

Investment in China from European point of view

Contradiction picture :

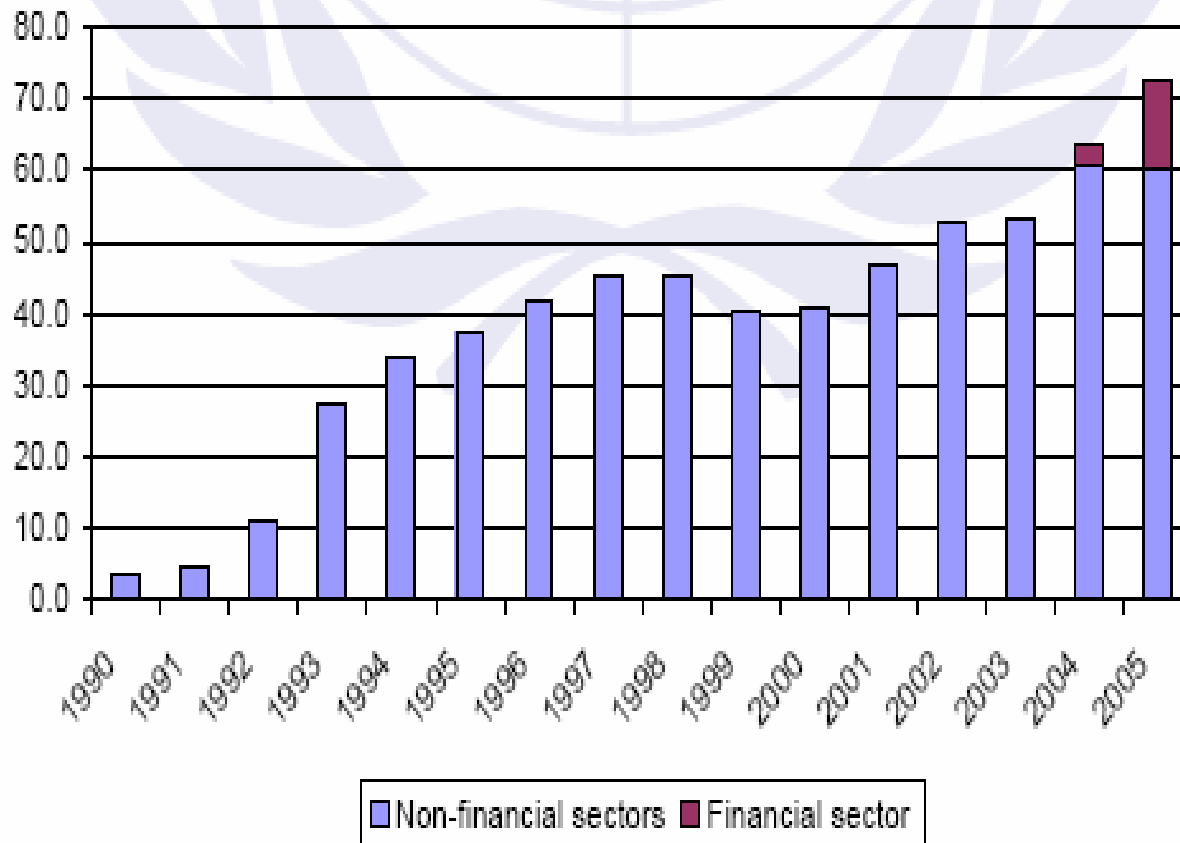
- German investment rating in China declining since 2005
- Europe generate biggest source for FDI worldwide
- FDI inflow into China at new high records

Is China loosing the race for EU investment ?

Is Europe loosing the chance for investment in China ?

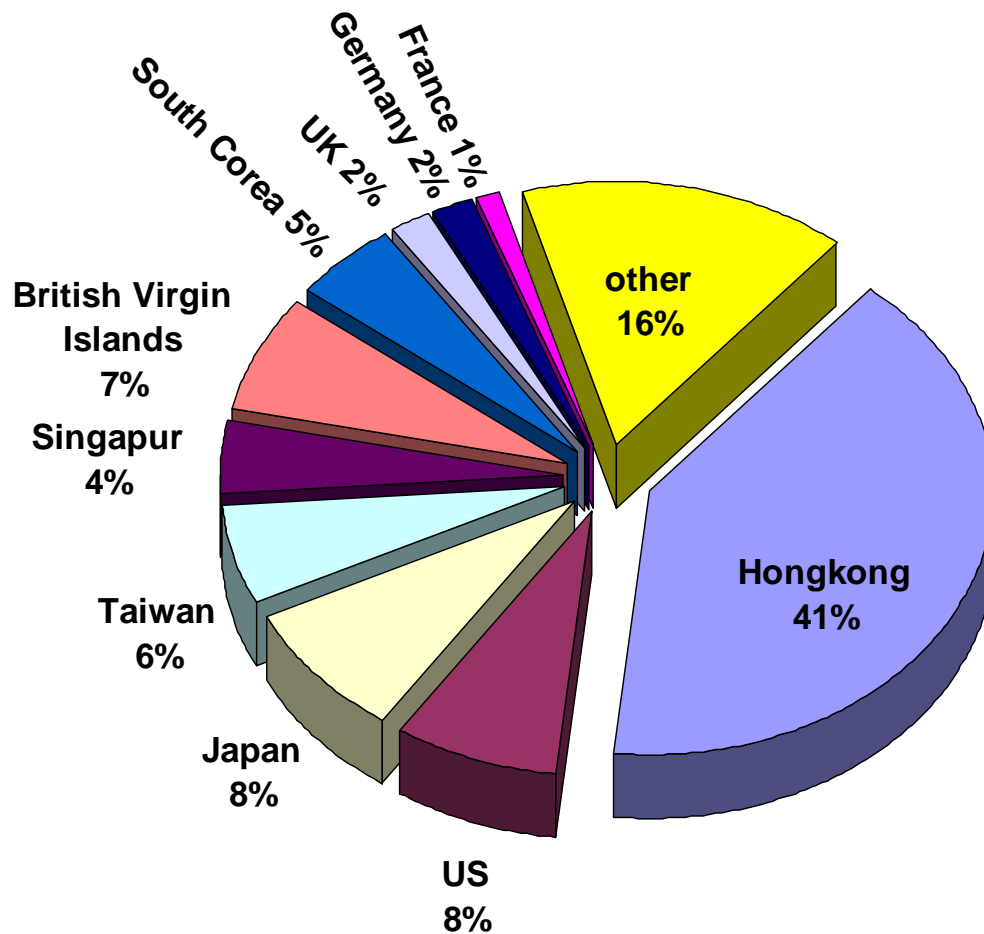
FDI inflow into China is attractive

Figure 1. FDI inflows to China, 1990-2005
(Billions of dollars)



