LEVELING THE M&A PLAYING FIELD

MSL GROUP

Executive Whitepaper

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Leveling the M&A playing field

Reducing the bidding premium for Chinese companies in outbound M&A

Between 2005 and 2011, the number of China's overseas acquisitions tripled to 177 and jumped five-fold in value to $63 billion[1]. Activity remained strong in 2012 with outbound deals totaling $64.6 billion, the second highest on record since 2001 according to Mergermarket[2]. China's outbound direct investment is expected to continue to increase by 15 percent in 2013 to reach $88.7 billion[3] as the Chinese government planners have said China will adopt a more proactive opening-up policy. Western countries are actively courting China for FDI, particularly in Europe, where leaders have realized domestic solutions are not necessarily the best way to protect national interests, and foreign bids are being seriously considered provided the proposed deal makes financial sense or there are strategic benefits. Furthermore, ongoing economic woes in Europe and North America continue to provide opportunities that make financial sense for buyers.

Yet, Chinese companies continue to face significant hurdles acquiring overseas assets. Anecdotal evidence also suggests that Chinese companies pay more than their global peers for acquisition targets: advisors to deals recounted that Chinese companies end up paying up to 15 to 20 percent premium. MSLGROUP in China Chairman Johan Björkstén notes that "If you're making a billion dollar acquisition, then a twenty percent premium is 200 million dollars – this is not a number to be sniffed at." Moreover, even with the premium, deal results are mixed.

"If you're making a billion dollar acquisition, then a twenty percent premium is 200 million dollars – this is not a number to be sniffed at."

Johan Björkstén, Chairman of MSLGROUP in China

58%

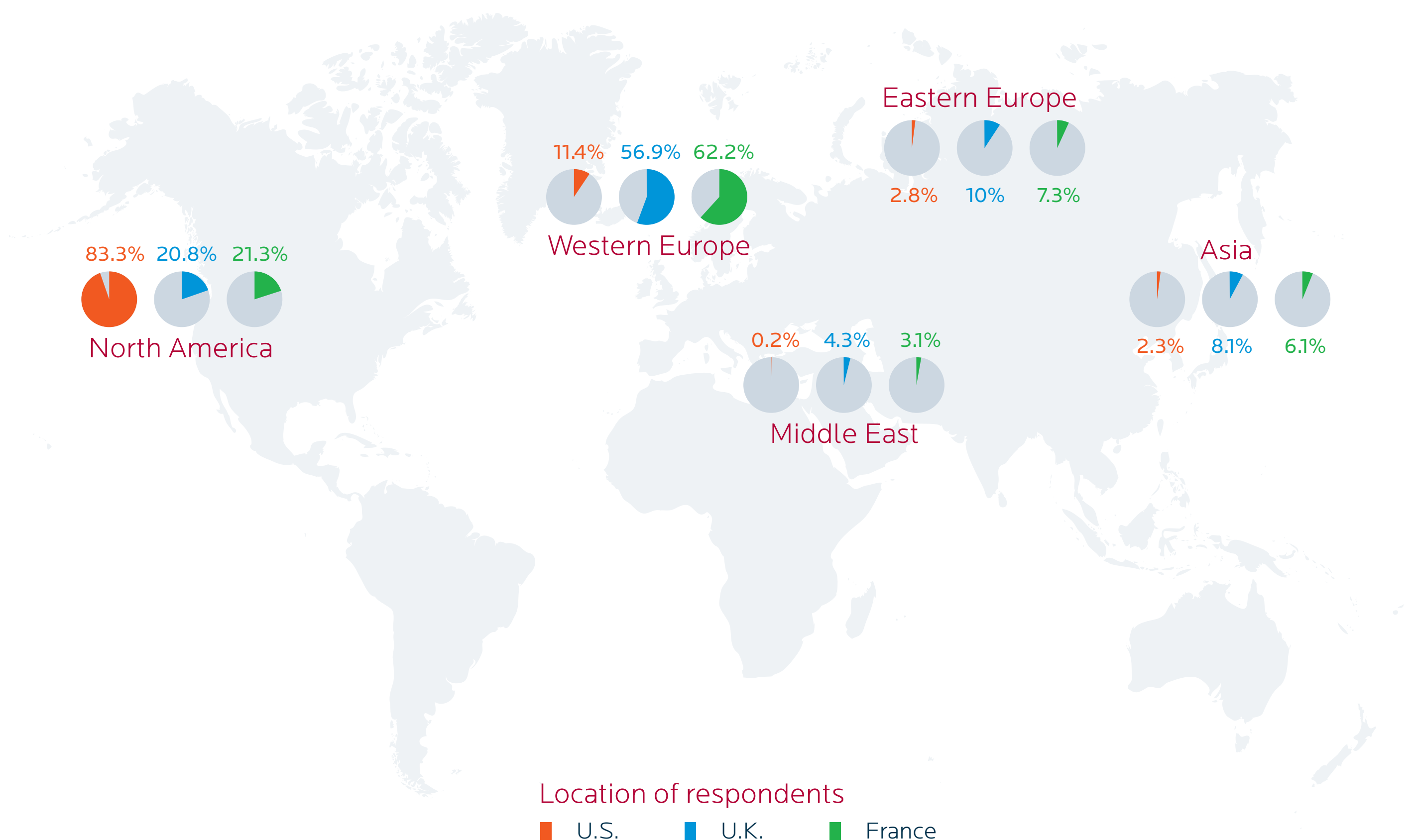
consider the prospect of their company being acquired by a Chinese company as a threat

