disciplines and mathematical algorithms, thus significantly advancing the progress of studies on basic algorithms in the EU, and even around the world.

2.4.2 Invest to support R&D

Chinese enterprises invest a large amount of capital on research projects in Europe and

they play a key role in improving research and innovation capabilities of all parties, and in promoting industrial technological breakthroughs. By 2016, Huawei alone sponsored more than 80 research projects in Europe, a continuous investment amounting up to over 75 million Euros. In the future, as more Chinese enterprises carry out investment activities in the EU, the prospect of in loco R&D will surely become braoder.

In the business market, Huawei initiated the Openlab project in Munich (Germany) and in Paris (France), which is committed to develop solutions for industrial chain platforms in each EU country. It is going to invest US$ 50 million in the future to boost the industrial development in Europe.

CRRC also invested a considerable sum of money. It cooperated with a research team led by Prof. Werner Hufenbach, a lightweight expert from Dresden University, to set up the "Sino-German rail technology joint R&D center". The center conducts researches on lightweight of pure electric cars and on multi-material space framework lightweight platforms, with an overall investment amounting to 36 million euros.

2.4.3 University-enterprise cooperation to promote application and transformation

As Chinese enterprises conduct cutting-edge technology research in Europe, they set up their own R&D centers actively seek opportunities to cooperate with EU universities on research and development, thus exploring the path of industry-university cooperation, with the purpose of promoting the application and transformation of high-end technologies through resource-sharing and complementary advantages, ultimately creating a win-win situation.

SAIC cooperated with the University of Bath (United Kingdom) to study the burn rate of gasoline in a particulate filter and low-temperature reaction, to develop a more eco-friendly, effective, and green automobile exhaust system.

NIO established in-depth cooperation with leading universities such as Technical University of Munich, the University of Stuttgart, and the

Berlin Technical University to conduct studies on vehicles supplied with new energy sources.

2.4.4 Cultivate talents by conduct personnel training, and empowering the European society

Talent is the driving force behind continuous innovation in every society. Chinese enterprises operating in EU countries are fully aware of the significance of training personnel. They actively carry out programmes for talent incubation, where they input manpower and money to offer opportunities for students to combine theory with practice. They also train technical personnel needed by society and the labour market, so that they can advance with the times and remain up to date. In brief, Chinese enterprises support the education of talents in European countries and the development of these countries' core competitiveness for the future.

Huawei carried out a talent program called "Seeds for the Future", which is designed to train human resources in the ICT sector in various European countries. The program will invite students to a Huawei Competence Center, where they will discuss on ICT matters with Huawei's technical staff, attend courses and laboratories, and visit Huawei in Beijing and Shenzhen. The programme is thus meant to allow the transfer of the enterprise's advanced technical resources onto society, in order to enhance people's interest in the related industries and to empower the digital and intelligent construction in each area. Since its launch, "Seeds for the Future" had far more than 1,347 participants from 31 European countries.

In conclusion, what follows the thriving development of Chinese enterprises in Europe is a considerable number of concrete benefits for Europe. Yet, one fact cannot be ignored: the current potential of these enterprises has not been fully realized yet, and many challenges still lie ahead. The following chapter will address what sort of business environment Chinese enterprise find in the EU , and it will carry out an in-depth analysis of the major challenges they face.

Chapter III

Business Environment and Challenges for the Development of Chinese Enterprises in the EU

Based on Roland Berger's Chinese Enterprises in EU Business Environment Index, from the overall point of view, the business environment is good, but there is still room to improve, specific to see final score 73 points, and China still faces many challenges in EU: strict scrutiny for foreign capital, restriction for some Chinese state-owned enterprises business, lack of China's leading enterprises' voice in standard setting, insufficient support in local development, the lack of effective communication mechanism, governance model and the cultural differences.

3.1 Chinese enterprises in the EU experience a generally positive good business environment, but there is still room for improvement

In order to further promote the development of Chinese enterprises in Europe, and to boost the growth of both economies, we introduce an index of the EU business environment for Chinese enterprises in this report. The index is a compound measurement of the current operating state of Chinese enterprises in Europe, and it is expected to be a useful measure to guide European governments, enterprises and general public and to call on them to actively build a better business environment, with the purpose of promoting the win-win game between China and the EU. The index mainly aggregates multiple indicators related to different environments, most importantly those related to business, to governance and politics, to the economic and industrial situation, to the quality of support and infrastructure, to research and development, and to the talents present in these countries. These indicators, combined with Roland Berger's research and data analysis on Chinese enterprises in the EU, then undergo a quantitative assessment and a weighted calculation, which result into an index of overall revenue. See Figure 3.1 for specific considerations and clarifications.

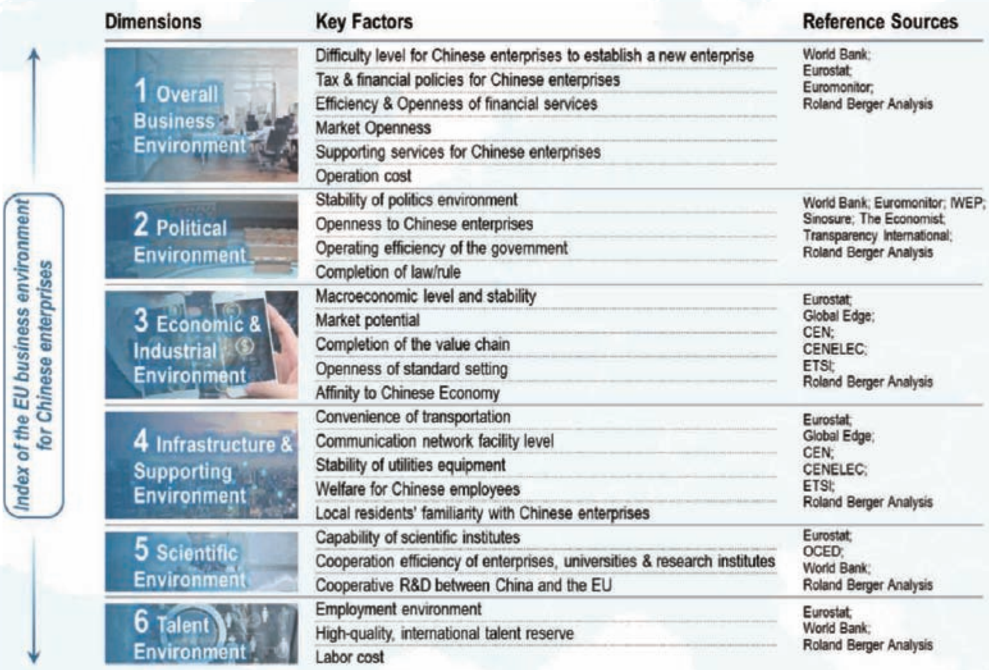


Figure 3.1: Index of the EU business environment for Chinese enterprises and its evaluating dimensions

Source: Roland Berger analysis

In 2019, due to its developed economy, its excellent scientific research bases, and its high-quality talent pool, the EU is a strategic area for the global development of Chinese enterprises. Nonetheless, owing to the impact of the de-globalization trends in recent years, the political environment tends to be conservative, work efficiency is repeatedly criticized, and infrastructure and supporting facilities need to be updated and improved. In a nutshell, the business environment for Chinese enterprises in Europe appears to be overall positive, but it is clear that there is room for improvement: it is indeed rated with 73 points out of 100.

Figure 3.2: 2019 Index of the EU business environment for Chinese enterprises

Sources: Roland Berger analysis

- The general business environment is rated 71 points: The overall business environment in the EU is good, with a rather open market, as well as fair taxation and fiscal policies. However, work efficiency is still to be improved, and there is currently limited support for attracting investments.
- The political environment is rated 63 points: For Chinese enterprises, the political environment in the EU has been evidently getting worse in recent years, especially in terms of the policy regulations restricting the operations of Chinese enterprises in the EU, which were released one after another. So the commercial development is undergoing severe geopolitical influence.

- **The economic and industrial environment is rated 81 points:** Due to the high maturity of the EU's economic and industrial development and the large market space in EU countries, the EU is a good choice for Chinese enterprises to seek business breakthroughs in their global development.
- **Support and infrastructure is rated 65 points:** For Chinese enterprises, the business supporting environment in EU countries is to be greatly improved. Most infrastructure is relatively obsolete: living facilities fail to make Chinese employees fit quickly into the local life, whereas media and the public opinion have presented a negative impression of China in the last years.
- **Research and development is rated 82 points:** The research environment and the related atmosphere in the EU is world leading. China and the EU have a good chance to jointly boost the development of frontier domains, based on their respective advantages.
- **The talent environment is rated 77 points:** The EU has a good employment environment, and EU employees demonstrate a higher level of education. Yet, Chinese enterprises often find the labor costs high, and they identify a lack of talents who can understand the cultural values of both China and the EU.

In our research on some representative Chinese enterprises in Europe, we found that they would generally encounter 6 major challenges in Europe, as represented below (Figure 3.3).

Figure 3.3: Challenges for Chinese enterprises in the EU

Source: Roland Berger analysis

3.2 The EU adopts increasingly strict policies in foreign investment review, so that Chinese investments is limited in certain areas, result in climbing difficulty and cost of investment

All around the world, in the current de-globalization process, many countries turn to undertake reviews and to establish screening mechanisms on foreign investments, with the idea that this is needed to protect core sector, specific technologies and, ultimately, national security.

The EU and its Member States have by no means built a strict control system for a long time. Nonetheless, due to large inflow of foreign capital, an ever-changing international setting, key technological developments and other factors, in recent years European countries are reinforcing their investment review systems in order to enforce regulatory restrictions on trading.

