

CHINA'S INTERNATIONALIZATION WAVE

Action Demand European Enterprises: Weighing the Risks & Benefits

Along with the success in their home market, Chinese national champions especially in sectors such as renewable energy, machine building and automotive, are actively exploring European markets, not only by export but also with direct investments and localization.



Global expansion as “Must” for Chinese Enterprises

The trend of Chinese enterprises to strategically explore international markets is amplifying. Driven by the need to seek incremental growth along technical advancement, but also to maneuver around trade barriers and stagnation of their local markets. Europe has been defined as key region to expand into.



CHINA'S INTERNATIONALIZATION WAVE

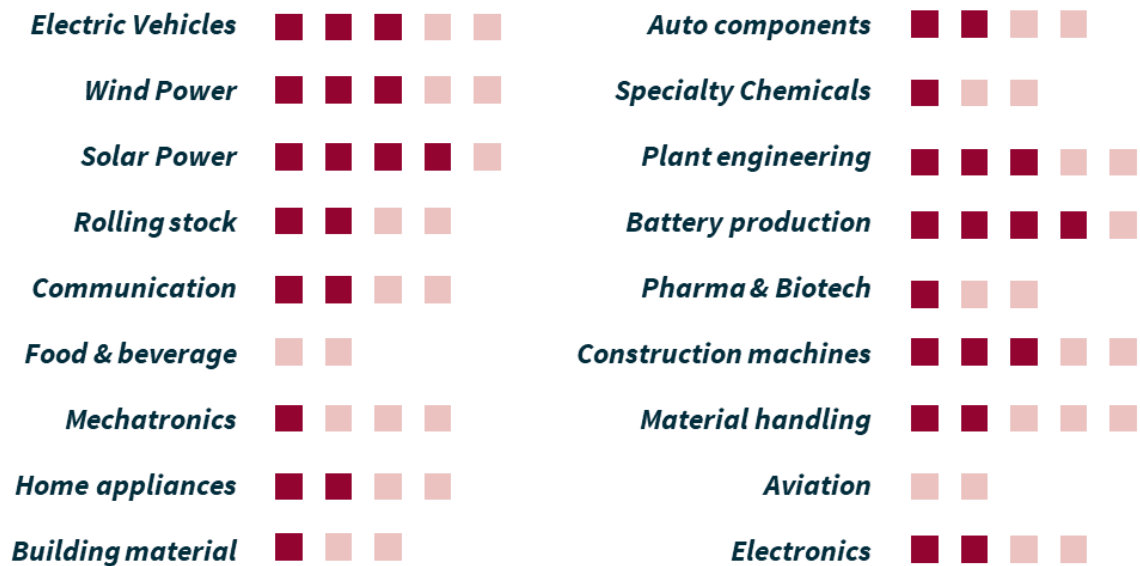
China's success recipe and outlook

Internationalization driven by Success

Chinese companies have **effectively internationalized by capitalizing on their strong performance** in the domestic market. Their success at home, driven by robust government support, competitive pricing, and advanced manufacturing capabilities, and growing R&D expenses has facilitated global expansion. Sectors like machine building, automotive, renewable energy equipment have particularly benefited, with firms adapting their products to local needs and leveraging cost advantages.

EAC 'EUROPEAN INDUSTRY CHALLENGE INDEX'

■ Current challenge ■ Future challenge



Source: EAC assessment

Obstacles of Chinese Enterprises going forward

While Chinese companies have made astonishing advancements to break into established industries and market structures in Europe, **obstacles to establish foothold still remain:**

- ❖ **Regulatory compliance** | Meeting strict European regulations and technical standards
- ❖ **Brand perception** | building recognition against established and reliable brands
- ❖ **Supply chain complexity** | managing complex supplier landscape and logistics
- ❖ **Local talent acquisition** | recruiting and retaining skilled employees
- ❖ **Cost structures** | navigating higher CAPEX and OPEX
- ❖ **Partnerships** | cooperating with the appropriate local companies
- ❖ **Manufacturing footprint** | identifying the right industrial sites for building up local production
- ❖ **Investment procedure** | handling long approval procedures and project construction periods
- ❖ **Unions, Communities and NGOs** | Developing public relations with local stakeholders
- ❖ **Market dynamics** | Keeping pace with the changing market environment