57%

said they would be concerned if someone from China headed the company where they work

Industry insiders often mention communications inexperience as one of the main factors contributing to inflated prices or outright failure. This is because perceptions play an important role in the decision-making process: media reports arouse fear and suspicion of China's dominance, and local politicians take advantage of M&A deals to achieve their own political goals. This shapes opinions: according to our survey of the general public, 58 percent of Western respondents see the prospect of their company being acquired by a Chinese company as a threat. Only 15 percent view the acquisition by a Chinese company as an opportunity. Similarly, 57 percent said they would be concerned if someone from China headed the company where they work. These concerns may be largely unfounded, but such perceptions taint Chinese companies before they even enter the bidding process. Companies must recognize and actively plan for such "soft" factors in the acquisition process. One cannot only blame "approval from China's regulators" and other external factors for failed deals, in most cases companies could have improved their chances by being more effective in planning and executing communications around the deal.

Fig. People clearly would prefer for their company to be acquired by a company from their own region. Asia comes second last to the Middle East.



Location of respondents
U.S. U.K. France

[1] Squire Sanders / Mergermarket.

[2] Mergermarket China & Hong Kong M&A Round-up 2012.

[3] China Daily article "Chinese continue to invest abroad" published 06 March 2013 http://www.chinadaily.com.cn/bizchina/2013-03/06/content_16281695.html.

69%

of respondents believe Chinese companies will become more prominent globally in the future

So how can Chinese companies become more effective buyers? As the communications consultancy advising on more M&A deals globally than any other firm, MSLGROUP recently surveyed more than 1,600 people across the United States, the United Kingdom and France to determine:

- Whether or not Chinese companies actually face greater challenges in closing international transactions than those from other countries;
- Which are the more prominent concerns in each market, and
- The issues Chinese companies need to address in each market.

In addition to exploring the specific communications challenges, we provide a comprehensive view of the issues and provide guidance and recommendations for Chinese companies to drive more successful and fairly-valued transactions. This whitepaper summarizes the findings of our global survey together with observations from our M&A colleagues: lawyers, accountants, investment bankers and consultants. Through case studies and examples, we also share concrete advice based on our experience in working with Chinese clients making some of the most complex and high-profile deals of the last few years, including Geely's acquisition of Volvo Car Corporation from Ford, Weichai Power's acquisition of Kion Group, and Sany's acquisition of Putzmeister.

Survey Methodology:

MSLGROUP questioned over 1,600 people aged 18 and over and living in the United States, United Kingdom and France from April 13 – 17, 2013. Using the Internet to question over 500 people in each of those countries, the aim was to be able to analyze their perceptions about corporate culture, their views about M&A, and Chinese companies buying companies in their respective home markets.

Total Sample: 1,732

United States: 581 respondents

United Kingdom: 566 respondents

France: 585 respondents

Margin of Error: +/- 5%

Confidence Interval: 95%

Method: National representative samples interviewed online.

What's driving outbound M&A?

Opportunistic investment in the wake of the crisis

Economic distress following the global financial crisis in 2008 has opened up attractive deals around the world. Declining valuations of firms in the wake of the European and US debt crises are increasingly prompting Chinese companies to look for possible acquisition targets abroad. Chinese companies are well positioned to acquire companies in distress: they are often highly liquid with large amounts of free cash or good access to local financing. In a survey by the European Chamber of Commerce in China, the trend looks set to continue and grow: 82 percent of Chinese firms are planning to further increase their overseas investments. Overseas stakeholders are aware of this trend – of those surveyed in our study, 69 percent believe Chinese companies will become more prominent globally in the future.