- Increase budget into financial sector & RE
- second wave of FDI

Origin of FDI into China in 1990 to 2006



- EU investment in China is 2 % of all European FDI outflows
- EU FDI dropped 2006 from 6 Bill € to 1.8 Bill € (excl. Hong Kong)
- Germany is China's most important trade partner among EU countries

Target countries for FDI worldwide

	INFLOW	OUTFLOW
World	735 Bill US\$ 100%	621 Bill US\$ 100%
EU	45.7%	58.8%
USA	16.9%	18.4%
→ Germany	4.3%	7.0%
Japan	0.8%	6.1%
→ China	6.4%	0.3%
Taiwan	0.6%	0.9%
India	0.5%	0.1%
Brasilia	3.1%	
Africa	2.3%	
Developing countries w/o China	21.5%	5.6%

- EU account for 1/3 of FDI worldwide
- EU is an attractive investor

source> UNCTAD (2002)

world Investment report 2002, NY/Geneva

EU major export partners

The major export partners		
Partners	Mio euro	%
World	1.166.109	100,0
1 USA	267.895	23,0
2 Switzerland	86.752	7,4
3 Russia	71.944	6,2
4 China	63.361	5,4
5 Turkey	46.457	4,0
6 Japan	44.656	3,8
7 Norway	38.170	3,3
8 Romania	27.297	2,3
9 Canada	26.521	2,3
10 United Arab Emir.	24.704	2,1
11 India	24.061	2,1
12 Korea	22.780	2,0
13 Hong Kong	21.576	1,9
14 Australia	21.298	1,8
15 South Africa	19.852	1,7
16 Singapore	19.459	1,7
17 Mexico	19.022	1,6
18 Ukraine	17.834	1,5
19 Brazil	17.682	1,5
20 Saudi Arabia	17.434	1,5

- Europe export more to Switzerland than to China
- Estimation 40% of technology transferred into China originate in Europe

EU Exports to ...		
Partner regions	Mio euro	%
World	1.166.109	100,0
NAFTA	313.438	26,9
Latin America	62.857	5,4
EU Candidates	94.663	8,1
EFTA	129.028	11,1
Medit. Countries*	59.886	5,1
ASEAN	48.422	4,2

EU major import partners

The major imports partners

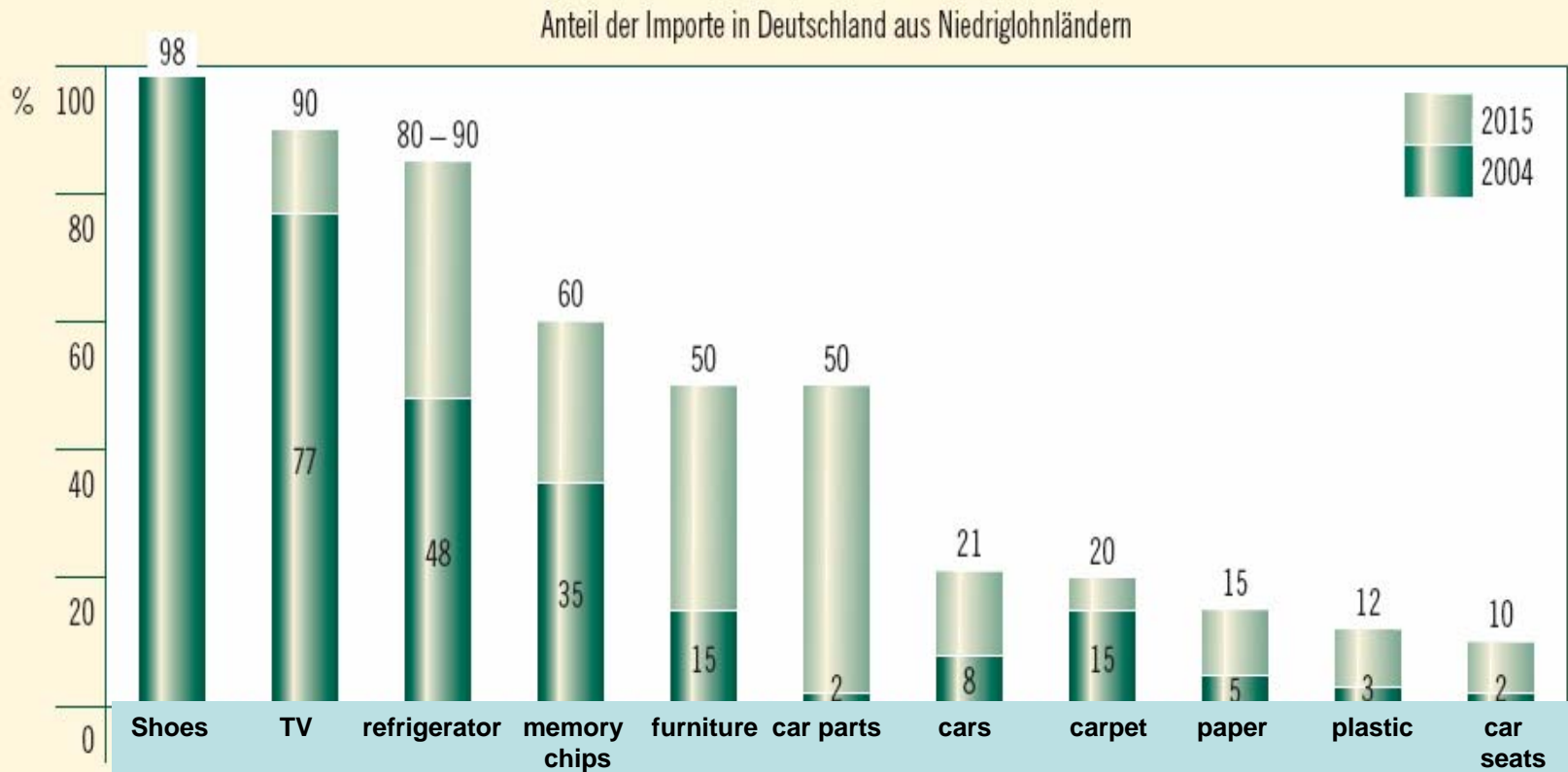
Partners	Mio euro	%
World	1.350.494	100,0
1 China	191.769	14,2
2 USA	176.514	13,1
3 Russia	137.022	10,1
4 Norway	79.061	5,9
5 Japan	76.483	5,7
6 Switzerland	70.898	5,2
7 Turkey	38.538	2,9
8 Korea	38.334	2,8
9 Brazil	26.280	1,9
10 Taiwan	26.127	1,9
11 Libya	25.763	1,9
12 Algeria	23.970	1,8
13 Saudi Arabia	23.511	1,7
14 India	22.361	1,7
15 Canada	19.565	1,4
16 Singapore	19.398	1,4
17 South Africa	18.431	1,4
18 Malaysia	17.699	1,3
19 Romania	17.639	1,3
20 WA_AO	16.581	1,2

□ Imports from EU candidates 5% of total imports, but 14% from China

EU Imports from ...