In February 2017, the economy ministers of Germany, France, and Italy wrote a letter to the EU Commissioner for Trade , in which they asked for specific investment supervision mechanisms to be established in Europe. Consequently, in September, the European Parliament announced the EU should apply stricter screening mechanisms on FDI. In the following two years, the EU held discussions and decided to enact relevant legislation for FDI screening. Some Member States, one after another, followed in improving their respective FDI review framework. In March 2019, the European Commission formally approved the "Screening of Foreign Direct Investment - An EU Framework" (hereinafter referred to as the "Framework"). The Framework is a milestone change for the development of FDI in Europe. It expands the scope of foreign investment review, and it will have far-reaching impact on FDI in the EU by enterprises from China and other countries.

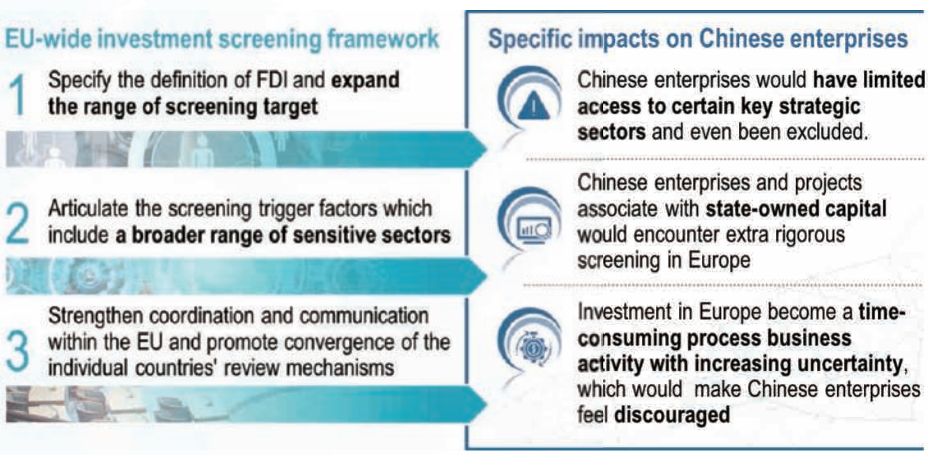


Figure 3.4: EU-wide investment screening framework and its impact on Chinese enterprises

Source: Council of the European Union; Roland Berger analysis

3.2.1 Main Content of the Framework Agreement on Foreign Investment Review

This Framework Agreement aims to provide Member States with a set of minimum standards for the FDI review mechanism. In terms of content, it offers further provisions mainly on the object of FDI review, the key areas of review and cooperation mechanism between the EU and its Member States:

(I) Specify the definition of FDI and expand the range of screening target

The European Commission has redefined FDI. The review under the Framework Agreement comprises investments from non-EU countries and investments made in Europe by enterprises located in, but not owned by, the EU.

Under these provisions, the EU will encourage its Member States to review investments made by enterprises operating within the EU, but mainly controlled by foreign capital. It will also encourage Member States to pay more attention to investment risks arising from the equity structure of foreign enterprises in the EU. For Chinese-controlled enterprises this means that, for instance, enterprises represented by Volvo and Pirelli with Chinese equity backgrounds will be targeted for review under the new legislation act.

(II) Articulate the screening trigger factors which include a broader range of sensitive sectors

The European Commission presented a broader coverage of the areas and businesses which would trigger review considerations.

This provides that, when the investment field involves the security of critical infrastructure, of key and dual-use technologies , the guarantee of core production supply, and the availability of sensitive information, the appropriate review mechanism can be triggered on a case-by-case basis.

Considerations	Related Investment Field
Critical infrastructure security	Including energy, transport, water, health, communications, media, data processing or storage, aerospace, defense, electoral or financial infrastructure, sensitive facilities and investments in land and real estate.
Critical technologies and military and civilian dual-use products	Including artificial intelligence, robotics, semiconductors, cybersecurity, quantum, aerospace, defense, energy storage, nuclear technologies, nanotechnologies and biotechnologies.
Supply of critical materials	Including energy or raw materials, as well as food security
Access to sensitive information	Including personal data, or the ability to control such information
Media	Freedom and pluralism of the media

Table 3.1: Investment fields covered by the new framework and corresponding considerations

Source: European Parliament, Provisional Agreement Resulting from Interinstitutional Negotiations

(III) Strengthen coordination and communication within the EU and promote convergence of the EU member states' individual review mechanisms

The Framework Agreement sets out that EU Member States will implement the reporting mechanism of the current review system, that is, the establishment, updating and implementation of Member States' review mechanisms should be reported to the EU in a timely manner.

The review of FDI under the new Framework Agreement, when triggered, may involve the participation of both the EU and its Member States. For the Member States which have not yet established a review mechanism, annual FDI reports within their territories should be

submitted to the EU Commission.

The above-mentioned reporting and cooperation mechanisms will facilitate information communication among Member States, thus gradually leading to the completion of a comprehensive review system covering all EU member states, and to the step-by-step improvement of the framework for FDI screening in the EU.

3.2.2 Implementation of the review mechanism among the EU member states

The framework agreement has gained support from several countries whereas Chinese enterprises are most concentrated in Europe. For example, Germany, France and Italy have published a joint statement to firmly support the framework agreement of the European Commission.

On the contrary, Finland, Greece, Portugal, Ireland, Spain, the Netherlands and some Eastern European and Nordic countries hold conservative or opposing attitudes towards the bill to varying degrees, arguing that the EU-level FDI review framework may adversely affect free trade and open economic policies. For example, debt-stricken Greece has been hoping that Chinese investment will help it out, and Hungary, the first EU country to sign a memorandum of understanding with China on the “Belt and Road Initiative”, has also expressed its welcome to Chinese investment, while Portugal and Malta believe that such a proposal by the EU would only scare investors away. The Netherlands and the Nordic countries (Denmark, Norway, Sweden), the traditionally free-trade countries, tend to improve market access and investment by bilateral investment agreements with investors outside the EU, including China.

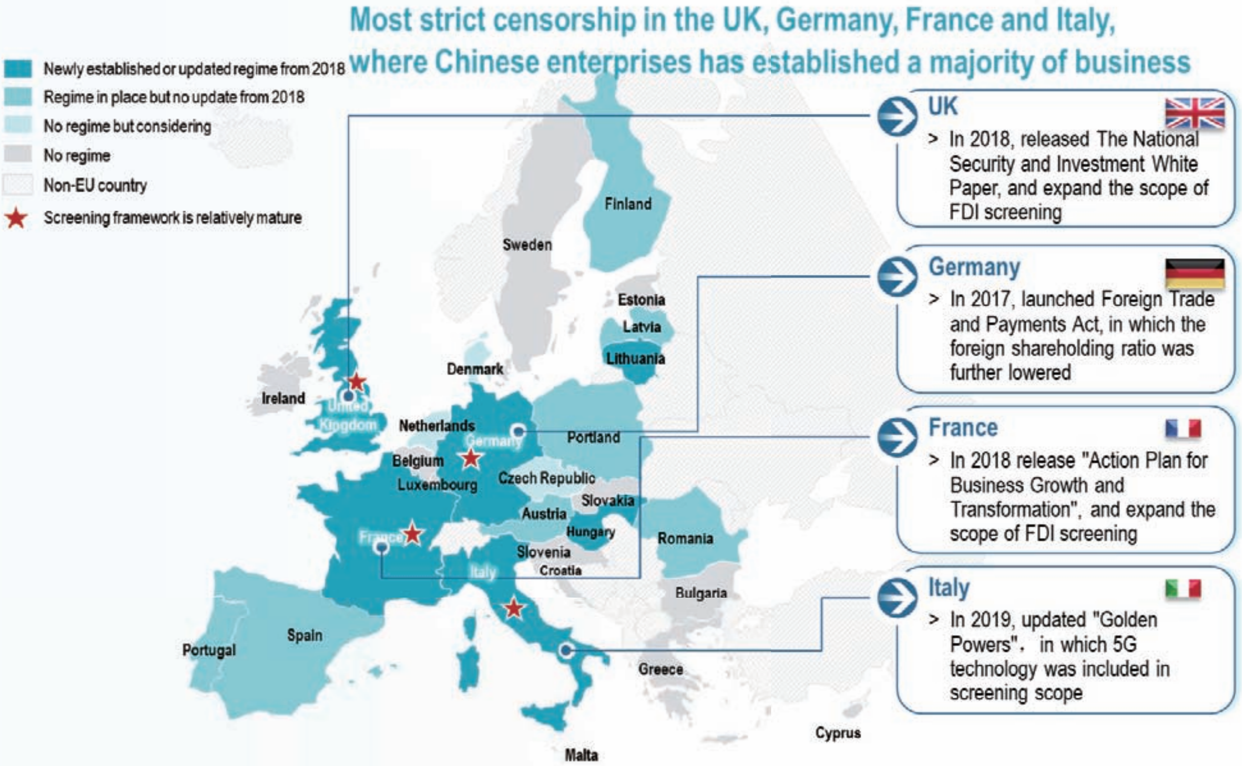


Fig. 3.5: Implementation of the review mechanism in the EU member states

Source: Roland Berger analysis

Now a total of six EU member states have updated or published their new FDI review systems since 2018, including Germany, France, Italy and Britain, which have the clearest position on the foreign investment review mechanism with tighter current foreign investment review regulations.

For example, Germany has repeatedly lowered its foreign equity review threshold to 10%; France has recently issued a new policy to emphasize the need to examine foreign investment in fields such as space and aviation, information data and artificial intelligence; Italy has issued additional regulations of the Gold Bill of Rights to include "broadband communications services based on 5G technology" in Italy's strategic assets, allowing the government to control the list of participants in its 5G telecommunications market in the coming years; in its white paper National Security and Investment, the UK has included foreign transactions involving 50% asset acquisitions or 25% equity transfers in sensitive industries related to national security strictly in the scope of review.

3.2.3 Special impact of the framework agreement on Chinese enterprises

Although the framework agreement makes it clear that nationality outside the EU is not differentiated, some of its provisions are found to clearly overlap with the core characteristics of Chinese investments made in Europe so far. According to rough statistics from third-party agencies, under the new EU investment review framework, the items to be reviewed cover a large share of inbound mergers and acquisitions of China, and around 80% of the 2018 Chinese investment case samples in Europe meet the review trigger conditions set out in the new bill[27]. From the concrete manifestation of Chinese enterprises' investment in Europe, some potential pertinence to Chinese enterprises revealed in the current review framework of the EU does have its roots.

