



**European Chamber**  
中国欧盟商会

# The New Challenge of the Value Chain:

## China Manufacturing 2025

Alacero-58 in Cancun, Mexico

7<sup>th</sup> November,  
2017

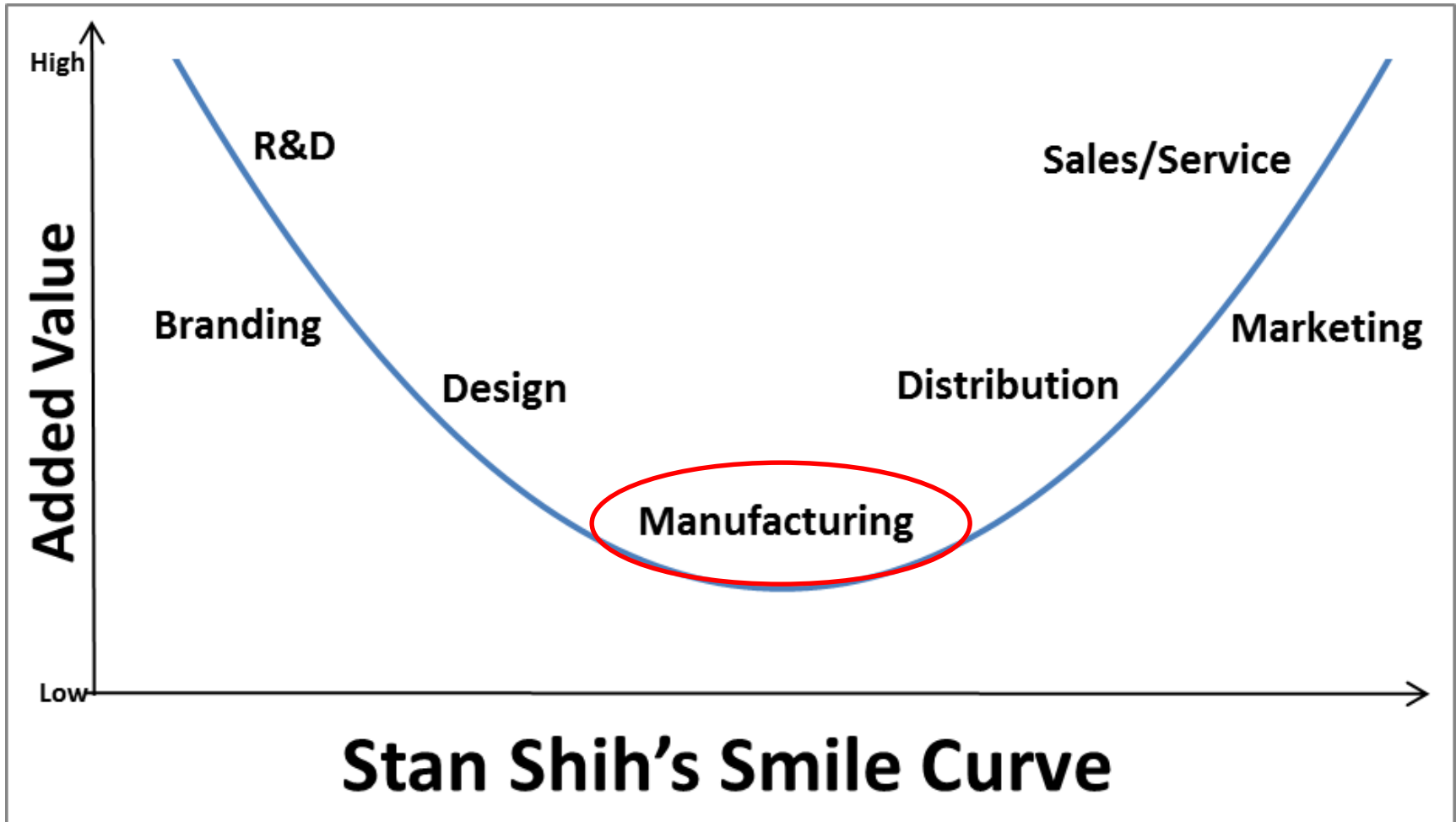
# China Manufacturing 2025



Chamber report on the initiatives' potential impact on international business and China.