Partner regions	Mio euro	%
World	1.350.494	100,0
NAFTA	206.646	15,3
Latin America	78.372	5,8
EU Candidates	67.542	5,0
EFTA	153.106	11,3
Medit. Countries [*]	60.016	4,4
ASEAN	78.190	5,8

Percentage of imported products in 2004



East EU

0 % 35 % 90 % 10 % 60 % 50 % 75 % 5 % 65 % 35 % 85 %

Asia / China

100 % 65 % 10 % 90 % 40 % 50 % 25 % 95 % 35 % 65 % 15 %

(1) NLL = Niedriglohnländer

Quelle: BCG-Analyse

Zips, December 2008

• Limited option for expansion

Cluster of German Companies in China

1.500 German companies in China
(10% -20% SME's companies)

Main cluster of German firms:

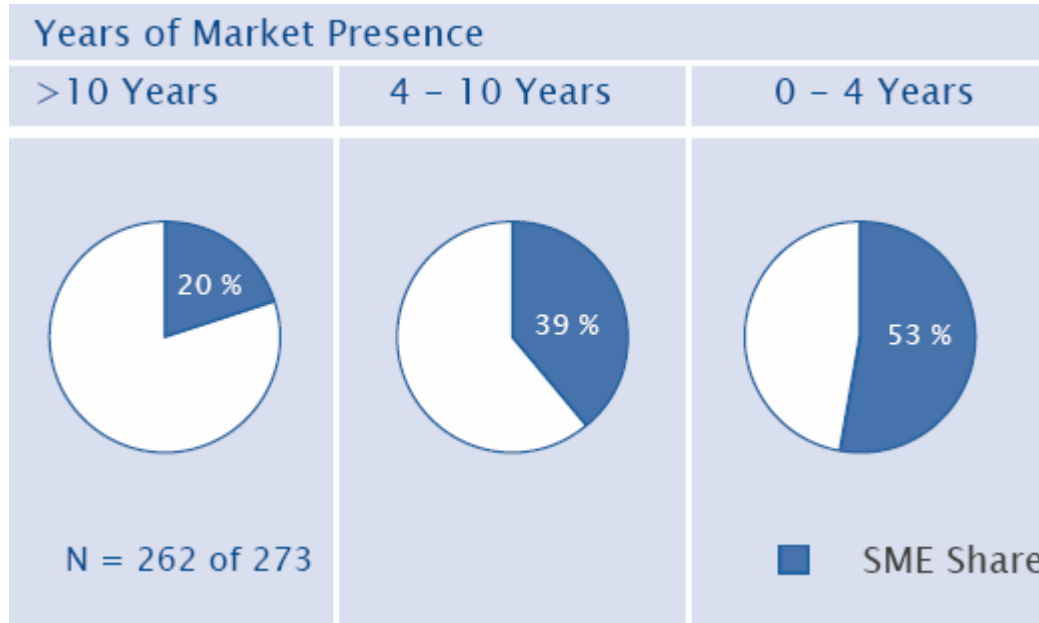
- Shanghai Area / Yangtze River Delta
- Industrial North East
- Pearl River Delta



N = 257 of 273

Source: Business ChinaForum
Special: German expansion in China 2008-2010; German Chamber of Commerce in China 2008

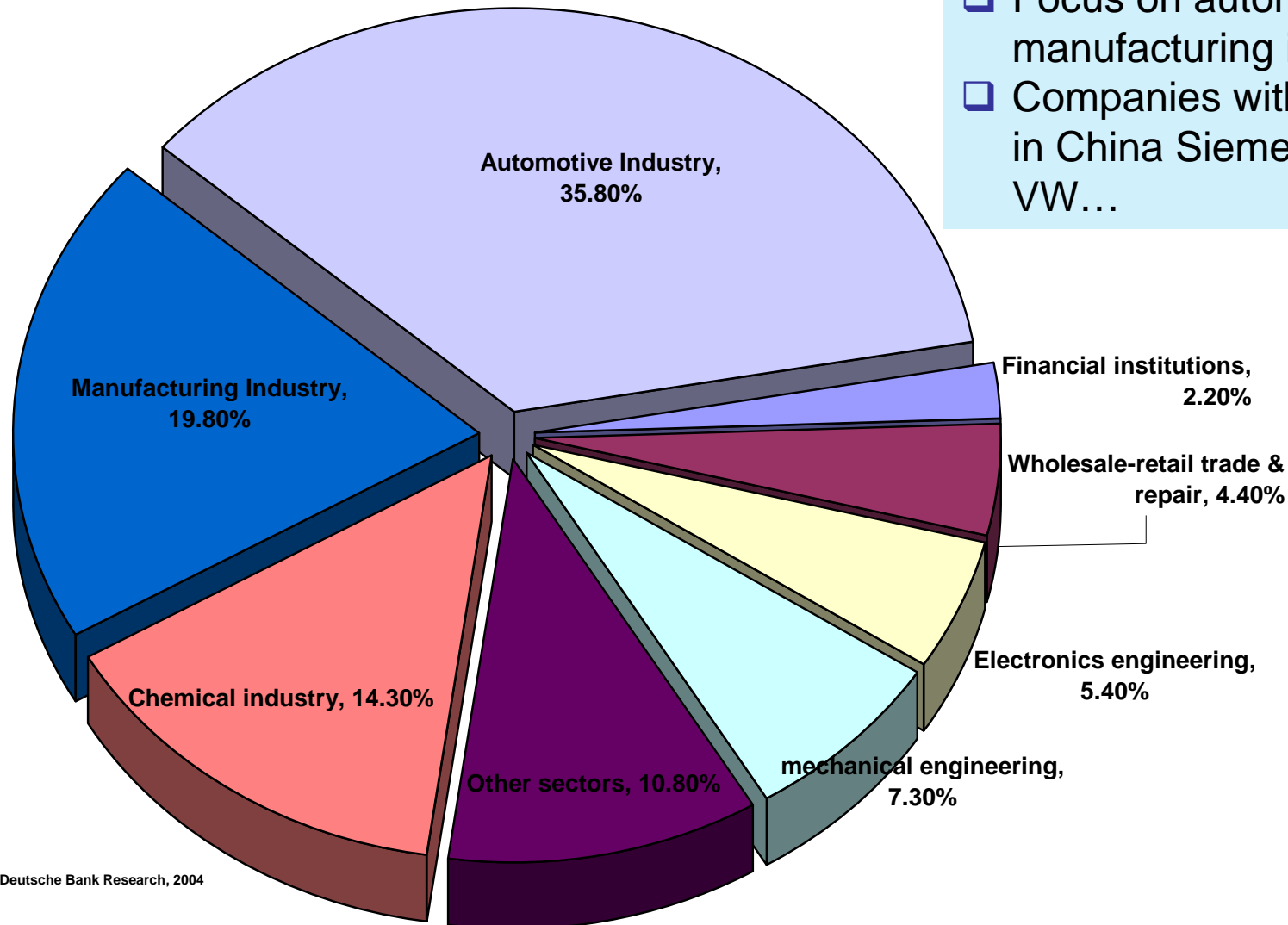
SME entering the Chinese market



- Share of smaller German companies is increasing steadily
- Larger Companies have significant longer history in China