For example, Chinese electronics maker Midea acquired 95% stake of Kuka Robotics, one of Germany's most important automation developers in 2016; COSCO acquired 51% stake of Piraeus port, the largest in Greece, in 2016; and Geely, the Chinese carmaker, invested $2 billion in Daimler in 2018. From these cases, it is not difficult to find that the recent investments made by Chinese enterprises in Europe have shown a certain preference for European enterprises with resources such as expertise and critical infrastructure, and these moves have made the EU more alert to the potential dangers of foreign capital shaking up its key internal technologies and national security.

For the development of Chinese enterprises' investment in Europe, the key impact of the EU framework agreement is shown mainly in the following three aspects:

(I) Access of Chinese enterprises to certain strategic areas will be restricted or even excluded

The key areas set out in the framework agreement that require closer review are highly in line with the recent investment priorities of Chinese enterprises, such as manufacturing with core technologies and high-tech information technology services. As a result, it may lead to obstacles or even failures in some key investments of Chinese enterprises in Europe.

Case 1 - In July 2018, the French government called a halt to the acquisition of STX French shipyard shares by Fincantieri, Italy, on the grounds of protecting local employment and preventing unique shipbuilding techniques from falling into the hands of foreign nations. The deeper reason behind this, however, is that Fincantri was working with CSSC to build the cruise ship, and the French government feared that the Italian company would pass on the expertise of French shipyards to Chinese enterprises.

Case 2 - In August 2018, the German government announced a ban on the acquisition

27 Merics, *Chinese FDI in Europe 2018 Trends and Impact of New Screening Policies*

of Leifeld Metal Spinning, a German machinery manufacturer, by Yantai Taihai Group of China. Lefeld is a small-sized technologically advanced processing company in Germany. The German government believed that the high-strength metals produced by the company are used in key areas such as automobiles, space stations and industry, so the deal would pose a potential risk to public order and information security.

(II) Chinese enterprises with state-owned backgrounds will come under closer review over their investments in Europe

The new review framework, for the sake of national information technology security, calls for closer investment review over direct or indirect state-controlled entities and government-led external projects. In view of the widespread presence of Chinese government-led industrial policies and investment projects, it is expected that the promulgation of the framework agreement will bring significant impact and challenges to the Chinese enterprises with state-funded background over their investment and development in Europe.

Case 1 - October 2016, the €830m bid by State Grid Corporation of China for Eandis, a Belgian operator of power and gas distribution systems, ended in failure, because Belgium's national security agency believed the State Grid has close ties with the Chinese government and the military use of Belgian-related technology would pose a risk to Belgium's national security.

(III) Chinese enterprises will have to cope with increased cost and uncertainty in investment in Europe

Driven by the new bill, many member states have formulated or updated their FDI review procedures successively, which increases the risk of rejection or retrospective review for Chinese enterprises. And when the investment review is triggered, Chinese enterprises may face multiple rounds of inquiries from different member states and the EU. It will increase the time cost of the transaction and the uncertainty of the project on the whole.

3.3 EU countries impose restrictions on Chinese enterprises over their business development and expansion in such areas as technology and energy in the EU

In recent years, as Chinese enterprises strengthened their capabilities and go global in technology, energy and other industries, some countries have gradually become resistant under the influence from politics and public opinion, thus failing to provide Chinese enterprises with a reasonable space for business development in the EU. In addition, the EU's misunderstanding of the Chinese enterprises with state-owned capital background has led to targeted review and even trade rejections, and constrained the pace of development of Chinese enterprises in the EU.

3.3.1 Misunderstanding of the Chinese enterprises with state-owned capital background as a "unitary economic entity" leads to restrictions on mergers and acquisitions.

As the antitrust scrutiny over Chinese enterprises in the process of mergers and acquisitions in EU countries is increasing in recent years, the independence of Chinese state-owned enterprises has been challenged while the “worst-case hypothesis” has gradually become the norm of review, that is, the European Commission misunderstands Chinese state-owned enterprises as a "unitary economic entity”, and packages their turnovers to exaggerate their actual business influence. As a result, when seeking merger and acquisition expansion or establishing joint ventures, Chinese enterprises are targeted by regulatory authorities for antitrust investigation or even transaction rejection, which seriously affects their regular operation.

In essence, Chinese state-owned enterprises are by no means a "unitary economic entity” by their natural defined by law. Although they receive investments from state capital, these enterprises have management independence and autonomy, with no direct connection with each other in the market. As a matter of fact, the Chinese state-owned enterprises are also in full competition. As specified in the Law of the People's Republic of China on the State-Owned Assets of Enterprises (Law of the State-Owned Assets of Enterprises), the Central State-owned Assets Supervision and Administration Commission of the State Council (SASAC) is required to perform the duties of the funder, in accordance with the principle of separating the government and enterprises, and not interfering with the independent operation of the enterprises.

The EU's misunderstanding and tightening of the review policy for the Chinese state-owned enterprises has led to a number of unnecessary antitrust investigations, which cost time and efforts of both sides as well as that of the European Commission, inducing the transaction to be prolonged significantly and hence slowing down corresponding enterprises' development, while bringing certain economic losses. It is suggested that the EU should have a more comprehensive understanding of China's economic system in the coming years, so that enterprises from both regions could jointly engage in business with an open mind, that would promote market vitality.

In 2015, for example, when China's China General Nuclear Power Group (CGN), in conjunction with Electricity of France (EDF), invested in a UK nuclear power project, the EU, regarding CGN and another Chinese enterprise, Sinochem Rubber, owned by SASAC which operates in the EU as an "unitary economic entity", consolidated their turnovers and launched an antitrust review over the deal. However, after the scrutiny, it has revealed that there was no major antitrust in the deal between CGN and EDF, no matter in electricity generation and electricity wholesale market, nuclear island design and construction, or suitable sites for new nuclear power plants. The deal passed review in 2016 and was formally completed at the end of September that year.

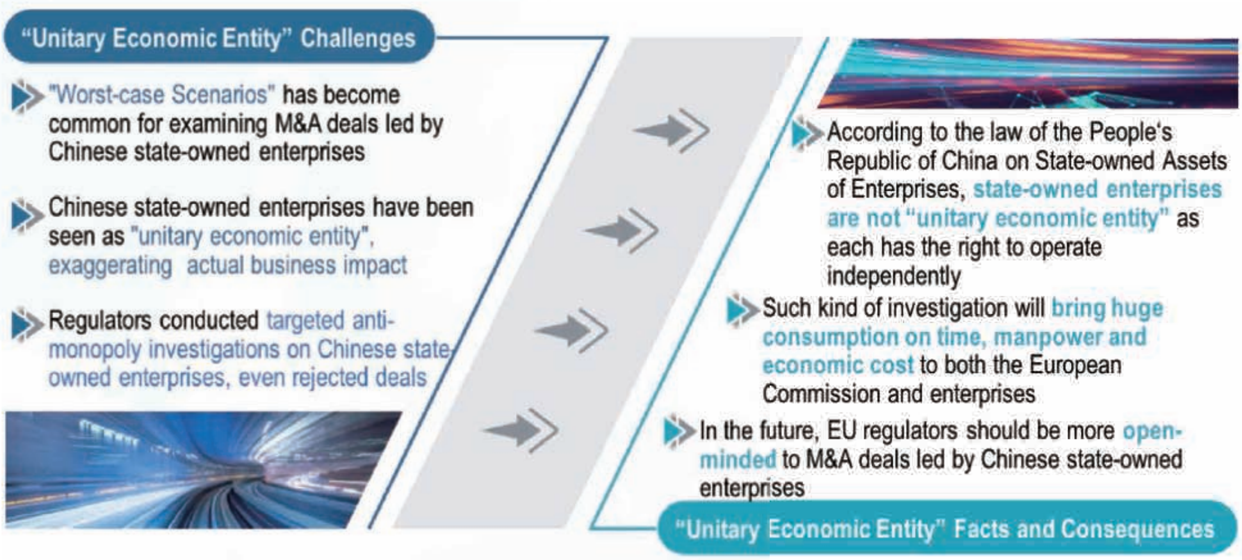


Figure 3.6: "Unitary Economic Entity" Challenges, Facts and Consequences

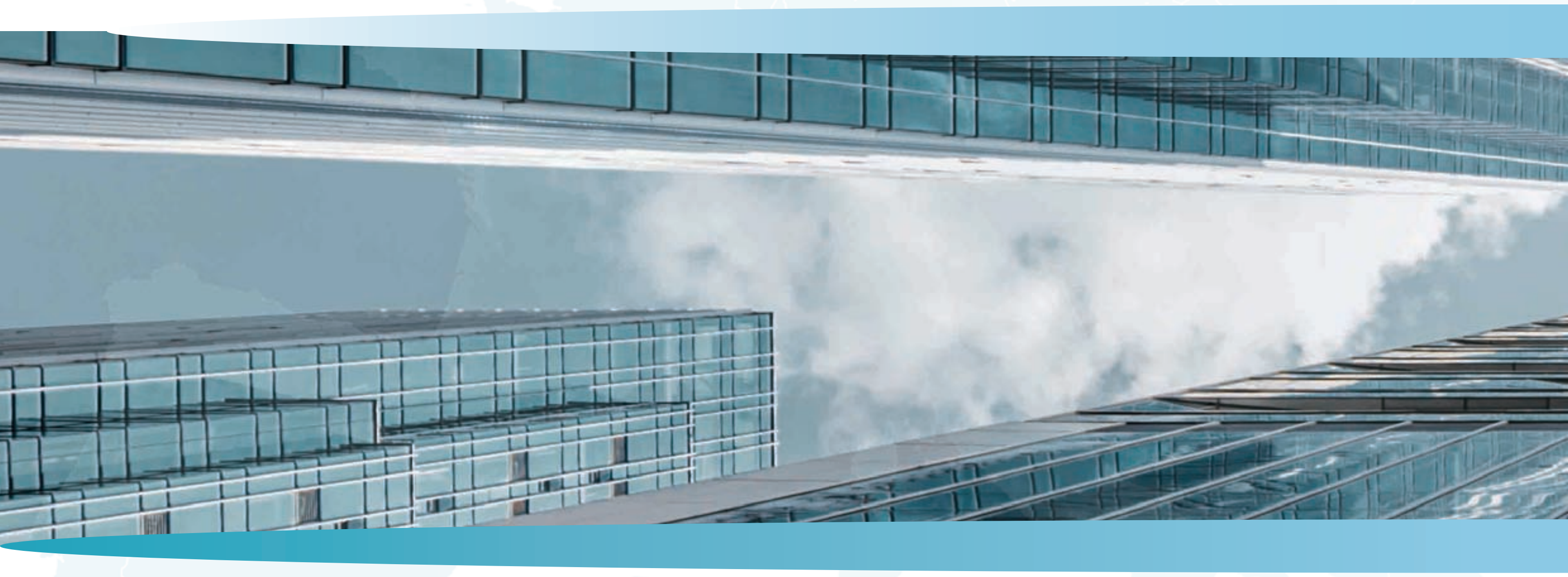
Source: Law of the People's Republic of China on State-owned Assets of Enterprises; Roland Berger analysis