Acquisition of strategic assets or capabilities

Beneficial market conditions aside, there are numerous drivers behind Chinese outbound M&A:

- Access to a strong brand or overseas market channels. This was one of the primary drivers behind Lenovo's acquisition of IBM's PC division.
- Acquisition of specific know-how or technology. With its strong manufacturing, electronics and automotive base, Germany has received the largest number of deals from Chinese companies over the last decade[4] and continues to attract major Chinese investments.
- Expansion to gain critical mass. This is especially salient for Chinese resource companies, with deals such as Sinopec Group's acquisition of Addax Petroleum and China MinMetals acquisition of Australian OZ Mining Ltd.

[4] Chinese Outbound Investment in the European Union report, published by the European Chamber in January 2013 in partnership with KPMG and RolandBerger.

Encouragement from Chinese Government

Official support has become another driver of outbound M&A from China. The Central People's Government first published its 'Going Out' strategy in 2006 and has consistently encouraged overseas investment, which is seen as a driver of economic growth. The 12th Five-Year Plan (2011-2015) has clear targets in place, including a 17 percent increase in outbound investment which is set to reach $150 billion by 2015.[5]

In June 2012, 13 government departments, including the influential National Development & Reform Commission (NDRC), published a joint notice announcing fiscal measures to encourage offshore investment titled 'The notice on issues encouraging and guiding private enterprises to actively implement offshore investment advice'[6]. It outlined stronger implementation in areas such as lending policies for working capital loans, loan financing, and streamlining foreign exchange controls on offshore investments. The notice also highlighted benefits from increased outbound investment such as[7]:

- Acquiring resources that China lacks
- Acquiring more advanced technologies and management experience
- Reaching overseas markets for sales
- Moving lower-end manufacturing to other developing markets
- Improving international relations

The 12th Five-Year Plan (2011-2015) has clear target in place, including a 17% increase in outbound investment which is set to reach $150 billion by 2015.

Many deals are driven by one of these rationales and some by more than one. Lenovo's acquisition of IBM's PC division, for example, was seen as an opportunity to gain access to a global network of sales channels for Lenovo's product lines. At the same time, it benefitted from the reputation and technology that had positioned ThinkPad as one of the leading laptop brands in the world. The European Chamber of Commerce survey reinforces this point: 85% of respondents in China cited "gaining market share" and "providing goods and services to the EU market" as primary reasons for outbound investment.

The acquisition of technology, expertise and intellectual property also falls in line with the goals of the 12th Five-Year Plan: Chinese enterprises are seeking to acquire technologies, expertise and skills, as well as brands, to become more competitive. More than a third of respondents to the European Chamber survey said Europe's intellectual property and R&D resources are attractive reasons for investment.

[5] MOFCOM's 12th Five-Year Plan for utilization of foreign investment, 15th May 2012.

[6] "关于印发鼓励和引导民营企业积极开展境外投资的实施意见的通知" (Fagaiwaizi [2012] No. 1905).

[7] Taken from an unofficial translation by the European Chamber of Commerce.

[8] Chinese Outbound Investment in the European Union report, published in January 2013 by the European Chamber of Commerce in partnership with KPMG and RolandBerger.

Hurdles for Chinese companies

Companies acquiring assets overseas face legal and financial intricacies such as regulatory hurdles, labor laws, tax regimes, managing intellectual property rights, banking systems and regulations, and corporate competition laws. Chinese companies also face regulatory challenges at home, as cited by almost a third of respondents to the European Chamber survey. Deal advisors are brought on board to navigate these complexities.

"Compared to a western company, a Chinese company often has to pay some premium in M&A transactions simply because of its point of origin."

David Xu, Partner, Transactions & Restructuring, KPMG

Reputation can make or break a deal

In particular, Chinese companies face reputational challenges, which are often insufficiently addressed or even ignored. Yet this is a decision that can be very costly.

Price is only one of the criteria by which a seller evaluates potential buyers. Every deal has its own characteristics, taking place in a specific environment and sector; in a competitive situation, the buyer and seller have to consider how well the offer will be received by a wide variety of stakeholders, which can include employees, unions, customers, partners, and grassroots organizations. Large deals also attract media attention and become closely watched by the authorities in the target country who often advocate a national solution. In addition, when the brand or company being sold is well-known, general public reaction can also be emotional. Unions are also likely to become involved and may quickly interfere in the process.