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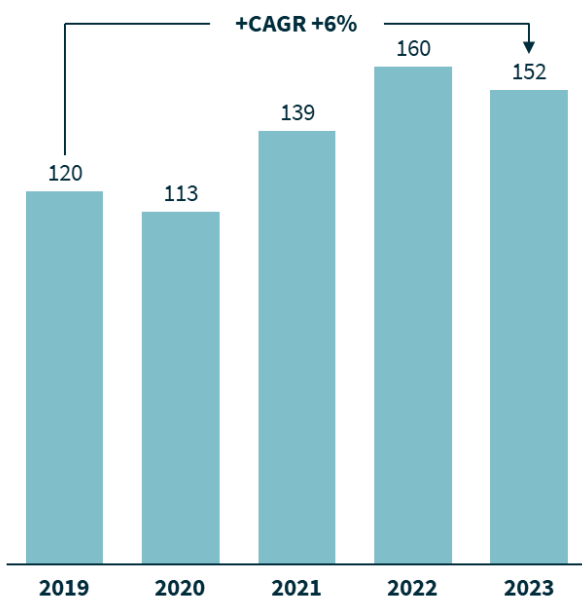
Trade shifting from commodities to engineering

China Machinery and Automotive Export to Europe

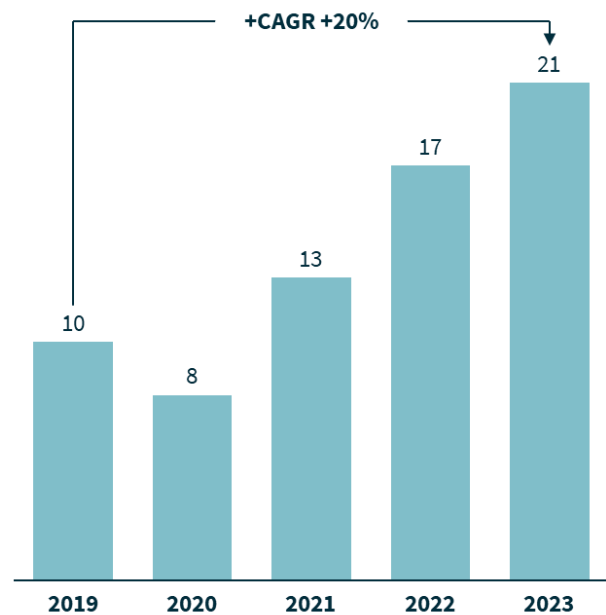
China has already been the **second-largest trading partner** of the European Union, with bilateral trade reaching **739 BEUR** in **2023**. **China machinery** exports to **Europe** kept growing mainly due to **competitive pricing, improved quality, technological advances, production efficiency and shorter lead time**, etc.

In 2023, the goods that Europe mainly imported from China were **telecommunication equipment, machinery and components, electrical machinery and apparatus, and automatic data-processing machines**. The top importers were Germany, Netherlands and France.

CHINA MACHINERY EXPORTS TO EUROPE (BEUR)



CHINA AUTOMOBILE¹⁾ EXPORTS TO EUROPE (BEUR)



Source: China Customs, EAC research 1) incl. vehicles and components

Also, China's automotive exports to Europe have been growing significantly in recent years with a **CAGR of +20%**, particularly driven by the rise of **EVs**. China **EV manufacturers** such as **BYD, NIO** and **Xpeng** are gaining traction in Europe with their strong **EV supply chain** and lower **production costs**, etc. **The top European importers are Belgium (with hub function), Germany and Spain**.

Meanwhile, China also dominates global **lithium-ion battery production**, a critical component for EVs, giving Chinese automakers a **cost advantage** over European counterparts.