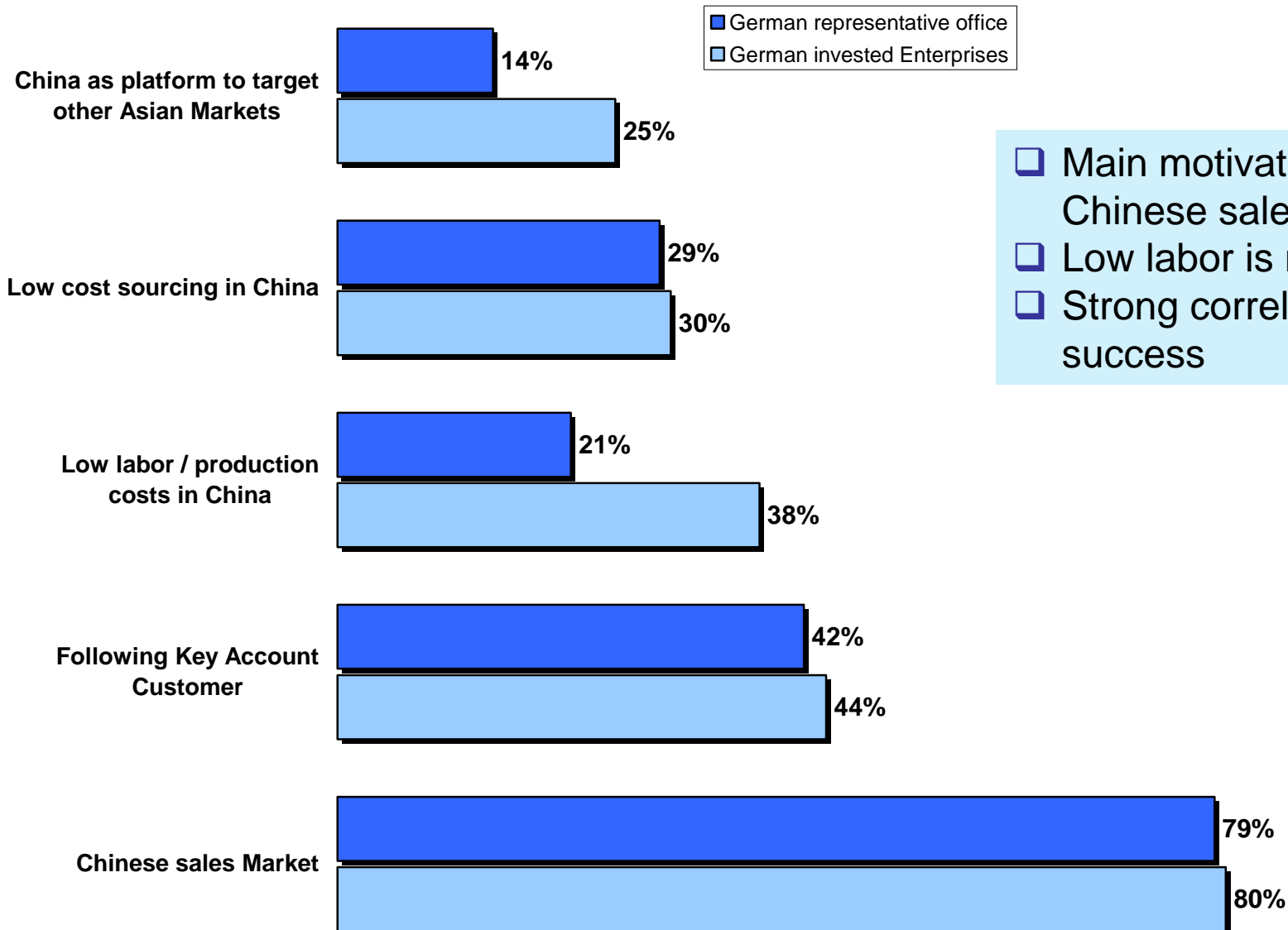
Industry split of Germany's FDI in China

- Focus on automotive and manufacturing industry
- Companies with long history in China Siemens, Bayer, VW...



Source: Deutsche Bank Research, 2004

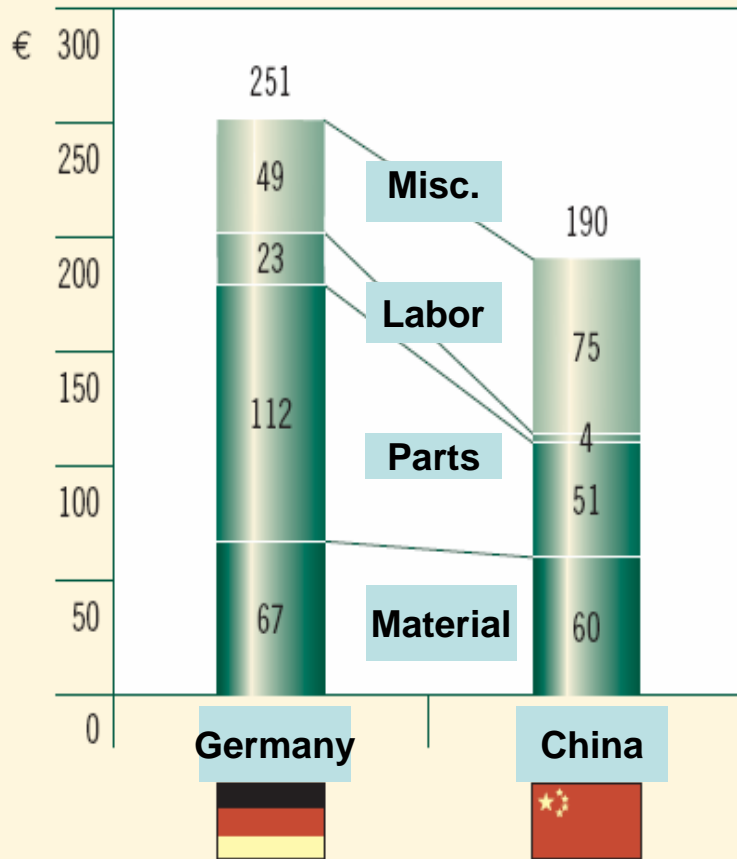
Motive for German companies to invest in China