A target related to a strategic or sensitive sector will often generate national debate and may become a political issue in the target country. The NDRC report notes that as China's economic strength and foreign investment increases, the risks of intervention and restrictive policies from foreign governments may also increase [9]. Governments frequently oppose deals citing national security concerns; prominent examples include the resistance Huawei faces in conducting any business in North America and the attempt by Dubai Ports to acquire six major US ports, where legislation was introduced to delay the sale. Bowing to bipartisan attacks, Dubai Ports dropped the deal.

A costly premium

Chinese companies are relatively new players in the global M&A market and their financial resources make them considerable contenders. Despite their advantages, lack of support for Chinese involvement often leads to disregard for their bids or demands for unnecessarily higher tenders.

In fact numerous M&A advisors, including legal advisors and investment bankers interviewed in the development of this whitepaper, agreed that in order to be seriously considered, Chinese companies must often bear the burden of paying a 15 to 20 percent premium over the competing bids in an auction. While this is partly driven by the additional complexities related to official approvals, other 'softer' stakeholder dynamics surrounding M&A transactions with Chinese companies play an equal if not greater role. While the government approvals process is not something you have control over, the other 'softer' issues can be effectively mitigated through effective communications.

This dynamic of Chinese companies having to over compensate is also sometimes abused by vendors, as a Chinese player may be brought in simply to help drive up the prices of other bidders. In some of these cases, the vendor has no intention of selling to the Chinese bidder and is simply exploiting them.

And even offering the highest bid still does not guarantee success. In 2011, Shanghai Sugar Cigarette and Wine, a subsidiary of China state-owned Bright Food, entered into the acquisition process of the French yogurt maker Yoplait, but failed despite being the highest bidder.

"Sometimes [Chinese companies] are invited in to auctions to drive up the other bids, as they need to bid more partly due to the fact that they are burdened with more closing conditions related to lengthy and complex government review process and partly due to perception issues as they are surfacing as new players in the global M&A market."

Jason Sun, Vice President, Lazard

Five key communications challenges

Through observation and experience working with Chinese companies, we have identified the following as five key issues facing Chinese companies in pursuing outbound M&A.

1 Social resistance stemming from fear of the unknown

Our survey reinforces what is generally understood by anyone working or following M&A transactions. While there is, perhaps predictably, a preference for companies to be acquired by a buyer from their home region - 85 percent of respondents prefer a company from North America or Western Europe to acquire their company. Concerns relating to buyers from China (and other BRIC countries) are different. When considering a Chinese buyer, the most pressing concerns in the minds of respondents are fundamental issues: working conditions, management style and ethical issues. For domestic buyers, our survey indicated job losses are the primary concern.

85%

would prefer a company from North America or Western Europe to acquire their company

Such feelings may be largely based on stereotypes or China's national image rather than a company's reputation. While this may seem unfair, it remains an issue and will do so as long as Chinese companies do not put proactive communications in place to address concerns head-on.

2 Political resistance based on competitive concerns

China's political roots and unprecedented growth has politicians across the globe concerned about remaining competitive and protecting local industries against workforce relocation. At the same time, China faces reputational issues like any other rapidly developing country. For example, while Chinese companies can sometimes be seen as innovative, this is often countered with the argument that the advanced technology used is suspected to have been stolen from foreign firms. Similarly, whether founded or unfounded, Chinese buyers have been accused by political opponents as being spies for the Chinese government. Chinese telecoms equipment providers Huawei and ZTE have been subject to accusations of espionage and have testified in front of the US House of Representatives' Intelligence Committee on whether they pose threats to US national security.

Four out of five

of the most pressing concerns are fundamental issues - working conditions, job losses, management style and ethical issues

Consider Huawei's bid for 3Leaf Systems in 2011 as an example of political resistance. In fact, Huawei completed the deal in 2010 but did not disclose it to CFIUS, the Committee on Foreign Investment in the U.S., which is responsible for assessing deals to identify potential national security threats. After reviewing the case, CFIUS suggested Huawei voluntarily divest 3Leaf's assets. The deal itself was only valued

[9] NDRC, 24th July 2012, 12th Five-year Plan on Foreign Investment Utilisation and Outbound Investment, according to an unofficial translation by the European Chamber of Commerce.

at $2 million but it led to national controversy with Huawei contemplating escalating their situation to the White House. In the end though, Huawei withdrew its application for the deal and divested the assets in order to avoid further bad press.

This tricky issue means government engagement is often unavoidable and complex; government officials are stakeholders who need to be proactively addressed through communications.

Media snapshots

A look at recent media coverage paints a picture of public sentiment in target countries of inbound M&A (particularly from China) in a sample of markets.