CHINA'S INTERNATIONALIZATION WAVE European Stakeholders with Clear Acknowledgement

Market Voice from European Associations and Enterprises

Leading industry stakeholders are clearly acknowledging the increasing internationalization trend of Chinese enterprises and are **pointing out both strategic consequences for the European industry and the urgency to act accordingly.**

*“**Chinese machinery exports** to Europe have significantly **grown**, especially in robotics, automation, and heavy equipment sectors. While European businesses benefit from **affordable** and **high-quality** Chinese machinery, it’s essential to assess the **long-term implications** of **relying heavily** on one market for such critical goods...”*



*“Chinese investors bring a lot of financial power and technological ambition, especially in **electric vehicles (EVs)** and **battery technology**. The challenge for Europe is to both leverage these investments while keeping our **technological sovereignty intact...**”*



*“China’s aggressive push into the European automotive market... European manufacturers must **remain vigilant** and maintain their **technological leadership**, particularly in **advanced powertrains** and **vehicle automation...**”*



*“Chinese investments in Europe’s **renewable energy sector**, particularly in **wind** and **solar**, are valuable as we are transiting to greener technologies. But we need to ensure that Europe remains a **leader** in **innovation** and not just a **recipient** of **foreign capital...**”*



*“Chinese **industrial and hydraulic systems** have become increasingly **competitive in Europe**. The focus on **cost-effectiveness** without **sacrificing quality** has made Chinese suppliers **attractive...**”*



*“**Chinese FDI** is **reshaping** Europe’s business landscape. While this influx of capital can help **modernize** sectors and bring **innovation**, it is critical that Europe stays **vigilant** and addresses concerns about **transparency** and **long-term strategic control...**”*



*“Chinese investments in Europe are particularly notable in **engineering and machinery sectors**, bringing capital and growth. However, we must ensure that these investments do not result in the transfer of **critical know-how without reciprocal benefits** for European companies in China...”*





CHINA INTERNATIONALIZATION IN EUROPE

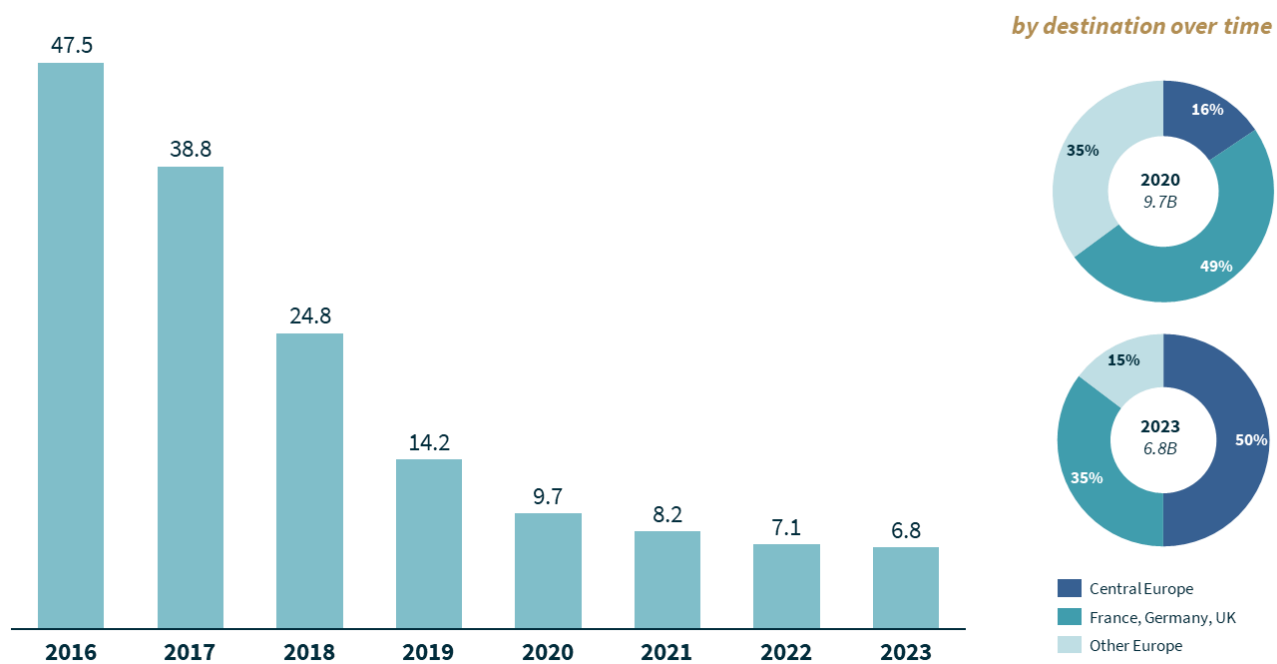
From export trading to investments into localization

China Direct Investment to Europe

Chinese direct investments in Europe are driven by the **desire to stronger access advanced technology, establish market presence, and secure strategic assets**. Initially focused on sectors like energy and infrastructure, these investments have diversified into technology, automotive, and consumer goods. Strategic **acquisitions, partnerships and localization abroad have further helped** these companies establish a global presence and compete effectively on the international stage.