3.3.2 Influenced by recent political and public opinion atmosphere, certain Chinese enterprises come under restrictions over entry and development in the EU

In terms of the development of 5G network construction, several EU countries, influenced by political factors, have acted on hearsay evidence and imposed direct and targeted policy restrictions on Chinese enterprises such as Huawei to enter local market. However, there is no strong supporting fact behind such restrictions.

Early in April this year, for example, the British government announced a policy that only allowed Huawei to participate in the construction of non-core network and provide non-sensitive parts, such as antenna and networking units, stating that Huawei's product had a low network information security level and it may bring security risks. However, there were no actual engineering defect cases on the hardware configuration, operating system and software logic of Huawei products to support such judgment, besides, no specific test methods or standards were disclosed. Therefore, it is obviously prejudiced and unfair to exclude Huawei from UK's 5G core construction.

It is noteworthy that there is no Chinese law that obliges Huawei to cooperate with the Chinese government. Moreover, it also has an internal Product Security Incident Response Team (PSIRT) organization dedicated to security vulnerabilities, which receives, solves and discloses all vulnerabilities in Huawei's product solutions to an extraordinary standard. Nevertheless, it formally joined the International Incident Response and Safety Organization in 2010 to address product safety issues in accordance with the standards and principles of



the ISO and the IEC.

In addition, Under the latest cyber security requirements, the German Federal Network Agency did not find Huawei engaging in any questionable activities in Germany, and would not exclude any network equipment suppliers, including Huawei, from their 5G construction. It reveals and reconfirms that there is no so-called national security risk in the quality and technology of Huawei's products.

Figure 3.7: the UK restricts Huawei to participate in its 5G development

Source: Desktop research; Roland Berger analysis

Unfortunately, the above-mentioned restrictions on Chinese enterprises adopted by some EU countries would induce a lose-lose situation for both parties:

Firstly, to state the obvious, restrictions from the EU governments would directly create obstacles for Chinese enterprises' development in the EU; furthermore, for EU countries that put forward such restrictions, biased decisions may affect their cooperation with high-quality suppliers with advanced solutions and cost-effective measures, which would sacrifice certain opportunities of improvement industries development and the quality of life of their people.

In the UK, for example, the Mobile UK has suggested that the local government's ban on the use of Huawei products in building 5G networks would lead to an economic loss of about 6.8 billion pounds, and delay in launch of domestic 5G networks for two years. Outlook the future, it is only in both China and EU's best interest to encourage technological progress with an open and inclusive attitude.

It is essential for enterprises to focus on breakthrough in technology and product quality, so as to better stimulate industrial technology and standard upgrade; on the other hand, EU governments could hold a more tolerant attitude towards the operation and development of foreign enterprises in Europe and eventually achieve win-win accomplishments.

3.4 There is not enough voice from China's industry leaders in establishment of international and the EU standards

Now EU countries, leading by the UK, France and Germany, are increasingly devoting themselves in internationalizing the EU standards, whilst various of them has already been recognized internationally with enormous influence. As such, it is necessary for EU countries to involve more cutting-edge enterprises in a variety of industries to participate in the standard formulation, to ensure the reliability as well as sustainability, in order to boost EU standards' influence and authority worldwide.

However, disappointingly, the participation of Chinese enterprises in the formulation of international and the EU standards is limited at the moment.

At the international level, among more than 160 member states of the International Organization for Standardization (ISO) committee, the standards formulated by a few developed countries account for 95% of the total. However, China, as one of the six permanent members of ISO, has only set 0.7%, while only account for 1.58% of the international standards among the ones issued by ISO and International Electrotechnical Commission (IEC). From perspective of China, the world's second-largest economy and the largest trading nation, such participation is obviously unsatisfactory.

At the EU level, as a large number of the EU standards are directly linked to the corresponding international standards (about

40% of European Committee for Standardization (CEN) standards could be traced back to ISO standards, while 98% of European Committee for Electrotechnical Standardization (CENELEC) standards), Chinese enterprises with limited participation in international standard-setting automatically fall into a weak position; besides, the EU standards are, understandably, mainly set by EU countries, so as to the enterprises from China and other countries barely make their participation in general. Therefore, on the whole, the participation of Chinese enterprises in the setting of international standards or the EU standards has not been ideal.

It is worth mentioning the current trivial participation of Chinese enterprises in the EU standards setting is detrimental to the industry development of both China and Europe: in some industries where China has become a leading player in Europe and even in the world, the failure of including the opinion of the leading enterprises limits the advancement of the EU standards. For example, China's high-speed rail has an operation speed of 350 km/h, ranking first in the world, moreover, in terms of safety, even at 386 km/h, the derailment coefficient is only 0.34, far beyond the required 0.8 in the EU safety standards. Regrettably, the GB standards, i.e. Chinese national standards, is relatively independent of the European ones, and has not yet been introduced or referenced in European rail standard setting. As for Chinese enterprises, the absence from the setting of industry-leading standards could cost them certain opportunities to enhance their core competitiveness.

The key reason behind this phenomenon is that Chinese enterprises in the EU have not paid enough attention to proactively involve in the setting of industrial standards.

Nowadays, Chinese enterprises tend to understand the local standards first and make corresponding adaptions when entering the EU market. As a result, Chinese enterprises often play the role of industry standard followers and executors, rather than participate in discussing, drafting, or reviewing the standards. Under such circumstance, Chinese enterprises are distant from the industry association or trade unions, which could result in not able to sense or react on the industry standard development trend, resulting in their passive acceptance in a vicious circle.

For example, one of the world's leading clean energy enterprises in China, failing to take the initiative to join VDE, one of Europe’s largest technical-scientific associations, or any other industry associations when entering European market due to no such consciousness, had of overcome difficulties to understand the industry and standard developing trend, while missing the crucial opportunity to participate in the standard setting and grasp the development initiative in the field of new energy technology in the EU.

Paying full attention to and proactively participating in international standards setting is a “passport” for Chinese enterprises to better implement their strategy of “going global”, during which they could keep abreast of latest technological development trend, obtain industry status, and provide cutting-edge professional input. Outside the EU, there have been Chinese enterprises successfully take on actions in setting local standards. Gree, a leading enterprise in home appliance industry, for example, contributed to the technical requirements related to combustible refrigerant and functional safety into the standards of Canada and the United States. Through this course, it has vigorously displayed its authority in the industry and strengthened its brand image, while being capable to adjust its product planning rapidly to meet local strict requirements on product safety, energy efficiency, environmental protection and other aspects, thus creating a favorable environment for its own development.

Figure 3.8: Chinese enterprises' role in standard development

Source: Roland Berger analysis

3.5 Chinese and other foreign enterprises yearn for local support in the EU

Chinese enterprises would need to go through a series of complex processes to establish a business in the EU, and most of the case, they usually encounter various obstacles in actual operation due to their inadequate understanding of European business environment, cultural differences and language.

Figure 3.9: Chinese enterprises faces numerous issues when setting up their business in the EU

Source: Roland Berger analysis

(I) Chinese enterprises encounter challenges in recruiting talents in Europe

The development of Chinese enterprises in Europe requires highly localized operation, whilst employees process certain level of understanding of China. Therefore, Chinese enterprises have been assigning their domestic employees abroad to quickly establish a team with leadership who comprehend the business well. Meanwhile, one of the fundamental task is to recruit local talents with ideally both Chinese and European knowledge and language skills.

However, some Chinese enterprises are unsuccessful on this matter, as they are uncompetitive and unknown to the local talents comparing with local large enterprises. Confined by their language and culture, Chinese enterprises in the EU are habitually recruiting talents through their own social network which based on social media, local Chinese associations, as well as headhunting firms serving Chinese, whereas generally less connection with the local talent recruitment channels. Furthermore, employees came from China often have concerns about their usual lifestyle and career development in Europe. All these reasons above make building of a team a significant conundrum for Chinese enterprises in Europe.

(II) Chinese enterprises' unfamiliarity with the European business environment leads to an arduous business development process

To establish a business in the EU, it obviously requires cooperation and communication with local governments and agencies, and yet quite a few Chinese enterprises are unfamiliar with the local business environment and come across numerous along the way.

Unaware of how of request support on local business infrastructure

Infrastructure development level varies in different area in Europe, part of where Chinese enterprises would require an upgrade in network communication, public transport, or municipal environment to maintain a smooth daily operation. However, being a foreigner, many of them do not know how to contact local governments and service providers for such support. Moreover, it is also not helpful that some local departments are not quite efficient. Many Chinese enterprises end up with enduring the difficulties.