Sell-off to China
Cutting-edge German solar companies are being flogged to China at bargain prices and their technology is disappearing abroad.

Frankfurter Rundschau, 02.08.2012

Chinese IT companies
The USA is worried about espionage: Huawei is believed to be affiliated with the military and ZTE is allegedly sending confidential data to leaders in Beijing. US officials have called for a boycott.

Taz, 09.10.2012

Economic patriotism lives on. To increase chances of success, buyers must think about the specific context of the deal, address the related issues and take into account stakeholders' expectations

THE GLOBE AND MAIL

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MARGARET WENTE

The Chinese are coming, the Chinese are coming

MARGARET WENTE
The Globe and Mail
Published Thursday, Nov. 01 2012, 7:00 AM EDT
Last updated Saturday, Nov. 03 2012, 11:45 AM EDT

3 Poor employee engagement leads to weak performance, resistance and negative chatter

84%

of Americans believe company culture is very important

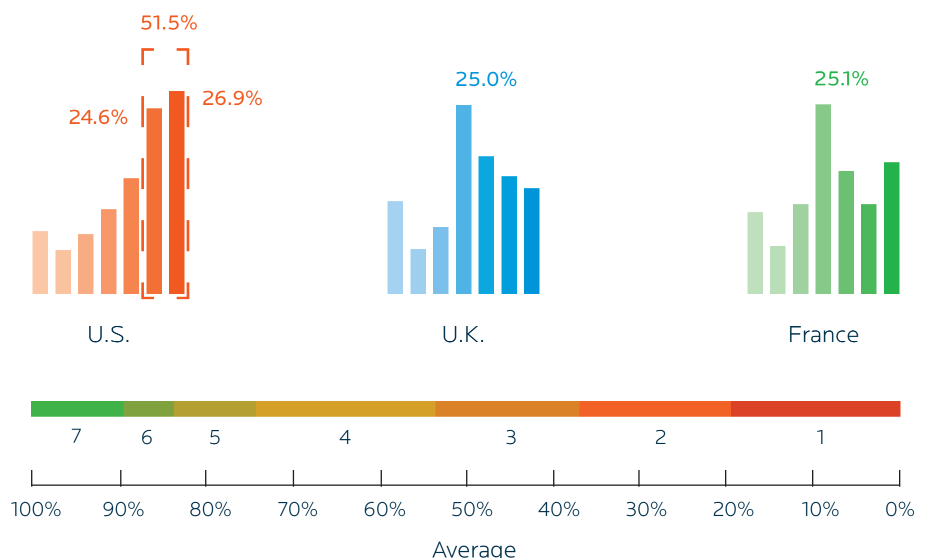
It is commonly agreed that employees are the most critical audience when it comes to post-deal success. But they cannot be forgotten during the bidding process either. Employees and unions can be highly vocal during the acquisition process, the impact of which can significantly influence the outcome of the bid.

Predictably, M&A deals are often the source of great anxiety for employees. We asked people to rank their concern if their company were the target of an acquisition on a scale of one to seven (one being highly concerned). US employees appear to be most worried. More than half rated their concern one or two on a scale of seven. Overall, people recorded moderate to high levels of concern with more than half rating their concern between one and three and nearly three quarters rating it four and above.

Drivers of this anxiety, as our study indicates, are beliefs that if a Chinese company were to acquire their company, job security is less likely or at least uncertain. Those from the US and France also believe financial stability is less likely if a Chinese company were to acquire their employer.

However, aside from the direct concerns related to a merger, there are also the softer cultural issues that can lead to success or failure during integration. Each and every organization has a unique culture or 'DNA'; this often becomes apparent and is almost always important in an M&A transaction.

Fig. US employees appear to be most concerned about their company being the target of an acquisition. More than half rated their level of concern at 1 or 2 on a scale of 7. (1 being most concerned)



Two-thirds

said they believe the culture of a company influences their work performance

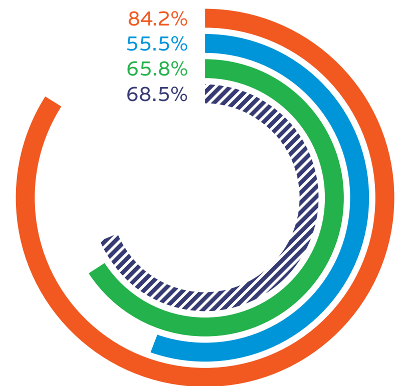
The impact of corporate culture cannot be underestimated. Our study found that 84 percent of Americans believe company culture is very important, a much greater proportion than the UK and France, at 56 percent and 69 percent, respectively. What's more, the culture within a company can impact performance dramatically. Two-thirds of respondents to our survey said they believe the culture of a company influences their work performance. Clearly, if these issues are unaddressed, the synergies created by the M&A transaction can be heavily impacted by poor performance.