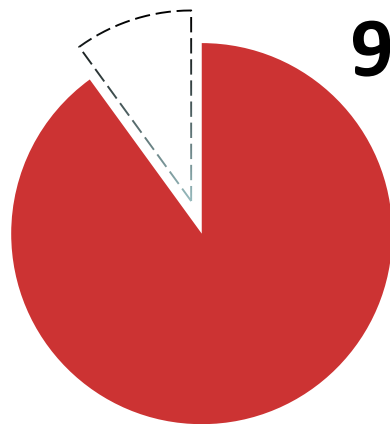
Part of overall lobbying strategy for market access and market-driven policies towards digital economy era and supply chains that support it.

# Climbing out of the Trough

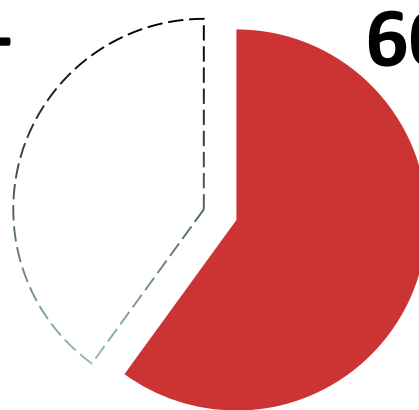


# China Manufacturing: Big but not Strong

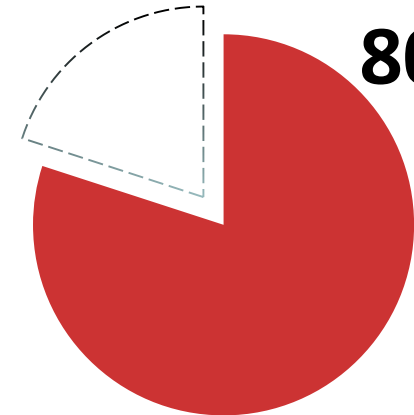
In 2015, China produced or assembled (worldwide):



**90%+**



**60%**



**80%+**

**Mobile phones**

**Colour TV sets**

**Computers**

# The CM2025 Plan

Announced by Premier Li Keqiang in March 2015

**10** Key sectors included:

- Energy saving vehicles and new energy vehicles
- Electrical equipment control machinery and robotics
- Aerospace and aviation equipment
- Maritime engineering equipment and high-tech maritime vessel
- Biopharmaceuticals and high-performance medical devices
- Advanced rail equipment