The development has seen significant growth until its peak in 2016, with Chinese firms making high-profile acquisitions and forming partnerships to enhance their global footprint. However, they increasingly face challenges such as regulatory scrutiny, cultural adaptation, and competition from established European companies. Hence, **direct investment flow from China into Europe declined over the past years to reach record low in 2023**.

CHINA DIRECT INVESTMENT TO EUROPE (BEUR)



Source: Rhodium, Statista, EAC research

Chinese investments into Europe amounted to 6.8 BEUR in 2023, a decrease of 4% compared to 2022, lower levels of Chinese investments have become the new normal. Along this downward trend, the structure of Chinese investments has shifted dramatically: while in the past M&A activities played a crucial role, **private greenfield investment made up the majority (75%) of investments in 2023**.

In recent years, **EV related investments have skyrocketed and reached more than two-third** of all investments in 2023, and as those investments are primarily targeted at Central Europe, especially Hungary, the gravity shifted away from Western Europe.



CHINA'S INTERNATIONALIZATION WAVE

International Expansion in Advanced Industry Sectors

Chinese Overseas Expansion into Europe by Industries

Chinese national champions in various leading industries have accelerated their pace to enter European markets not only by exporting, but **also by localizing manufacturing**.



ELECTRIC MOBILITY

- Chinese OEMs have been expanding their presence in Europe significantly, driven by global transition to electric vehicles (EVs) and increasing demand for innovative, affordable cars
- BYD has set up the manufacturing plant in Hungary to produce and supply electric buses and cars. Chery, in partnership with Ebro-EV motors, is investing in Spain to produce EVs
- Chinese battery players such as CATL and Huayou Cobalt have and/or are building-up significant local production capacities in Europe, with strong focus on Hungary and Eastern Europe



RENEWABLE ENERGY

- Chinese leading companies such as Goldwind, Envision and Mingyang have started winning orders in Europe, and have planned to invest in own production in Southern Europe
- In 2022, Mingyang has made a significant stride in the European offshore wind power market by supplying turbines for Italy's first offshore wind power project, Beleolico
- Chinese solar companies, like LONGi, JA Solar and Jinko, have succeeded in Europe by offering cost-effective, high-efficiency panels, amid growing renewable energy demand



MACHINERY & AUTOMATION

- Wuxi Lead is one of China's leading companies in the field of intelligent manufacturing and automation, particularly for the battery industry. In 2022, it opened its first European production plant in Naila, Germany, marking a major step in its "Made in Europe" strategy
- Quicktron, specialized in autonomous mobile robotics and with strategic partnership with KION, has set-up 3 sales, engineering and service centers in Spain, Germany and UK, and provides innovative solutions to renowned European customers



CONSTRUCTION MACHINERY

- SANY and Zoomlion gained significant market share in Europe by offering competitive pricing and advanced machinery, effectively challenging established European brands
- LiuGong's acquisition of Hymac and Grouser helped to integrate into the European market, leveraging local expertise
- Companies such as XCMG have succeeded in Europe by introducing cutting-edge technology in their machinery, including fuel-efficient and environmentally friendly models





CHINA'S INTERNATIONALIZATION WAVE Implications for the European Enterprises

Counter-measures Required for European Enterprises

Faced with increasing competition from the Chinese national champions in their core markets, European companies are urged to develop **immediate and concrete counter-measures** to **enhance own competence** and conduct **in-depth analysis on the Chinese companies**. These **strategies and approaches** must be **highly tailor-made for each individual company**, considering their unique product and technology offerings, business models, target markets and customers, etc.

Imperative questions to be answered by European players...