Recruitment may also be adversely affected. The same proportions of people said that the culture of a company would influence their decision to work there. This can have significant cost implications as numerous studies have proven that retaining employees is much more resource effective than recruiting new employees.

In order to mitigate the risk of a deal being derailed by employees and unions, communications with this stakeholder group must begin as early as possible in the deal process.

U.S.
U.K.
France
Average

Fig. Corporate culture is important to varying degrees



Corporate culture is clearly more important in the US than in the UK or France.

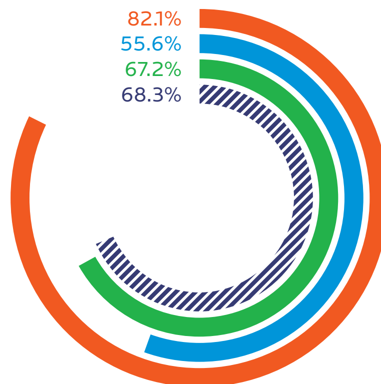
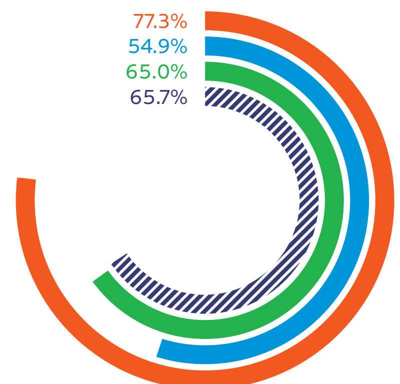


Fig. Respondents agree to varying degrees that corporate culture significantly influences their desire to work for a company

Fig. Three out of five respondents believe the culture of a company influences their work



4 China = Cheap

Branding issues are a critical ingredient in the recipe for a successful overseas expansion strategy; they are also one of the biggest challenges facing Chinese companies with outbound ambitions. Two kinds of issue tend to dominate: a total lack of awareness of a Chinese brand may lead to fear of the unknown. A brand may be a household name in China and alien elsewhere. Nobody in Sweden had heard of Geely before the company's acquisition of Volvo. Even if the brand is known, the perception of Chinese products is often as "cheap" or "low quality". The negative perception of 'Made in China' is still strong. Until Chinese brands gain more prominence globally, these perceptions will continue to prevail and will likely prevent companies that do not address the issue from conquering higher-quality market segments. Haier is an example that has battled its cheap image for years and is now gaining market share from its global peers by investing heavily into marketing and communications programs to bolster its brand reputation.

In the context of an M&A deal, customers of the target company often become concerned that their product or service may be affected as a result of the acquisition. In some cases, this results in significant loss of customers. The association between poor quality products or services with Chinese companies can also create additional anxiety among employees of the target company. Therefore, both the buyer and seller need to put in place a specific strategy to ensure they retain customers during and after the acquisition process.

5 The 'Muddy Waters' dynamic and a nervous global investment community

Investors all over the world are today naturally more wary than pre-crisis times, and require more reassurance, especially when considering companies in emerging markets such as the BRIC countries. Rightly or wrongly, Chinese companies are often tarred with the same brush, and the work of organizations such as Muddy Waters has highlighted irregularities in the financial disclosures of some companies which has tarnished the overall image of 'corporate China'. Combining this with a general characterization for being less transparent than other global companies, Chinese companies now have a reputation for being "financially murky". While this is clearly a sweeping statement, it is likely to raise worries whether or not a Chinese bidder can fulfill due diligence requirements. At the very least, the seller may be skeptical of the buyer's abilities.

At the same time, the prospect of an M&A deal can make investors anxious, notably where they believe that Chinese management teams have little international experience, and have insufficient knowledge about foreign markets. Moreover, there are strong reservations whether Chinese companies can comply with international business practices.

Complex and uneven playing field

This complex playing field requires Chinese companies to place even greater importance on communications than buyers from other territories. As the next section of this whitepaper discusses, such programs must cover both audiences at home and in the country where the target asset is located. Those who have been involved in M&A transactions before will be aware that deal working groups traditionally include legal advisors, investment bankers and, internally, the C-suite and strategic or corporate development leaders. Many now acknowledge however that the complex nature of these cross-border transactions requires communications counsel much earlier in the process.