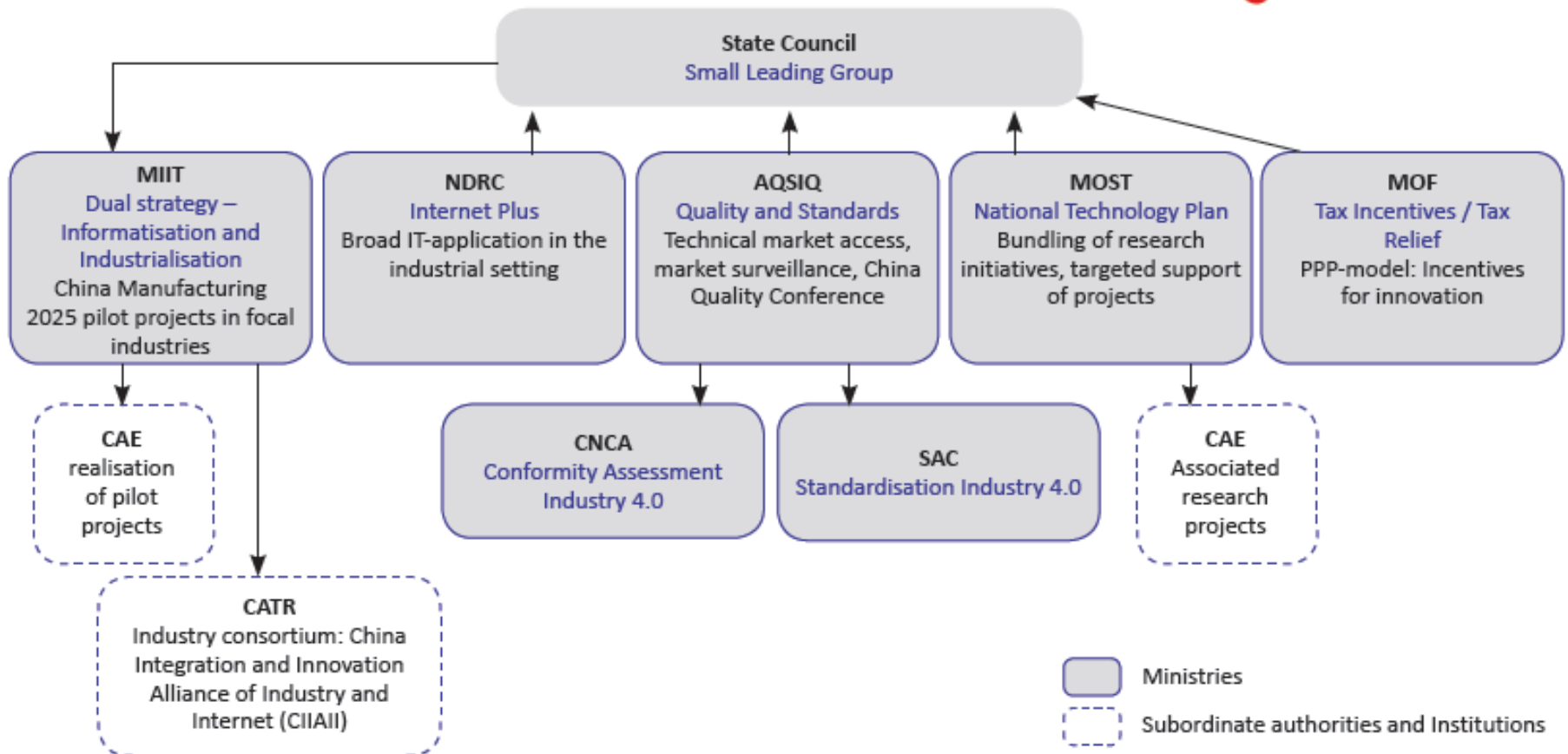
# Markets and the Decision

While previous plenums had described the market as having a ‘basic role’ in the economy, the ***Decision of the Third Plenum*** in 2013 stated that:

"The focus of the restructuring of the economic system... is to allow the market to play a ‘**decisive role**’ in the allocation of resources."

President Xi continued to call for the market to play this role during major speech last month, **but developments in industrial policy tell a more complicated story.**

# A Carefully Orchestrated Government Effort



# The Policy Toolbox

- Subsidies
- Government-backed investment funds
- Market access and government procurement restrictions for foreign business
- Forced technology transfers for near-term market access
- Government-steered mergers and acquisitions.



