



China Insights - Made in China 2025 and Internet Plus - Opportunities for foreign companies in China

"Made In China 2025 & Internet Plus: The 4th Industrial Revolution" **Opportunities for Foreign Invested Enterprises in China**

Background

In March 2015, Premier Li Keqiang formally announced the 'Made in China 2025' ("MIC 2025") initiative which aligned with the 13th Five Year Plan ("FYP"), Internet Plus and outbound focused policy of the Belt & Road Initiative ("BRI") is centred on reforming and modernising China's manufacturing sector. Influenced by the Industry 4.0 roadmap set out by Germany in 2013, Premier Li commented at the official announcement that 'Made in China 2025' will "upgrade China from a manufacturer of quantity to a manufacturer of quality". This roadmap has been established to build a thriving innovation led economy through to 2025 and beyond.

Traditionally, China's manufacturing sector has been built up around cheap, labour intensive production which has served China well in rising to become the second most powerful global economy as of present. However faced with cheaper manufacturing labour now being sourced from South East Asia and other emerging economies, weakening demand for exports particularly in the US and Europe, overcapacity and as shown in the Global Innovation Index Report 2015, an Innovation Gap to other developed economies, China is at a crossroads as it positions itself to enable the transition from 'Big Industrial Economy' to 'Powerful Industrial Economy'.

Industrial modernisation and reform are therefore at the heart of the government's strategic agenda with President Xi Jinping and Premier Li Keqiang identifying the explicit need for China to transition towards manufacturing high-tech machinery and being at the forefront of global innovation in order to remain competitive in the face of the next level economic challenges resulting from its rapid growth.

What is ensuing is a major rebrand of epic proportions for Chinese industry with far reaching effects globally. To allow for the shift from being the largest manufacturing economy into the most powerful knowledge economy, China needs to modernize its economic system and to do that, the government has to undertake necessary reforms to build solid the foundation for evolution towards a more balanced economic mode for a sustainable long-term future.

What does this mean for Foreign Invested Enterprises ("FIEs") and are there still opportunities for FIEs to thrive within China Industry 4.0 in what could be construed by certain quarters as China closing its doors further to FIEs. This article will assess China Industry 4.0 as a whole and set out the opportunities within which FIEs can leverage their competencies successfully.



Why Reform Industry?

China has, through its primarily export driven economy, become synonymous with the negative branding of 'Made in China' and copycat technologies. With the slowdown of the global manufacturing sector in Europe and the US, if China is able to successfully reform and modernise, by stepping into the high-end, it will be well positioned to lead global manufacturing beyond 2025 and become a leading exporter of its technology. This is essential for China's international expansion. It is also significant to note that China's labour costs are rising along with a workforce that for the first time in the past two decades declined in 2014. Increasing competition from ASEAN countries and Central Asia who have both intensified their focus on manufacturing to compete with China as well as providing both a lower cost workforce and more supportive regulatory environment for foreign businesses is also driving China's need to reform. Some companies have even taken what would have been considered an unthinkable step five years ago, bringing their manufacturing operations back onshore to the US and Europe. While still the world leader in terms of output, China is still relatively weak in terms of innovation and core technologies. At the heart of Industry 4.0, Made in China 2025's strategic goals, will be the core objective to transform this.

Made in China 2025: 10 Key Focuses

China will focus industrial upgrading into 10 key sectors, thus creating channels of growth for FIEs across a broad range of industries and territories.

What is Internet Plus?

Internet Plus is a fully integrated component of the Made in China 2025 initiative that will serve to integrate 'Internet' with delivery of Industrial and economic upgrading. With China expected to exceed well over 700million netizens by the end of 2016 and exhibiting phenomenal potential for further growth and penetration (currently 52.2% penetration compared to the UK with 93% penetration), the possibilities for growth within the tech innovation space growth are vast with ecommerce both domestically and abroad being the key driver alongside big data, cloud computing, Internet finance and the concept of an Internet of Things ("IOT").

A unique possibility of Industry 4.0 is the growth potential of the 'Industrial Internet' through linking manufacturing with IOT technologies. In order to make this possible, the Government will be launching fiscal and tax policies to help these industries grow and therefore enabling a thriving bedrock for both domestic and foreign invested SMEs to evolve within the Internet Economy.

Challenges for FIEs

Industry 4.0 in China will present both a new set of obstacles and opportunities for FIEs operating in China's high-end manufacturing space. Aligned with the government's drive to promote Chinese brands at the centre of China's innovation drive, foreign manufacturers in the desirable high-tech sector will be confronted with increasing competition.