What can Chinese companies do to achieve a fairer valuation?

Leveling the playing field through communications

In view of the challenges Chinese companies face, the only way for them to level the playing field is to become more effective at managing the soft aspects of deals, and more specifically communications. In our experience Chinese management teams with limited international experience often underestimate the strategic importance of this component. Through effective communications, Chinese companies can enter the negotiation in a much stronger position, thereby reducing the 15 to 20 percent premium that they are often required to include in their bid. Here we discuss the essentials.

Understand the communications landscape

At the very beginning of the process, analyze the battle field: consider the competitors and their perceived advantages, identify advocates, and the reservations from both within and outside the company. Before proceeding with an action plan, we always conduct a perception audit that covers the following areas:

- Benchmark yourself against the competitors, including a SWOT analysis of the potential buyers in a transaction;
- Understand perceptions of potential buyers and the seller: Review and analyze press coverage and analyst research about the company itself and the deal, if possible. Identify the negative and positive features in the research;
- Map out all stakeholders potentially involved in the deal and their opinions on the potential acquisition. Stakeholders include political and public authorities, government and administrations, unions, analysts & investors, professional organizations employees, and the various segments of the general public, in addition to the main endorsers and potential opponents. The objective is simple: probe opinion leaders, industry experts and decision makers over the deal.

Develop a clear multi-stakeholder strategy based upon unified messaging and a long lead-time

Once you have gained an understanding of the environment, develop a global and coherent communications plan with unified messaging. The plan will also consider the necessary timing to build positive sentiment towards the transaction. A strong strategy and plan will minimize the adverse impact of a potential leak, whilst ensuring the company, not the media or stakeholders, is managing the message. It will also ensure relevant stakeholders feel sufficiently well informed, within the appropriate time frame, and that their concerns are addressed. Moreover, successful communications will also minimize any negative impact if the deal does not proceed.

Strategies and relevant plans will differ widely, depending on numerous factors such as the social context, the deal structure, the competitors, and the reputations of the potential buyers in the country. Questions you must ask yourself include:

- Do you want to adopt a low-profile approach in the media but lobby intensely behind the scenes, or address the deal in a very strong manner?
- Do you want to take an 'off the record' approach based on informal meetings with political or public authorities, or implement a proactive and 'on' communication towards the media?

There is no off-the-shelf solution. Whatever the strategy, the final objective is the same: create a positive context and inspire trust.

> "Effectively communicating the strategic imperatives of the deal can convert opponents into advocates through understanding and reassurance"
>
> Johan Björkstén, Chairman of MSL China

It is important that the strategy clearly explains the company's vision and how the deal will deliver a win-win result, as a result of the benefits the buyer brings to the table, the synergies that will be generated and the resulting incremental unified business strength. This will strengthen the attractiveness of the offer and align it to the priorities and receptiveness of the target and other relevant stakeholders.

Listen and engage early to address social resistance and respond effectively to crises

Listening to the chatter – both in social and traditional media – is crucial for several reasons: it allows you to maintain an ongoing measure of sentiment surrounding the deal, and it enables you to respond swiftly to any potential leakage or misleading information before the story becomes widespread. It will also help in the ongoing evolution of your communications strategy.

In addition, you should have detailed a contingency plan with all possible scenarios mapped out and pre-crafted statements ready accordingly. Depending on your standing in the deal (front-runner, challenger or outsider), the company's strategy and response will differ.

Prepare teams for crisis communications by the following steps:

- Establish an online and offline media monitoring system with a particular focus on main social media.
- Develop contact lists of the different industrial plants, if any, contacts of unions, political figures or financial analysts, as well as of all internal contacts and any other relevant parties. Identify people within your organization who will be responsible for maintaining these contacts.
- Craft key talking points regarding the strategic rationale of the deal, detailed Q&As and arguments on sensitive issues.
- Draft potential letters to national or local authorities, employees, main clients, and business partners.
- Design a clear and detailed working process with the role and responsibilities of each party when involved in a crisis. This includes designated response times, final approval on messages, meeting times, and other logistical details.

Huawei demonstrating transparency to establish familiarity

Huawei is perhaps one of the most famous examples of a Chinese company that struggles with M&A. In addition to the short-lived 3Leaf deal discussed earlier, there is another example of the opposition Huawei faces.

In October 2012, the US Congress intelligence committee told US companies that if they cared about intellectual property, customers' privacy or the national security of the country they should not buy from Huawei. In a similar example, a year ago the Australian government banned Huawei from supplying equipment for its National Broadband Network, apparently in response to hacking attempts blamed on Chinese interests.