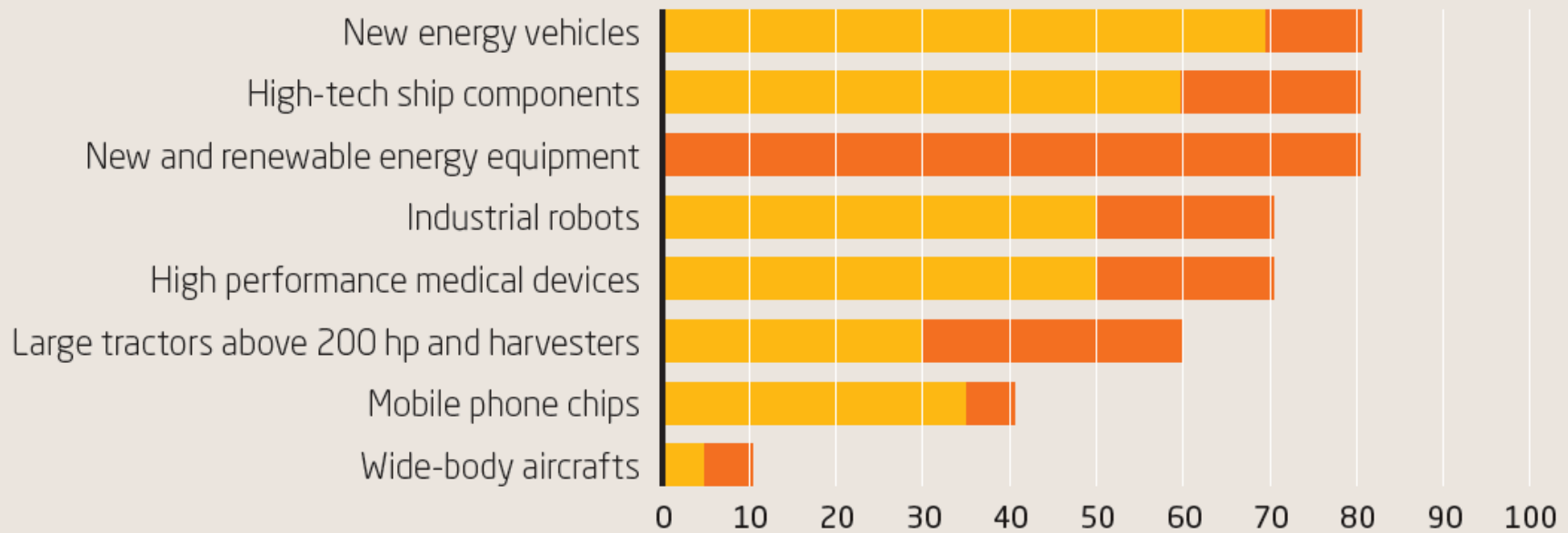
# Domestic and International Market Share Targets

## Made in China 2025 aims at substitution

Semi-official targets for the domestic market share of Chinese products (in per cent)