Factors of price, potential protectionism, a historically loose application of Intellectual Property ("IP") laws, incentives and government subsidisation towards local manufacturers could be significant indicators for FIEs to pay attention to. Clearer standardisation, classification and further stimulation of local Chinese manufacturer competitiveness in core competency areas where FIEs have generally dominated will also become increasingly prevalent. Emulation of best practices and western management techniques will also become further integrated into the sector in order to develop China's core manufacturing competencies further.

Opportunities for FIEs

Although the perception is that MIC 2025 is primarily geared towards stimulating the growth of Chinese, MIC 2025 will create opportunities for FIEs not only in primary cities but nationwide across China's second tier and tertiary cities. Foreign enterprise is still competitive and will remain a key component for China to realise the vision of economic transformation in the medium term.

The following are the opportunity areas for FIEs to engage with China's evolving economy.

Export of High-End Manufacturing Equipment:

Fuelled by China's drive to modernise manufacturing practices and propel itself up the manufacturing value chain, the demand for high – end robotics, automation technologies and higher-end equipment in general will create an export opportunity for FIEs. Europe as a whole possesses world class equipment, best practice experience in manufacturing innovation, quality of output, lean practice and environmental standards to export to China.

Standards, Testing, Compliance and Certifications:

Coupled with the export of equipment and technologies to China, as Chinese companies move up the value chain, the importance of complying with international standards and achieving international certifications will only grow. This creates a continued opportunity for standards and benchmarking organisations to enable China to meet globally acceptable criteria.

Manufacturing Consultancy & Expertise:

MIC 2025 will strive to limit China's dependence on foreign technologies; however specific skills and consultancy to drive process improvement, project management, risk management and process engineering will be in high demand.

Environment & Green Tech:

In order to improve the living standards of its citizens and deliver green growth, the Chinese government is mandated to pursue a more environmentally friendly economic model and thus providing an opportunity for FIEs to export best practice green technologies such as alternative energies, hybrid



vehicles, waste management, disposal and recycling technologies to address the issues caused by rapid low level economic growth.

Financial & Professional Services Outbound Consultancy:

Tied in with the Belt & Road Initiative ("BRI") beyond the clear and explicit goals of Made in China 2025, China is seeking to export its technology to cross borders and develop its own brand competence internationally. Financial services, particularly banking, insurance and leasing will be more sought-after by Chinese companies if their projects include an overseas element. With strong potential for Merger & Acquisition ("M&A") as China grows outwards, the full spectrum of professional services including accounting, M&A advisory, audit and due diligence and well as legal services and marketing consultancy is an area of strength that FIEs can leverage a strong track record.

Collaborative R&D & Product Development:

Appetite for product innovation will lead to opportunities for collaborative ventures between domestic Chinese enterprises and FIEs within Research and Development ("R&D") and product development.

Education & Vocational Skills Training:

MIC 2025 and China Industry 4.0 as a whole will require a significant development of talent and a highly skilled workforce to deliver. Vocational education is another key area for FIEs to leverage experience and ensure that China's industrial vision is realistically implementable from a human capital perspective.

Retail, E-commerce & Leveraging IOT:

It has been predicted by McKinsey that China's e-commerce market will reach GBP 3 Trillion by 2020. This is larger than the US, UK, Japan, Germany and France combined and is not restricted to 1st tier cities. Tier 2 cities according to a Jan 2016 survey by The Economist Corporate Network and Admaster have overtaken Tier 1 cities in terms of purchases made on mobile devices. This creates a number of opportunities across the wider scope for established foreign consumer products within the field of retail, fashion and innovative product design. FIEs are therefore well positioned to leverage the new business models and distribution channels that the Internet Economy will provide.

In Summary

The business climate remains highly competitive for FIEs to thrive under China Industry 4.0's economic and industrial upgrading initiatives. Across the 10 key sectors identified in MIC 2025, from an expanding rail infrastructure, production of commercial aircraft and helicopters, telecommunications, medical devices, farming machinery, electric vehicles, alternative energies and materials, there are already a number of successful cases whereby involvement of FIEs has been integral to China's success. This provides FIEs with a sustainable platform to continue operations in China and the creation of new opportunities through MIC 2025 and Internet Plus in particular entails that China should very much be



on the agenda for the foreseeable future, so long as the government carry out the necessary reforms to foster a thriving innovative and creative economy.