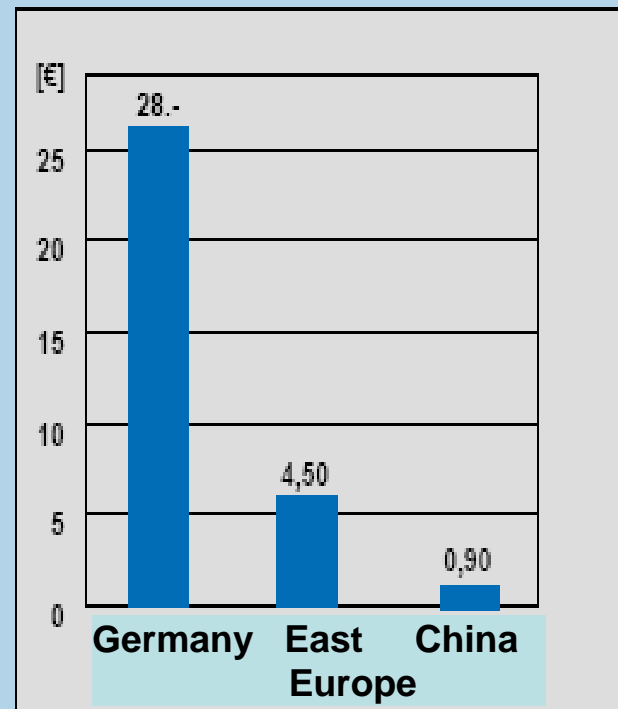
- Main motivation is access to Chinese sales market
- Low labor is not high priority
- Strong correlation to success

Cost comparison EU and China

Cost structure in the manufacturing industry

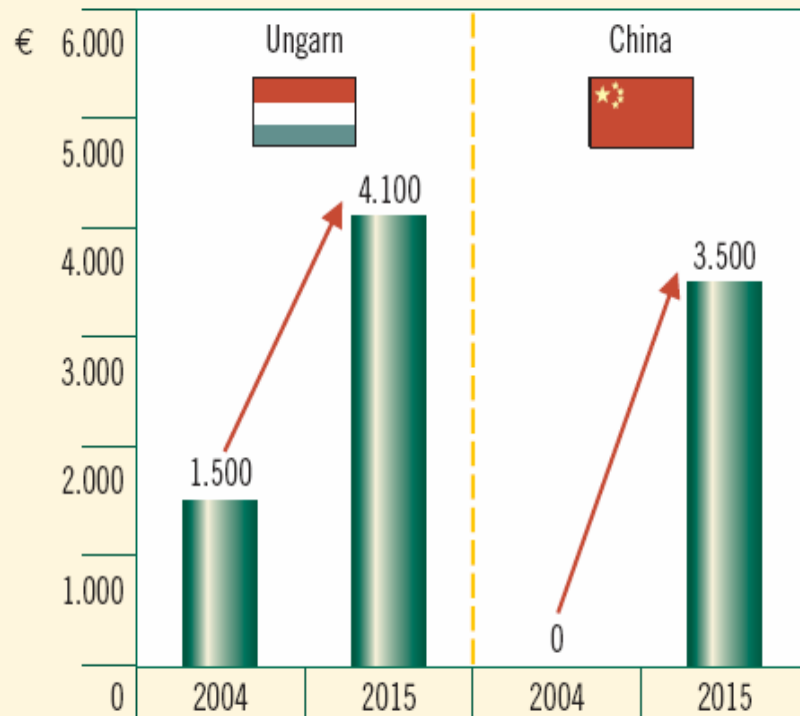


Labor costs per hour (€/h)



Cost advantage for car production

Cost advantage compared to Germany per car



Decision based on

- Logistic
- Lead-time
- Human resources
- Supplier cluster
- Infrastructure
- ...