■ 2020 ■ 2025



# China Inc. Goes Shopping in Europe and elsewhere

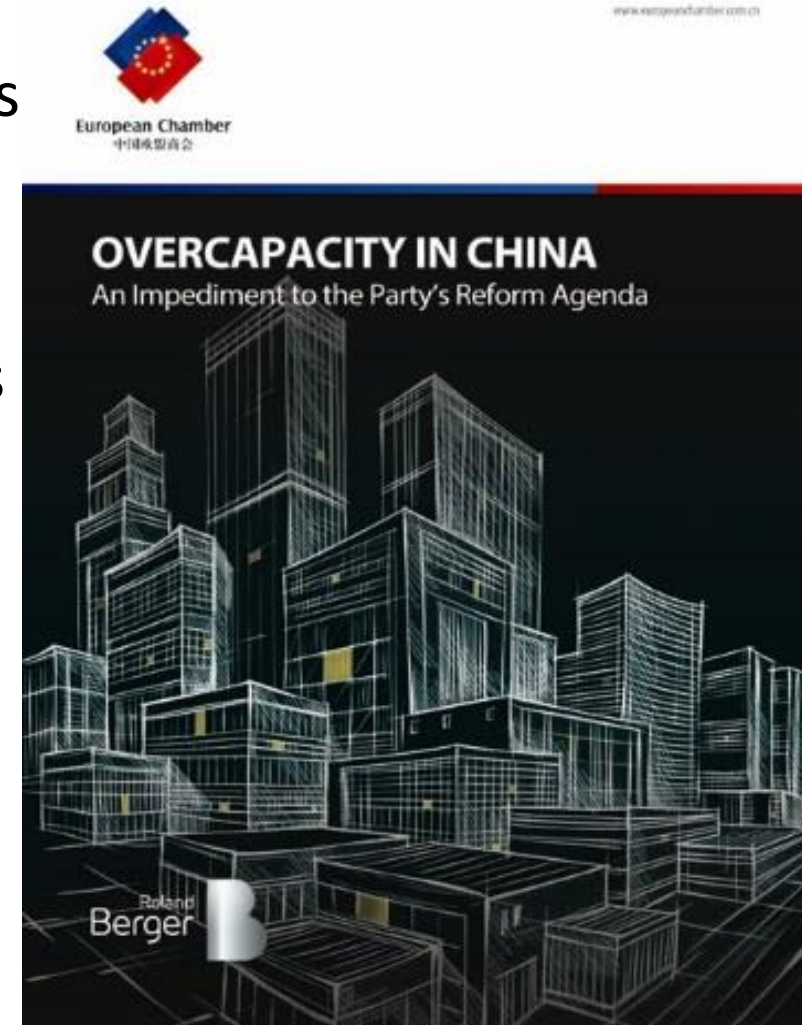
- In 2016, Chinese investment leaped **over 77%** to USD 40 billion while EU investment in China **dropped 23%** to USD 8 billion.
- During H1 2017, Chinese investment was steady at USD 10.4 billion while EU investment in China **dropped a further 23%** to USD 3.7 billion.
- Much of it in industries covered by the initiative, often by **State-owned Enterprises**
- President Xi's stated during January 2017 WEF that during the next five years China will **invest USD 750 billion abroad.**

# Consequences of CM2025

- **New-energy vehicles:** forced technology transfers
- **Industrial robotics:** subsidies and overcapacity
- **Semiconductors:** wasteful allocation of resources

# Overcapacity Isn't a New Story

- Local protectionism and the fragmentation of industries that is driven by regionalism
- Weak enforcement of regulations
- Low input prices due to government policies
- A fiscal system that encourages local governments to attract excessive investment



# Challenges for **China** and **Other Countries**

## **China**

- Innovative private Chinese companies without connections are likely to lose out if government steers the process