- ❖ **Who are those competitors** we are **faced with now**, and which competitors are likely to follow **in the future**? **How intensive** is the competition coming from Chinese players?
- ❖ What are the **market changes** in Europe and **how are the Chinese companies capture these opportunities**? What are their strengths and weakness and their approaches?
- ❖ What are likely commercial and technological **consequences for the business in the European core markets** in future if no counter-measures are defined?
- ❖ Are the European companies **prepared to encounter those competitors** in Europe? Are the **existing core competences still strong enough** to defend the core market?

...to define concrete counter-measures, depending on strategic scenario:



Fortification

- ❖ **Optimize cost structures** | *reduce production and operational costs through process improvements and efficiencies*
- ❖ **Product adaptation** | *develop mid-market solutions to encounter increasing demand for cost-effective solutions*
- ❖ **Enhance customer service** | *offer superior after-sales support to build long-term customer loyalty*
- ❖ **Enhance Innovation** | *invest in R&D to develop cutting-edge products, staying ahead of Chinese competitors*
- ❖ **Strengthen brand loyalty** | *build strong customer relationships through quality and service*



Collaboration

- ❖ **Strategic partnerships** | *collaborate on joint ventures or strategic alliances to leverage complementary strengths*
- ❖ **Technology transfer** | *exchange technological know-how especially in innovative Chinese industries (battery)*
- ❖ **Supply chain integration** | *streamline and utilize established and competitive supply base in China*
- ❖ **Joint R&D initiatives** | *partnering to drive innovation and create cutting-edge solutions*
- ❖ **Equity investment** | *identify Chinese strategic investors to finance growth or safeguard struggling business*

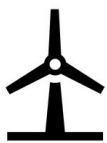


CHINA'S INTERNATIONALIZATION WAVE

Recent EAC Project Cases

EAC – International Consulting provides **European companies with comprehensive consulting solutions to effectively prepare for the Chinese competition in Europe**, including market analysis, regulatory guidance, and strategic positioning to enhance their competitive edge.

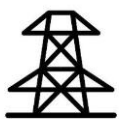
EAC CASE STUDIES – OUR LATEST PROJECTS



*Foreign energy equipment player is **faced with massive, cost-competitive imports from China***

SCOPE & OUTCOME

- ✓ Assessment of **underlying market & policies in China** to understand rationale for pushing into global markets
- ✓ Deep-dive **benchmarking of selected Chinese competitors** with assumed highest threat potential (technology, cost, strategy)
- ✓ Transparency on cost and technology advantages and **scale of threat potential**
- ✓ Develop of **'fencing off' measures** and differentiation catalogue (incl. pro-active co-operation roadmap)



*Faced with **long delivery times and high costs for power equipment**, clients looks for suppliers in China*

SCOPE & OUTCOME

- ✓ Selection of components with highest action demand and **definition of technical requirement specification book**
- ✓ **Long-listing of suitable Chinese suppliers** and on-site assessment towards **fulfilment of technical specs, EU standards** and commercial offering
- ✓ **Negotiation support for prioritized suppliers** (technical modifications, shipment and commercial terms)
- ✓ **Operational expediting support** and ongoing supplier communication



*Machine player needs to develop **global mid-tech portfolio to address Chinese competition***

SCOPE & OUTCOME

- ✓ Detailed **analysis of global mid-tech market and segmentation** premium, mid-/ low-tech
- ✓ Conduction of global **customer clinic to understand required technical parameters**
- ✓ **Technology, design and cost benchmarking** of 'best practice' Chinese market players
- ✓ Clear recommendation on **mid-tech product concept with 30% cost down potential**
- ✓ Develop tailored **sales and distribution strategy for mid-tech product range**



*European battery material player **seeking established plant engineering partners from China***

SCOPE & OUTCOME

- ✓ Deep-dive technology assessment of **battery manufacturing value chain** and key players
- ✓ **Screening of Chinese plant equipment and engineering partners** with cutting edge know-how and established track record
- ✓ **On-site technical assessment** of identified engineering partners and **capability screening to manage overseas investment projects**
- ✓ **Support in commercial negotiations** between client and Chinese partner and outside-in investment cost benchmarking



CHINA'S INTERNATIONALIZATION WAVE

Benefit from our vast project experiences

Contact our experts directly to discuss potential support options

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