Unfamiliar with the business establishment procedures

Chinese enterprises in Europe need to go through a series of complex procedures and processes from opening an account with a local bank, financial management and reporting according to the local accounting standards, compliance drafting of employment contracts, regular taxation, to employee visa application, rental and other miscellaneous matters. Each matter requires the enterprise to contact with a specific department during a specific phase. However, because of the unfamiliarity with these processes, it is not uncommon that Chinese enterprises take several months to complete these multifarious tasks.

Difficulties in cooperation with third-party service organizations

As there exist substantial differences in business environment between China and Europe, it is difficult for Chinese enterprises to fully rely on their own functional departments. Nonetheless, some Chinese enterprises are unwilling to pay for the third-party professional services, and thus frequently confronted by issues in financial and compliance review. Despite numerous established accounting and law firms available in the Europe, it is still not easy for Chinese enterprises to select a suitable service provider that is familiar with both China and the EU while understand their demand.

(III) Chinese enterprises lag behind in knowledge of industry standards and related bills

Many Chinese enterprises in Europe do not have access to the information on latest standards and regulations in their fields, so it is difficult for them to make flexible business adjustment according to industry changes, or even conduct forward-looking industrial layout. To this end, some Chinese enterprises with excellent development results in their respective fields choose to join local industry associations in Europe to get access to more timely information.

Although Chinese enterprises are confronted with the above-mentioned difficulties in their operation and development in Europe, the agencies which would provide supporting service for Chinese enterprises that exists in many European countries and regions have greatly contributed to the smooth ramp-up of Chinese enterprises', while stimulating the economic development in the local place.

Now local governments in EU countries, including Germany, France, Italy, Belgium, Denmark and the Netherlands, have established official support organizations for foreign-funded enterprises, whilst in other countries, there are also varies of non-governmental chambers of commerce active in the industry, which would assist Chinese enterprises to bridge Chinese enterprises with the local European enterprises, professional services, and government agencies.

Germany has set up the economic promotion bureau and the China center to provide one-stop business support for Chinese enterprises

In Germany, local investment promotion bureau or China center sponsored jointly by the Chinese and German governments have been providing considerable and pragmatic support for Chinese enterprises.

For example, Duisburg Investment Promotion Bureau is committed to helping Chinese enterprises in Europe locate suitable professional service agencies (spanning across choosing enterprise location, communications, legal and financial services, etc.) and partners, including many Chinese institutions that can provide Chinese services. It greatly benefits the development of Chinese enterprises in Europe. With its help, the number of local Chinese enterprises has grown from 30 in 2014 to about 100 today, boosting the local economy.

For another example, Hamburg, Germany, besides providing Chinese enterprises with the above-mentioned one-stop services, holds "Hamburg Summit", "Hamburg-Chinese Enterprise Advisory Forum" and the like on a regular basis, to provide Chinese enterprises comprehensive understanding on how to carry out business activities in Germany.

There are other similar China centers in German jointly established by the governments of the two nations, such as Dusseldorf China Center jointly organized by Government of North Rhine-Westphalia, Germany and the Government of Jiangsu Province, China; Bavaria China Center by the Government of Bavaria, Germany and the Municipal Government of Foshan, China. They all offer one-stop services and substantially alleviate the difficulties for Chinese enterprises in Germany.

Belgium set up a China-Belgium Science and Technology Park to bridge Chinese and Belgian enterprises

Chinese enterprises enjoy a positive and optimistic business environment in Belgium, where many regional governments have established long-term cooperation mechanisms with the Chinese government, and laid a good foundation for the development of Chinese enterprises in Belgium by establishing specialized organizations to support Chinese enterprises.

The China-Belgium Science and Technology Park established by the Government of Wallonia, Belgium and the Provincial Government of Hubei, China, for example, aims to stipulate the development of enterprises from both countries. Chinese enterprises could use the park as origin to expand their overseas markets whiling locating exceptional trading and R&D partners. Furthermore, the park offers legal, tax, financial and other comprehensive consulting services for Chinese enterprises. So far, the park has ushered in 20 enterprises, including 13 from Chin, with its plan to continuously attract up to 200 enterprises from the two countries in the near future.

The above organizations established by European governments have laid a good foundation for Chinese enterprises to conduct business in Europe, and removed obstacles and barriers caused by geographical differences and ineffective communication. Now an increasing number of countries and regions in Europe are actively deploying such organizations, which is extremely appreciated by Chinese enterprises.

3.6 Lack of regular and systematic communication mechanism between China and the EU

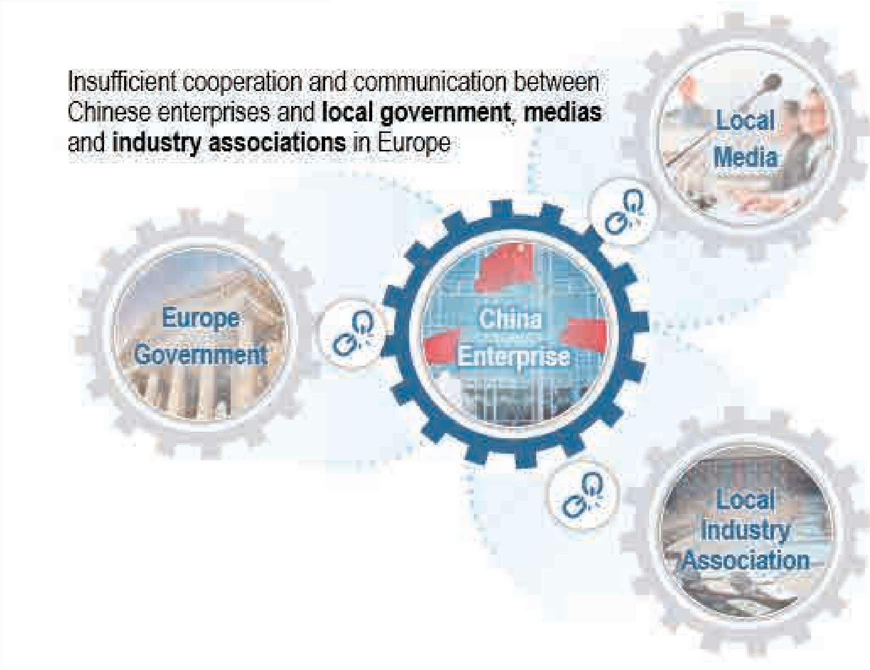


Figure 3.10: Insufficient cooperation and communication between Chinese enterprises and EU

Source: Roland Berger analysis

3.6.1 Lack of systematic communication channels between Chinese enterprises and the EU governments

Chinese enterprises often face the dilemma of nowhere to turn to or late feedback when they go through a tough time in business operations in Europe. Especially when it comes to the complex and diverse processes of the EU governments, Chinese enterprises have no idea which department is the right one to connect with. Even if they find the right department, the rigorous disposal process and long feedback cycle of European institutions will make Chinese enterprises awkward and anxious.

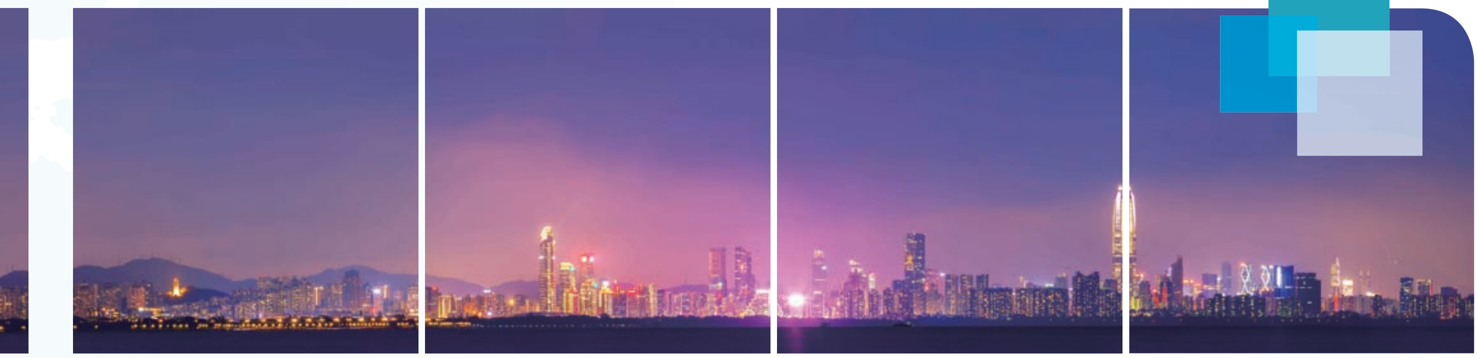
A Chinese enterprise which runs a factory in Europe has stated that the local broadband network facilities have not been able to smoothly meet the needs of local operations for a long time. After two years of application and feedback, the infrastructure was finally settled after the inspection by local governments. Besides, the local governments also took the initiative to assist Chinese enterprises to carry out business by building railway stations. However, if the local governments can positively carry out support measures to meet the key needs of Chinese enterprises effectively, it will make Chinese enterprises develop more smoothly in Europe.

Based on the above problems, we can see that there is no regular and systematic communication mechanism between Chinese enterprises and the EU governments at this stage, and the communication mechanism through which the Chinese enterprises can reach the local governments needs to be improved. In this regard, the EU governments can set up a targeted docking department that specializes in Chinese enterprises, ensuring the reasonable needs can be dealt with in a timely manner.

3.6.2 Lack of transparent communication mechanism between Chinese enterprises and the media

According to the results issued by a third-party research institution, more than half of the people in major European countries have negative image of Chinese enterprises, which are mainly due to the inherent cultural differences and development background between China and Europe.

At present, Chinese enterprises fail to take sufficient measures to handling public relations in Europe, and also have limited response speed and effectiveness in the face of sensitive events. These pain points mainly stem from the following two problems: firstly, Chinese enterprises lack the awareness of using



media communication, failing to establish a long-term communication mechanism with local media, or output positive opinions by a special spokesperson in a timely manner, which made Chinese enterprises repeatedly miss the opportunity to build trust and friendship with local media. Secondly, in the face of public relations crisis, Chinese enterprises have no emergency response plan, which may lead to a late response as a result.