**...the state is not well equipped to “pick winners” ...**

—Professor Zhang Weiyong, Economist from Beijing University

- Focus of vocational training fails to match industrial needs

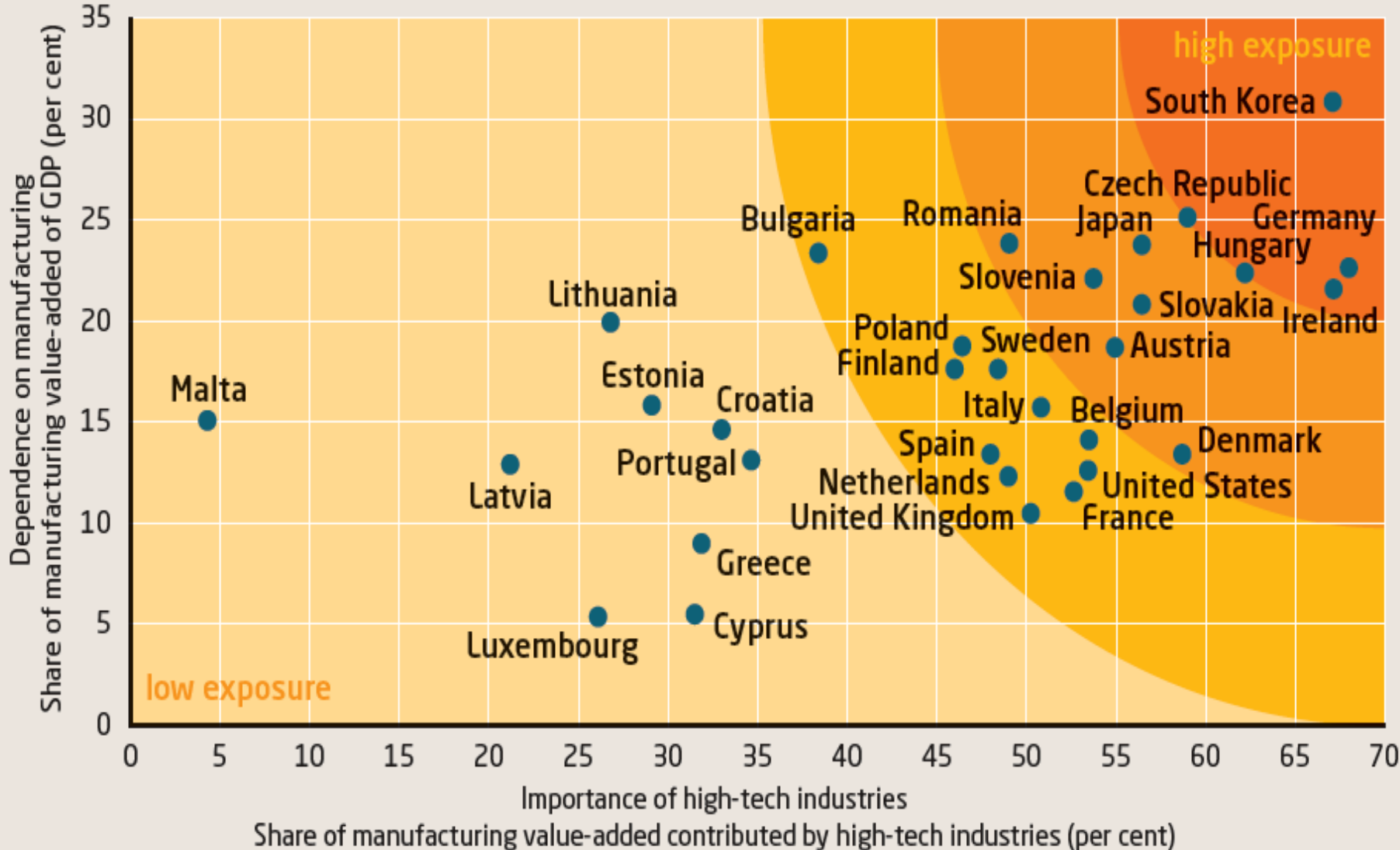
## **Other Countries**

- Increased state-driven engagement in their economies

# Under Pressure: Industrialised countries will feel the heat of Made in China 2025



Vulnerability of select industrial countries to Made in China 2025



Source: MERICS



[www.eurochamber.com.cn](http://www.eurochamber.com.cn)

# Recommendations for International Companies

- Align long-term plans with China's industrial upgrade
- Keep innovating to stay ahead
- Monitor state-steered mergers and acquisitions
- Monitor trends in industrial overcapacity and how they impact on customers and markets in China and other markets

# Recommendations for China

- Move forward with domestic market-based reforms

Chile's success in avoiding the middle-income trap is attributed to "gradual market-oriented reforms under proper government supervision, a transparent and efficient administration and judicial system, effective social security system and robust development of Small and Medium Enterprises and foreign trade".

---Xinhua, 29<sup>th</sup> May, 2016

*Reform, Social Security, Development of Small Businesses Help Chile Avoid "Middle-Income Trap"*

- Support free trade and allow market share to be determined by competition, not government targets



# Recommendations for **Other** **Countries**

- Maintain openness in the face of increasing populism
- Negotiate bilateral investment agreements which **both** welcomes market-driven investment by Chinese firms and address challenges posed by industrial policy
- Upgrade thoughtful and transparent investment review mechanisms



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# Thank You

<http://www.europeanchamber.com.cn/en/china-manufacturing-2025>