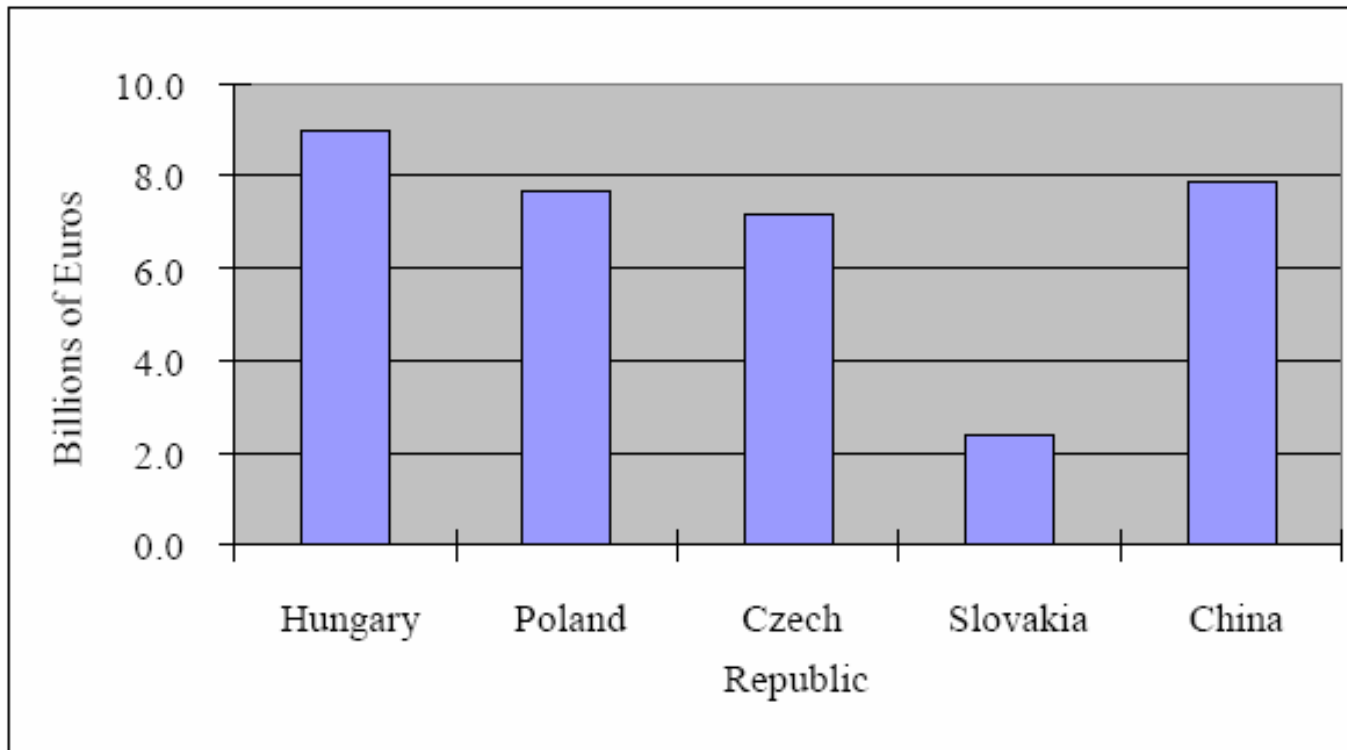
Chinese legislation

Netzwerkeffekt treibt

(1) Mittelklassewagen
Quelle: BCG-Analyse

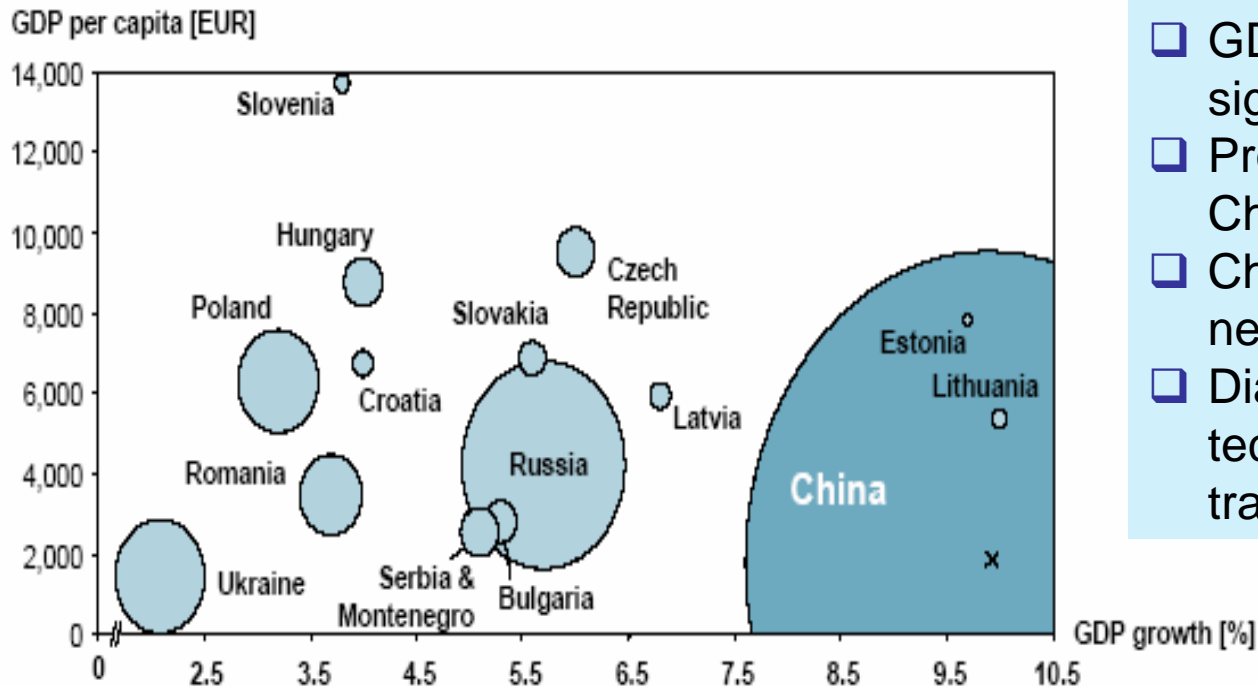
FDI inflow comparison 2002

German FDI in the CEEC's versus China (2002)



Source: Deutsche Bank Research 2004

Competition EU vs China



● Number of inhabitants
2005 data

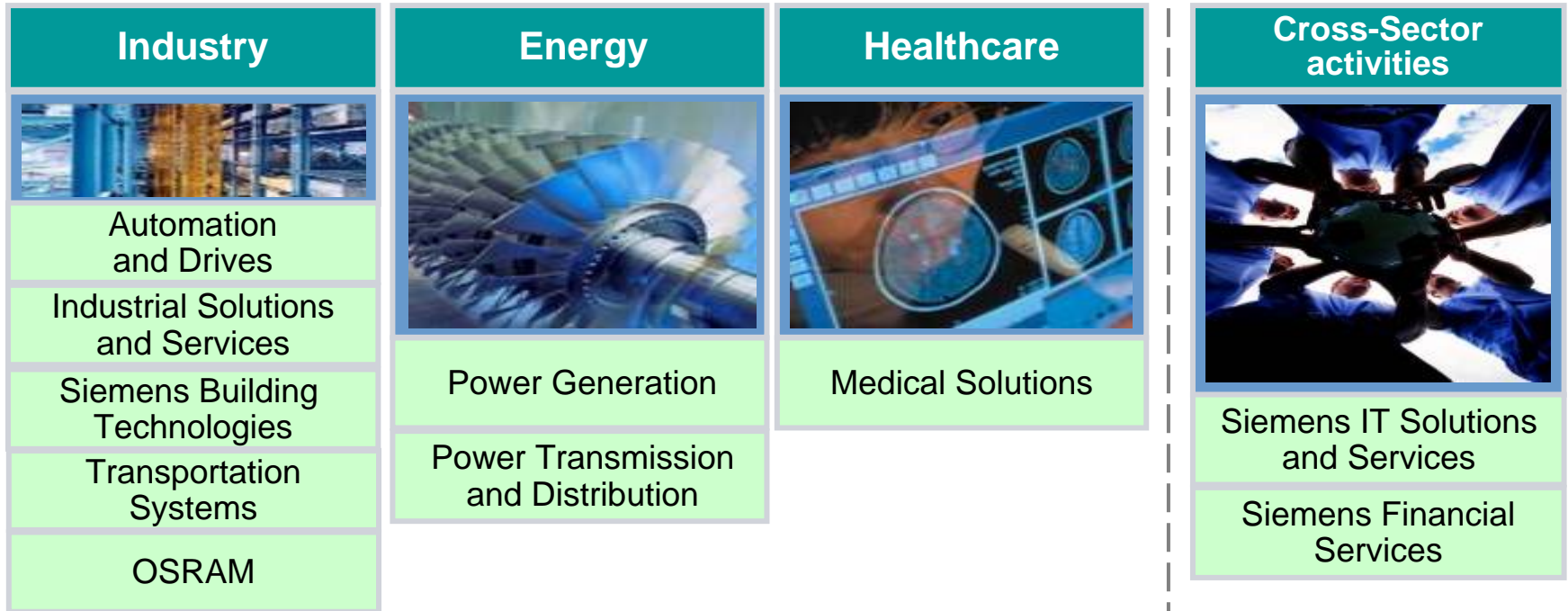
- GDP per capita is Europe significant higher
- Promotion and image of China strong
- China build up global network of technology parks
- Diaspora contribute to technology transfer and trade