In the future, Chinese enterprises should take the initiative to communicate with the media during the development in Europe through outputting positive opinions and eliminating the negative images of the public, so as to achieve a better market performance.

3.6.3 Lack of long-term cooperation between Chinese enterprises and industry associations

In Europe, local businesses can form a unified appeal and strong communication channels by cooperating with industry associations, which have a strong voice in fighting for rights and appealing to industry reforms. The participated enterprise can gain first-hand industry information in the association as well as expanding their business cooperation network, promoting Chinese brands and technologies, and striving for industry status and voice channels.

However, although there are many benefits brought by these European industry associations, most Chinese enterprises can only get limited participation. The main reason is that Chinese enterprises are still in the stage of exploration in Europe, lacking of full understanding of the opportunities and benefits that the local industry associations can bring to the enterprise.

All in all, European local industry associations are of remarkable significance for Chinese enterprises to build their own cooperation networks and voice channels in Europe. Chinese enterprises should pay full attention to these local associations and strive to improve their ideas and business, actively seeking the communication and cooperation with local European associations, to effectively compensate for the lack of voice in the industry.

3.7 The differences in governance pattern and cultural concepts between China and the Europe leading Chinese enterprises to suffer "acclimatized"

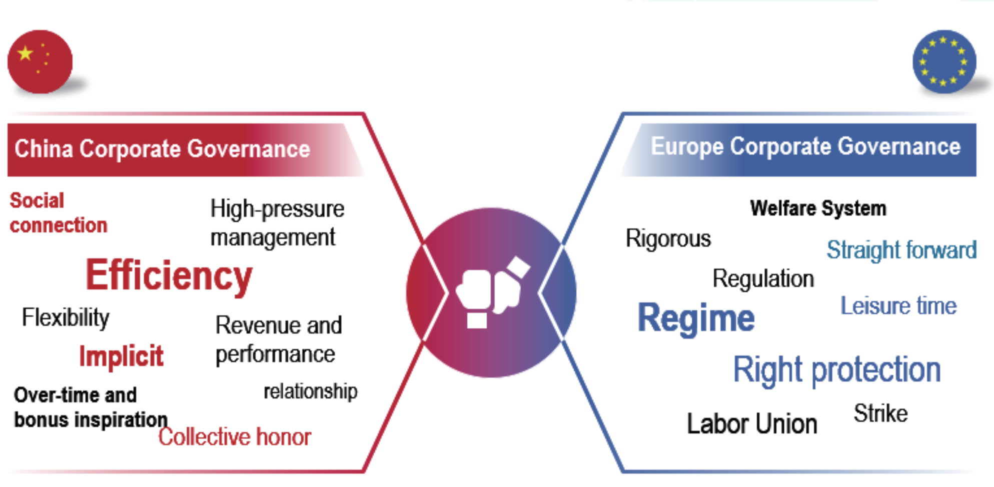


Figure 3.11: Comparison of governance models and traditional concepts between China and Europe

Source: Roland Berger analysis

3.7.1 The differences in governance pattern and practices between China and the Europe inhibit bilateral cooperation

In terms of governance pattern, the Chinese side has a different concept and culture with local enterprises and local employees, which has inhibited the synergy between Chinese enterprises and local operations teams to some extent.

For example, most Chinese enterprises adhere to the concept of efficiency first and performance-oriented. However, in the local social culture of Europe, they prefer an easy work and life style. Such contradiction will bring pressure and even resentment to local employees. For another example, Chinese enterprises are accustomed to achieving their goals through small-scale consultations among different people. However, the processes, rules and regulations, and even time concepts in Europe are more stringent, making Chinese-style operations useless; in addition, under the Chinese culture, the Chinese employees are subtler than the European employees in communication, especially when expressing negative opinions. So the considerations and hidden meanings behind these communications are difficult to be understood by local employees, which leads to some inefficiencies, even invalid communication.

There are still many differences in governance similar to the above, but for Chinese enterprises developing in Europe, this is a difficult task that has to be overcome, and the communication and integration between the Chinese and European teams needs to be deepened.

3.7.2 Due to lack of understanding on local trade union system and culture, there are conflicts and frictions between Chinese enterprises and local employees

There are great differences in the trade union system and labor management, regardless of institutional regulations or ideas, between China and Europe. Some Chinese enterprises lack the experience of adapting to the local system. For example, they continue to use the management model with Chinese characteristics in Europe, encouraging overtime and work intensity by means of money stimulation and high-pressure management, or trying to use interpersonal relationships to manage employees. However, these “flexible” management obviously cannot be adapted to the relatively sound European social system, leading to many conflicts and frictions between Chinese enterprises and local employees and trade union.

For example, a Chinese enterprise agreed and signed dozens of welfare clauses with local trade unions at the time of acquisition, including free medical care, education, housing, water and electricity, etc. However, in the late stage, due to the importance attached by Chinese enterprises to the trade union system and commitment clauses being insufficient, the enterprise failed to fulfill all the promises, which caused a series of incidents such as trade union resistance and worker strikes. At first, Chinese enterprises tried to calm the event in their own way, such as clearing government relations and winning over key figures, but such response would trigger a more serious rebound. In the end, through multiple rounds of communication, the incident ended with a corresponding compromise by Chinese enterprises in accordance with the trade union regulations.

In addition, a Chinese enterprise that has completed a merger with a German electronics enterprise in Europe also said that the company's operations in Europe face many labor disputes every year, and the subsequent lawsuits and affairs are really time and finance-consuming.

It is not difficult to find out from these lessons that some Chinese enterprises have failed to give full attention and understanding to the trade union system during their development in Europe, and there is a lack of a proactive and friendly communication mechanism with local trade unions. In the face of inevitable frictions and disputes, it is often more beneficial for Chinese enterprises to play a positive role in unions than to simply clear the relationship and cope with positions.

In order to help Chinese enterprises to overcome development challenges in the EU, realize long-term progress, and promote closer bilateral relations between China and the EU, it is inseparable from the joint efforts and cooperation of the two sides. However, the EU governments and Chinese enterprises also should think which aspects should be given special attention? In the final chapter, we will give some suggestions for the EU governments and Chinese enterprises based on the future development aiming to promote long-term cooperation and win-win between China and the EU.

Chapter Ⅳ

Suggestions for Promoting the Development of Chinese Companies in Europe

At present, although the overall business environment faced by Chinese enterprises in the EU is relatively good with the main theme of cooperation and win-win at this stage, we also face the challenges such as tightening of investment review, limited business expansion. The China-EU investment cooperation and economic & trade exchanges are moving on in eliminating difficulties.

The EU governments and enterprises should realize that there is no direct geopolitical conflict between China and Europe. Although there are competitions in the economy, we are highly complementary, and there is huge room for expansion in the breadth and depth of cooperation in the economic and trade field. As one of the most important economies in the world, China and the EU should enhance the economic and trade cooperation which is conducive to the common interest of both sides.

In order to promote the development of both parties, it is suggested that EU governments should, first of all, adhere to the position of the free market from a global perspective and from the perspective of the long-term development of the whole industry. Further, take practical measures to support the development of Chinese enterprises in EU by establishing a window for Chinese enterprises. In addition, Chinese enterprises should also pay attention to the operation and development in line with local conditions. On the one hand, Chinese enterprises should actively integrate into local economic industries to promote the industrial level. On the other hand, Chinese enterprises should improve their localization level to build "European enterprises" with Chinese genes.

4.1 The EU countries should adhere to an open, predictable, fair and transparent business environment, looking at the issue from the perspective of promoting global development

Looking back at the past, the basic views of China and the EU on key issues are actually the same or similar - insisting on promoting the process of globalization; under the situation of trade protection and unilateralism, they are all advocates and practices of multilateralism. Especially today, China and the EU play a pivotal role in the global economic development. Just as the Juncker, President of the European Commission, said that China and the EU "should take important responsibility in maintaining multilateralism." Therefore, the EU governments should adhere to the implementation of free markets, improve trade and investment liberalization and facilitation in the aspect of promoting China-EU economic and trade cooperation and accepting the development of Chinese enterprises in Europe, to achieve a balance of China and Europe with a more holistic view. Considering the impact of Chinese enterprises' operations on the development of the EU's overall industry, we will explore opportunities for cooperation between China and the EU from a forward-looking development perspective, focusing on cooperation in cutting-edge science and technology, and building the core competitiveness needed for future development.

4.1.1 Adhere to the status of the EU as a representative of the free market, reject the politicization of business issues, seek common ground while reserving differences, and expand pragmatic cooperation

Under the background of the increasing of the instability and uncertainties in current international situation, as well as the undercurrent of protectionism, some countries show a tenser emotion. Therefore, they have concerns about investment from other countries and adopt a tightening measure that is contrary to globalization, which have slowed down the pace of globalization in terms of administration and regulation. This kind of precautionary psychology has gradually spread to the EU.

In recent years, the EU has established a Foreign Investment Review Frame System and has a tough stance on investment access and overcapacity of state-owned enterprises, having taken a series measures to restrict Chinese enterprises from expanding the European market. In addition, the European Commission issued the Strategic Vision of the EU-China relations on March 12, 2019, stating that as China's economic and political influence is improving, China's opportunities and challenges in the EU have changed. China is not only a comprehensive strategic partner for the EU, it is also a "competitor", even an "institutional opponent” in the field of economic and trade science and technology.

It is true that there is a certain degree of competition between China and the EU in some areas, but this is an objective result of changes in the world economy and the development of both industries. Such restrictions are disadvantageous for both the proposing party and the restricted party: for the proposing party, it will disrupt the free development of the industry under full market competition, and some industries will lag behind the rest of the world; for the restricted party, it will also lose the key source of power for further expansion of the company.