Source: Ronald Berger strategz consultants, 2008

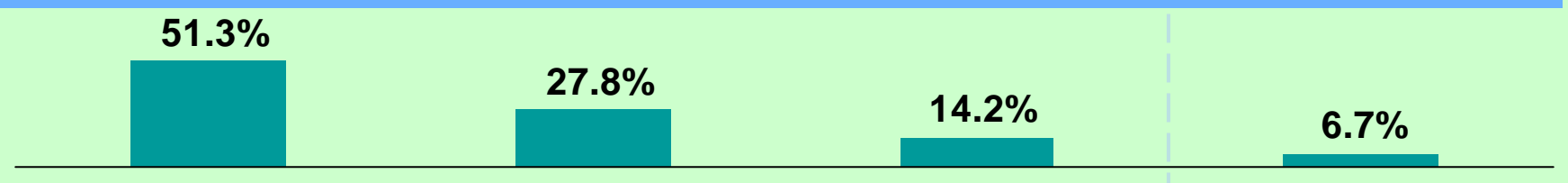
Challenges for China

- ❑ Labor costs is not the main advantages for European factories
- ❑ European factories are not most favorable low costs production site
- ❑ High end production involves key knowledge and requires IPR protection
- ❑ Education of employees must meet expectations
- ❑ Sustainable growth based on long term investment (environmental protection)
- ❑ German companies delivered world class environmental portfolio

SIEMENS : Active in three Sectors

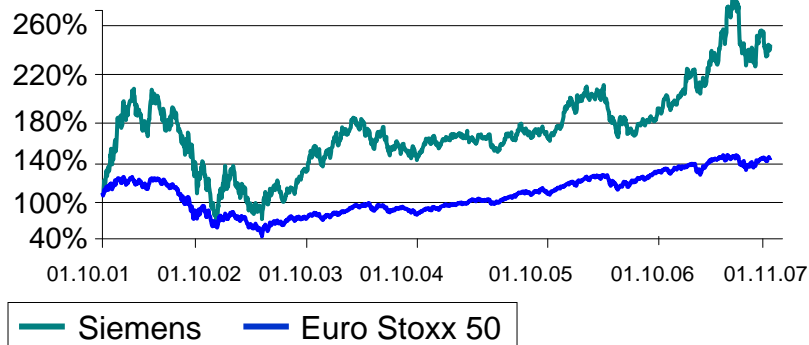


External sales of Sectors excluding Other Operations (as of September 30, 2007)



SIEMENS: Committed to profit and growth

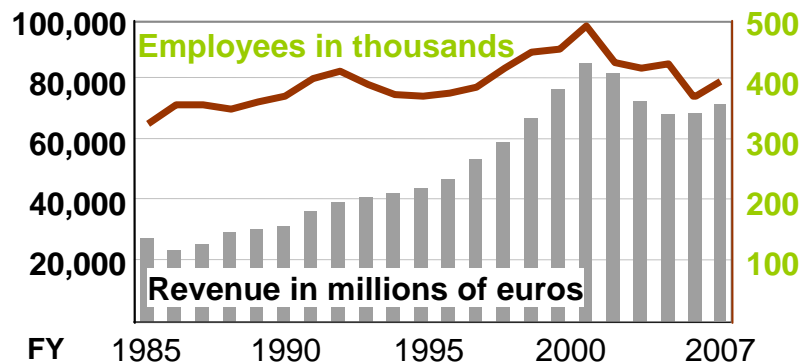
Stock performance



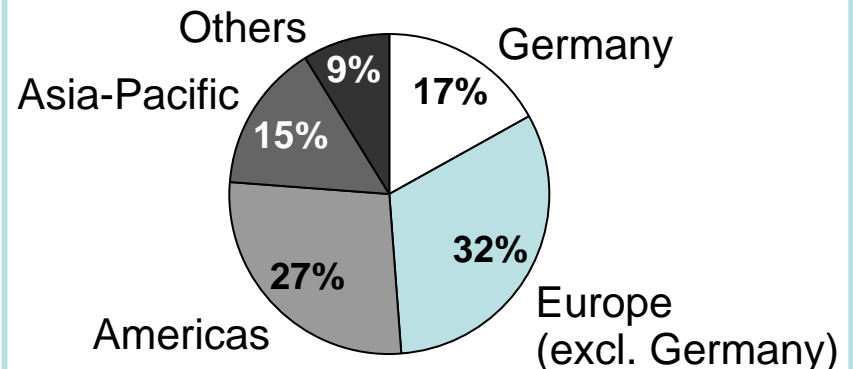
(in millions of euros;
continuing operations)

	FY 2007	FY 2006
Revenue	72,448	66,487
New orders	83,916	74,944
Income	3,909	2,642
Free cash flow	6,755	1,820
Employees	398,000	371,000

Revenue and employees



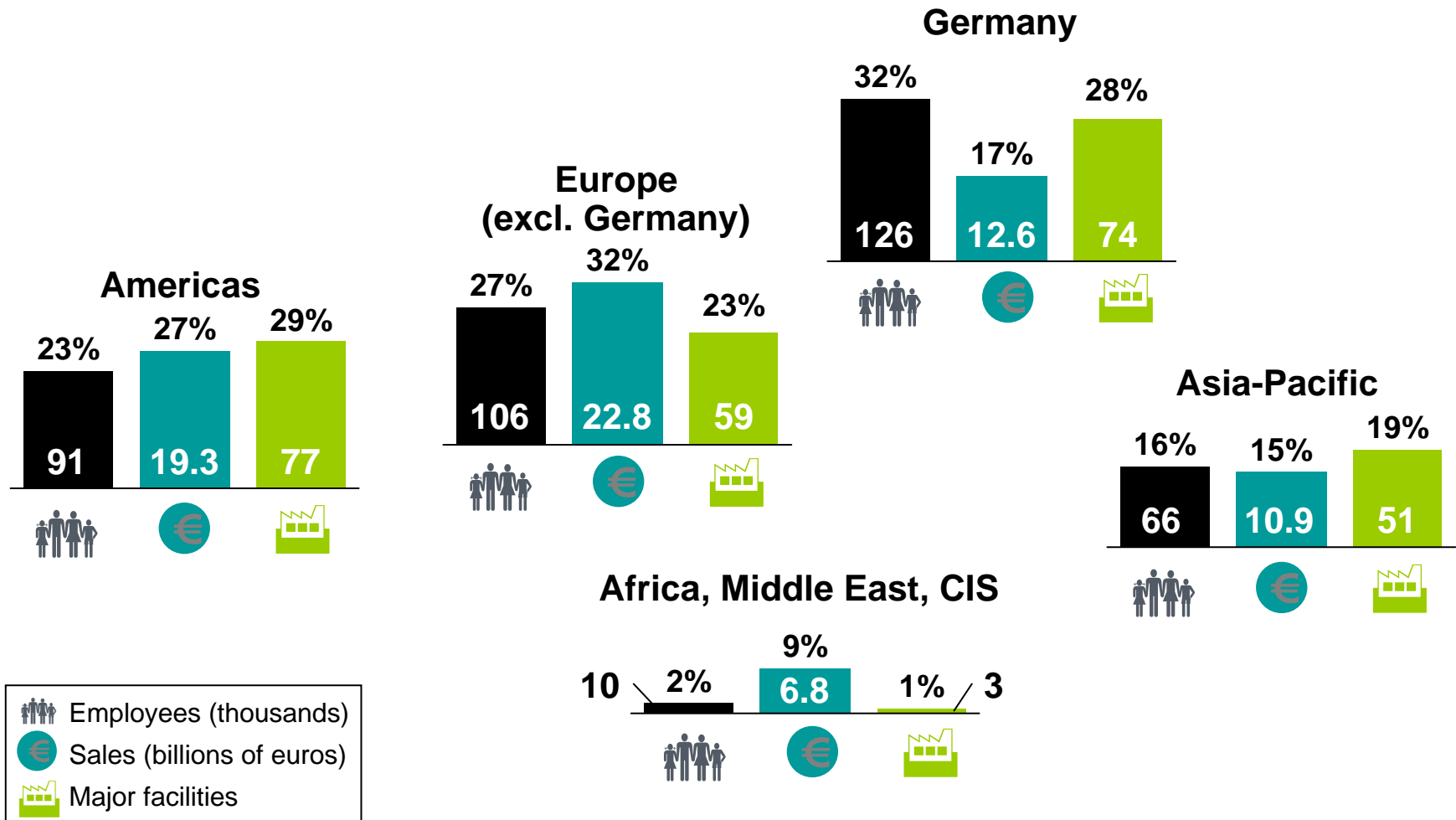
Revenue by Region



As of September 30, 2007

Zips, December 2008

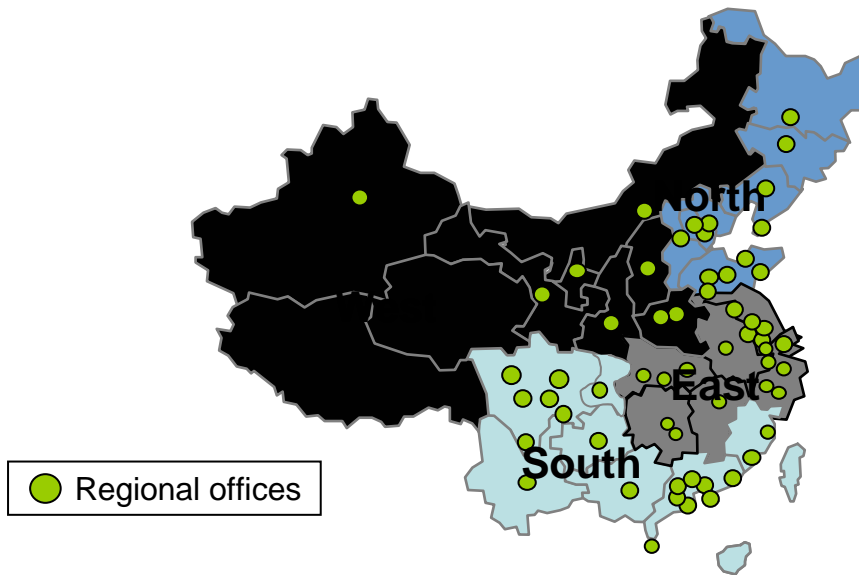
SIEMENS: Global presence – Basis for competitiveness



As of September 30, 2007

Zips, December 2008

SIEMENS China – Strong base in a dynamic environment



Overview 2007

Revenue (in millions of euros)	5,200
Employees	50,000
Regional offices	60
Companies	>90

Contributions to China's infrastructure

- 1400 kilometer long HVDC transmission system for Southern China
- 500 6-axle freight locomotives



Megatrends and Climate Change – the world's toughest questions



Urbanization

- Today: 280 million people in megacities (> 10 million)
 - 2007: First time in human history more people living in cities than in rural areas
 - 2015: 350 million people in megacities
- **Challenge for infrastructure**

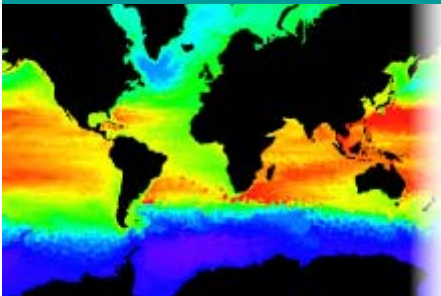
Megatrends

Demographic change

- Average life expectancy increasing globally from 46.6 (1950) to 72 (2025)
 - Population growth from more than 6 billion to 8 billion by 2025
- **Challenges for infrastructure and healthcare**



Climate Change



- The average global surface temperature has increased by 0.76° C compared to the 18th century. 11 of the 12 years between 1994 and 2005 rank among the 12 warmest since weather observations began.
- Greenhouse gas emissions haven risen dramatically since industrialization. Today we face the highest CO₂ concentration in the atmosphere for 350,000 years.

Siemens at a glance

- ❑ **Siemens' first co-operation with China dates back to 1872 Siemens**
- ❑ **Three Core focus: Energy, Healthcare, Industry**
- ❑ **Siemens maintains more than 90 operating companies and 60 regional offices in China (total 43.000 employee in China)**
- ❑ **R&D center in Beijing**
- ❑ **Sales in 2008: 5.7 Bill EURO (2'nd biggest after US)**
- ❑ **Leading company for climate and environmental products**
- ❑ **Comprehensive environmental portfolio**
- ❑ **In 2010 plan 40% of sales out of environmental portfolio**

Motivation for manufacturing in China

- ❑ Transformation from export orientation to focussed on domestic market
- ❑ Transformation from simple manufacturing to high end manufacturer
- ❑ Competition with local competitors
- ❑ Sustainable growth needs skilled employees
- ❑ Sustainable growth based on sound environmental protection