Therefore, we suggest that, on the one hand, the EU governments should continue to maintain an open attitude towards globalization, and actively accept investment, operation and development of enterprises from all over the world, such as establishing an open market policy of attracting investment and building a more free European market. In this regard, Chinese enterprises have shown their open-mindedness; for example, many of them have gone public in the US in recent years. Last year, approximately 30 Chinese firms were listed in the US, including PDD(pinduoduo) and iQiyi, demonstrating Chinese enterprises' openness

of welcoming foreign investors.

At the same time, the EU governments should reject the politicization of business issues and abandon the various commercial sanctions due to political games, thus creating an open, active and dynamic business environment for enterprises from all over the world.

For Chinese enterprises, it is recommended that the EU governments should understand and respect China's current development process and stage characteristics from the perspective of openness and pragmatism, and seek common ground while reserving differences in terms of ideology, political system, state-owned enterprise subsidies, and investment access, to promote the steady development of both sides.

In the process of promoting globalization and opening up, the EU countries play an extremely important role as an important group of developed economies in the world. They should set an example for other countries and help all countries move toward a more open era of globalization.

4.1.2 Objectively measure the economy and trade balance between China and the EU in a whole industry perspective, avoid zero-sum thinking, actively promote mutual complementarity and resource sharing, and learn from each other to achieve a win-win situation

While embracing the globalization process with an open mind, the EU governments should measure China-EU economic and trade relations from the perspective of the whole industry. Keeping a close eye on China's individual advantageous industries, or thinking that the development of Chinese enterprises will hurt the interests of European enterprises is a prejudiced and unreasonable opinion, as well as an unwise move that may damage the mutual trust between both sides and set limits for the development of the EU.

In addition, based on the overall situation, we can find that the China-EU economy and trade relations are balanced and the development of China and the EU is not zero-sum relationship. In fact, China's contribution to world economic growth in 2018 is 27.5%, ranking first[28] in the world for 13 consecutive years. The 1.4 billion people also provide a huge market for the EU products and services, which means that China's development has brought tangible benefits to the EU economy. It is estimated that in 2018, EU enterprises and their subsidiaries achieved a turnover of nearly 400 billion euro in China, while the turnover of Chinese enterprises in EU countries was less than 210 billion euro, only half of the turnover of European enterprises in China. At the same time, EU enterprises made net profits of more than 23 billion euro in China, while Chinese enterprises made only about 8 billion euro in Europe, about 1/3 of the net profits of European enterprises in China. In the past five years, EU enterprises have achieved a total turnover of over 1.7 trillion euro in China, while Chinese enterprises have achieved 760 billion euro in Europe, which is only about 44% of the total turnover of European enterprises in China. Meanwhile, over the past five years, European companies have netted more than 100 billion euro in China, while Chinese companies have netted just over 22 billion euro in Europe, only about 22% of their cumulative net profits in China. For some traditionally strong European industries, such as automotive, China has become the most important market of EU enterprises. For instance, Volkswagen's operating profit in the Chinese market accounts for a quarter of the global total. Similarly, for BMW, the operating profit of the Chinese market accounts for more than 20% - China has become the most important profit contributor of major European automakers. The good development environment between China and the Europe has become the key factor for the EU enterprises to consistently create new growth.

The EU governments should be aware that when Chinese enterprises enter the EU countries, they will more act as "collaborator" rather than external "invader"; both sides should learn from each other to achieve win-win results.

4.1.3 Looking forward to the cutting-edge technology and emerging markets, China and Europe should join hands to accelerate the global cutting-edge technology development

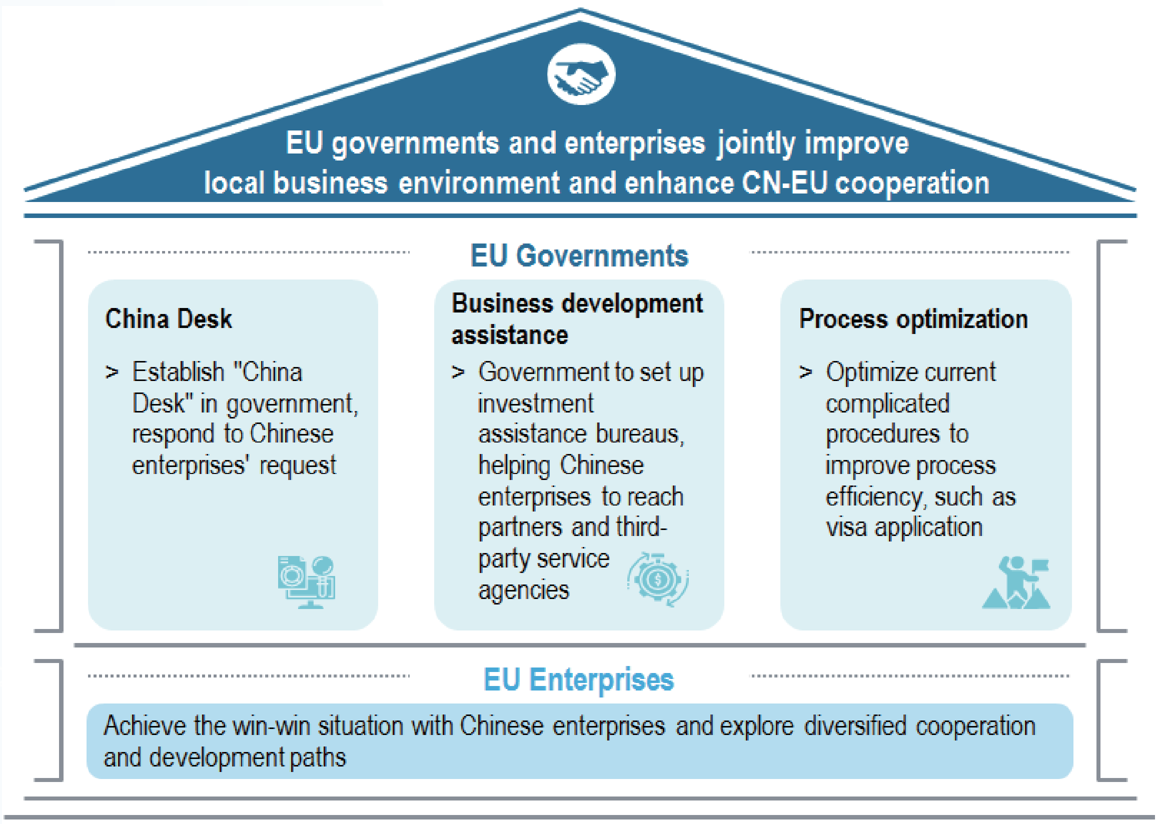
At present, China and the EU, as two major international forces in the world, play a key role in economic development, technology research & development, and cultural communication. Therefore, the EU governments should focus

28 National Bureau of Statistics of PRC, *International Status Being Significantly Improved and International Influence Continuing to Increase*

the next few decades and incremental markets, and cooperate with China in the frontier areas, jointly creating additional economic value on the existing basis. For all kinds of cutting-edge technology, China has already made wide layout and heavy investment, obtained remarkable achievements, for example, the U.S. and China now hold more than 75% of the block chain technology patents, 50% of the global IoT (Internet of Things) spending, more than 75% of the cloud computing market where the top seven Super Platforms account for two-thirds of the total market value, while Tencent and Alibaba are among the seven[29]. Among the global supercomputer ranking, Sunway TaihuLight and Tianhe-2 is in the third and fourth place respectively. In contrast, in the European Union, only Germany's SuperMUC made the top 10, but only ranked ninth. In addition, China's chip industry is also making progress. For example, DeePhi Tech, a star start-up company in China's AI chip field, was acquired by the world's largest programmable chip (FPGA) manufacturer Xilinx last year due to its industry-leading machine learning capabilities. Look into the future, China and EU, as the two important forces of global science and technology, we should establish in-depth partnerships since the early research, and cooperate to improve the development of all industry chains through joint research and development of international standards in relevant fields, funding research & development testing and promotion, while enhancing the core competitiveness of both parties and driving the future economic development as the engine of global technology development.

29 United Nations Conference on Trade and Development, *Digital Economy Report 2019*

4.2 EU governments and enterprises will improve the business environment and promote deepening cooperation between China and Europe, paving the way for future win-win cooperation



4.2.1 The European governments can strengthen support measures to help Chinese enterprises develop in Europe

(I) Establish a targeted service window for Chinese enterprises within governments agencies

In order to solve the difficulties encountered by Chinese enterprises in Europe from the founding to development, local governments in Europe can set up targeted service windows for Chinese enterprises, and set up a position which is especially responsible for one industry or for enterprises to respond their demand and process transactions.

With the help of the European government's targeted service window, Chinese enterprises can solve all kinds of needs encountered in business operations by communicating with one department. They no longer need to visit various departments, which will greatly improve the efficiency and success rate.

In addition, through setting up such service window, the European governments can establish a normalized, multi-dimensional, and efficient communication channel with Chinese enterprises, timely understanding the demands and difficulties faced by Chinese enterprises in Europe; meanwhile, transparently sharing relevant information and limits given by the governments. In this way, the governments and Chinese enterprises can establish a mutual understanding to efficiently match the functions and appeals, thus creating synergy effect and promoting mutual development and progress.

(II) Governments take the lead to establish relevant local agencies to promote the investment of Chinese enterprises

Due to the natural barriers in many aspects such as the cultural background, traditional concepts and language systems, Chinese enterprises, especially small and medium-sized enterprises, cannot rely on their own strength to deal with difficulties. Therefore, the company's development process is inseparable from the strong support from local partners and service organizations. In this regard, it is suggested that all regions in Europe can set up regional investment promotion agencies for Chinese enterprises as Hamburg and Duisburg did, building a bridge between Chinese enterprises and local rich resources.

Investment promotion agencies can provide one-stop services for Chinese enterprises to resolve the dilemma of Chinese enterprises faced in local situation, including providing multi-language legal process analysis for Chinese enterprises, detailed and accurate list of partners, and screening of professional accounting firms, law firms, headhunting enterprises, etc. They can even help Chinese employees to solve living problems, including house renting, medical treatment, and children's education, so that Chinese enterprises can successfully run business and quickly get on track, while providing long-term development for Chinese enterprises.

(III) Optimize the governments' process efficiency for critical issues

At present, Chinese enterprises developing in Europe are generally faced with a series of practical problems due to the complicated procedures. Among these problems, the employee's visa cycle is the most prominent problem, with the multi-month appointment process exhausting Chinese employees. Therefore, it is hoped that European governments can fully consider the actual needs of foreign-funded enterprises to run business locally, improving and simplifying transactional processes, promoting the efficiency of relevant departments, and minimizing the processing and response cycle.

4.2.2 EU enterprises can explore diversified cooperation models with Chinese enterprises

In addition, the EU enterprises can explore the following diversified cooperation models based on the advantages of both China and Europe to achieve a win-win situation.

China and the EU establish twin subsidiaries: China and the EU investors establish two joint ventures in China and Europe respectively, with the same proportion and the same core business. Under this mode of cooperation, Europe can exert its advantage in standardization and manufacturing, and China's high-tech and capital advantages in certain fields can also show more value, achieving a high quality and mutual benefit cooperation in economy and trade.

Cross-shareholding between China and Europe: Chinese enterprises and European enterprises invest in each other's enterprise with minority stake and send personnel to each other's board of directors. Compared with one-way holdings, cross-shareholding can make the two sides form a community of destiny, sharing a more equal status and achieving fair and fruitful consultations. At the same time, it is more conducive to promoting various forms of strategic alliances in aspects of joint research and development, manufacturing, marketing and other aspects.

Expanding third-party markets: when China has established a sound relationship with many countries in Europe, it can further promote the development of third-party countries and achieve mutual benefits and win-win results. For example, to establish a tripartite joint venture with a third-party country, or form a strategic alliance among enterprises in China, Europe and third-party countries.

4.3 Chinese enterprises should act according to circumstances in business operations, to fit in and promote the development of local industries and communities

To create a favorable business environment for Chinese enterprises in the EU, it is required to call for efforts from the EU governments; and more importantly, the Chinese enterprises also need to exert themselves to undertake appropriate means to gradually integrate into local economic industries, enhance the localization level, and build themselves into down-to-earth multinational corporations.

Development Objectives Of Chinese Enterprises

Suggested Initiatives

Blend into local economy, enable industries' upgrade

- Promote comprehensive industry cooperation, enabling industries to move to a next level
- Proactively engage in local standard setting

Build a true local "European Enterprise", which directed and supported by Chinese

- Enhance corporate transparency
- Improve the proportion of local employees
- Optimize internal communication mechanism
- Maintain proper relationship with labor unions
- Actively reach out to the media
- Highly comply with local laws and regulations
- Blend into local culture

4.3.1 Integrate into local economic industries and upgrade the industrial level

As Chinese enterprises strive to integrate into the local economic industries in the EU, they could opt to build intensive cooperation with local businesses, take initiative to get engaged in the setting of local standards, and so on, to deepen mutual benefits and trust with the local enterprises, and push the local industries towards a higher level and a more leading edge.

(I) Carry out industrial cooperation

As Chinese enterprises conduct business and investment activities in the EU, they must set higher corporate operation and investment goals in order to go steady, further, and better in the continued gradual progress that follows. More than just achieving enterprise profit, what matters more is to broaden their mind and take initiative to get fully engaged and cooperate with local businesses, seek for common development with local technologies, value chain and supply chain, and be committed to collaborative optimization of local industries and aiding in industrial ecology construction.

An enterprise with global competitiveness should be an economic entity that aims not only to make profits, but also to help achieve technological innovation and to get fully integrated into the local market in terms of industrial chain, value chain and supply chain. In terms of technology, Chinese enterprises should seize opportunities to promote EU-China technical cooperation and exchanges when operating business in the EU, such as establishing strategic partnerships on product development and co-founding R&D centers, co-explore technical feasibilities, and meanwhile, and continue to strengthen their patent protection awareness and establish relevant mechanisms, to therefore approach the European level in patent protection. In business operation, Chinese enterprises should perform overall planning on all aspects of their value chain, industrial chain and supply chain in China and European markets. By means of investing to set up factories, founding design centers, etc., they should strive to play a crucial role on the downstream and/or upstream of industrial chain in a corresponding market of the EU; conclude and exert advantages on R&D, procurement, production, and sales, conduct extensive and in-depth discussions and communication with local businesses when attending to local industry exchange events, to achieve complementary advantages, and win-win cooperation within the industry, and eventually improve the product quality and service level of the whole industry, hence co-building the industry ecosystem.

(II) Participate in local standard setting

Currently, Chinese enterprises entering the EU market need to raise their emphasis on industry standards. Most have not yet built a well-rounded standard research team, or gained any in-depth understanding on the standards. They are just passive recipients of the market access threshold, policies and standards. In contrast, many foreign investors, after entry into China, would show willingness to actively participate in the establishment of standards, for example, Nokia, Ericsson, Microsoft and other global industry leaders are key members of the National Information Security Standardization Technical Committee in China. In the future, Chinese enterprises should also seek opportunities to get involved in the research and implementation of local standards and policies in the EU, while achieving industrial cooperation with local businesses.

For example, they need to actively participate in standard seminars organized by industry associations, take initiative to apply to join the standard setting committee of relevant industry, and enhance communication with industry-leading enterprises and standard setters. In this way, Chinese enterprises can offer the local setters of industrial policies and standards their unique suggestions from the Chinese perspective, assisting to input diversification in standard drafting and setting. On the other hand, for a field Chinese enterprises prove advantageous in technology, they could speak for the industry based on their operating conditions in the EU market, to therefore enhance the advancement of the industry standards.

4.3.2 Enhance localization level and build "European enterprise" with Chinese gene

While expanding business in a foreign country, enterprises may usually be caught by conflicts due to differences in management style and cultural concepts, so it is rather significant for Chinese enterprises in Europe to comprehend the European pattern of corporate governance. They need to act on local circumstances and adopt management means with local characteristics, locate the balance point between Chinese and European modes of corporate governance, build up the sense of responsibility as "corporate citizens," and strive to develop into Chinese-funded "European enterprises."

Specifically, to enhance the localization level, Chinese enterprises could consider initiatives in five aspects, that is, transparent operation, adjustment of staff composition, optimization of internal dialog system, proper relationship handling with the labor union and taking initiative to cope with the media.

First of all, an enterprise should be managed and operated in a more transparent manner, with reasonably reduced organizational hierarchies. By improving the supervision and communication mechanisms, the enterprise should regularly publish its work plan and schedule, so that employees, enterprises and regulators could have a chance to learn about its business situation and organizational arrangements, thereby enhancing employees' trust for the enterprise.

Secondly, it is required to further increase the proportion of local employees, achieving staffing localization in all hierarchies. On the one hand, Chinese enterprises need to reasonably increase the proportion of European employees at the general staff level, shaping the local culture at the grassroots level; on the other hand, they need to recruit more local senior managers at the management level, using the local philosophy and means to more effectively manage the local staff.

In addition, they should optimize the internal system, and build up dialog channels with the staff. They must take the initiative to listen to the voice of employees. By establishing a dialog platform between the company and the employees, improving the supervision and feedback systems, and so on, they could construct a bridge for interaction, deepen exchanges with employees, enhance mutual trust, and gradually eliminate misunderstanding and frictions, thereby increasing employee motivation and enhancing the overall management level of the company.

Meanwhile, they need to properly handle the relationship with the labor union, get familiar with the labor system of each local country, and learn about the status of development, institutional regulations and operating mode of the local labor union. On the basis of due understanding on local salary and employment conditions, Chinese enterprises should join the local employers' association, and arrange regular in-depth dialogs between the management and the enterprise union.

In addition, they also need to take the initiative to cope with the European local media and enhance the image of Chinese enterprises in the EU. In Europe, the media industry is highly developed. Chinese enterprises may consider launching press conferences, seminars, and so on to gradually establish a mutual trust relationship with the media. Meanwhile, they should increase input in public relations, and get fully prepared to make positive guidance and publicity before releasing any information, so as to maintain a good image of Chinese enterprises.

Furthermore, they should comply with local laws and regulations. In particular, since big data, 5G and other emerging technologies are springing up today, they should value and conform to the relevant laws and regulations on data and privacy protection even more, the General Data Protection Regulation (GDPR) being a representative, and make sure their business development advance on norms.

Lastly, from a long-term point of view, Chinese enterprises, in order to truly implement and fulfill their localization in the EU, must actively integrate into the local cultures of the EU countries, and adjust their advocated values and operating mechanisms, so that the local employees could truly feel the localized atmosphere.

Looking ahead, we look forward to the EU governments and enterprises, and Chinese enterprises in the EU implementing and fulfilling the above-mentioned measures, to further enhance the EU countries' commercial appeal to Chinese enterprises, empower more Chinese enterprises for vigorous development. And as Chinese enterprises continue to gain better development in the EU, they would also bring more economic, social, and cultural benefits to the EU countries, thereby truly achieving constant, mutual and benign win-win cooperation.

In the long run, the development of the EU business environment will not only promote the win-win development between China and the EU, but is also likely to become a benchmark of the world which, as a lighthouse for business environment construction in every country around the world, shall light up the direction of FDI development.

A small step of Chinese enterprises in the EU is perhaps a big step of the globe.

Acknowledgements

Deepest thanks go to the three knowledgable professionals from Roland Berger Strategy Consultants, Mr. Wang Xin, Dr. Li Bing and Ms. Wang Yu, who provided insightful recommendations and guidance. The project team from Roland Berger also offered extensive research and indepth analysis, as well as dovoted efforts throughout the report progress. It is the whole team's hard work that leads to such comprehensive and rigorous results. We hope that through this report, we can provide deep understanding and insight for relevant Chinese enterprises and the EU governments regarding the current business environment, and also, positively promote the development of Chinese enterprises in Europe.

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Report on the Development of Chinese Enterprises in the EU (2019)