Huawei has recently begun to respond by starting to open up and demonstrate transparency. Those efforts appear to be accelerating:

- Huawei Chief Executive Ren Zhengfei has given his first media interview ever, to journalists in New Zealand. [1]
- In January, chief financial officer Cathy Meng, who is Ren's daughter, discussed the company's financial performance with journalists in China for the first time.

[1] " Huawei Founder Gives First Ever Media Interview " Time/Associated Press, 9 May 2013

Initiate dialogue early to help allay concern and opposition

Buyers must actively engage in dialogue with stakeholders such as politicians and employees to allay concerns regarding loss of industry and jobs. Again, with government, the earlier a line of dialogue can be established, ahead of any potential deal discussions, the better. Mapping out friends and foes and leveraging non-governmental organizations (NGOs) to discover what is being said and to identify advocates can be an important component of a strategy to address this audience.

When discussing a specific deal, it is important to clearly outline the industrial and strategic rationale, the advantages to both sides, and to proactively address the topic of job cuts and relocation of operations. This is when the advocates who have been previously mapped out can become valuable allies.

Targeted meetings with key decision makers or influencers are frequently a means to soothe various stakeholders' worries over the acquisition. These meetings have to demonstrate, beyond the price, that the project represents the right combination and the right fit, and that the acquisition will be a success. Such meetings with national authorities can be used to help alleviate any feelings of mistrust.

The role of workers' representatives is also critical in many countries - Germany is perhaps the best-known example. Buyers should ensure that a communication plan includes timely dialogue with workers and unions, ahead of the media if possible, addresses their specific issues, takes them seriously and introduces the transaction rationale and key management to them personally. Regular updates throughout the process are an important component. Silence will only lead to rumour, speculation and discomfort. Address redundancies, if possible, and the benefits for clients and stakeholders, and reaffirm management's commitment to a smooth integration process in the media, while highlighting the weaknesses of competitors' offers 'off the record.'

Fosun and Carlyle

At a recent panel discussion on M&A at the China Entrepreneurs Club Annual Summit, hosted by MSLGROUP in China Chairman Johan Björkstén, Guo Guangchang of Fosun Group recounted his company's history with M&A. Guo mentioned "high levels of prejudice" among foreign enterprises in business transactions. In response Fosun has found credible allies such as global leader Carlyle and has appointed someone Carlyle trusted to Fosun's board to convince western counterparts of the company's credibility.

Address image and branding issues

Having a clear, internationally recognizable brand positioning is crucial to fair valuations and even to the success of a deal. Brand must be an active priority: we often provide "positioning workshops" and other tools to ensure that it remains at the top of the agenda for senior management and the deal working group. It will also help to achieve consistency in communications by ensuring that spokespeople and advisors are all saying the same thing and will help strengthen the corporate story behind the deal. This will play an important role in helping target companies identify you as a strategic candidate, rather than just a cash-rich candidate.

While you may be a widely known brand within the billion strong population in China, often there is limited understanding of your brand in the market of the company you are targeting. The company can occupy the field in various ways before an official submission: it is necessary to demonstrate your expertise in the field and to raise corporate profile in general.

This is especially important if the deal competition is intense and the company will have to:

- Stand out amongst the other potential buyers, take the lead and be perceived as a major player.
- Minimize competitors' attacks (counter potential negative spin), correct inaccurate or misleading messages or comments, but also develop arguments relating to rivals.

Prepare the ground to explain that this approach is neither opportunistic nor predatory, and that your bid represents a real win-win opportunity.

A strong brand profile can also help in gaining people's trust and commitment. Employees in target companies will be less concerned if they understand that you are a strategic, well-run organization, likely to provide better job opportunities. This will help reduce deal-related churn of the best talent within the target organization.

Nurture the merged corporate culture

Splicing two sets of "corporate DNA" together is usually painful and always a challenge. It can take years for two organizations to fully meld, but a proactive, innovative and engaging internal communications strategy that stimulates dynamic involvement can help accelerate this process.

Town hall meetings, regular exchanges from the C-suite and senior management, social initiatives and a useful and interactive Intranet site can all help. Content and format should be based upon the messaging developed in the management workshop previously discussed. Offsite meetings such as 'boot-camps' that are focused on team building away from the office environment, as well as innovative interaction-focused initiatives and social events are crucial to overcoming the "them and us" dynamic.

The internal communications strategy should also take into consideration the values and culture of the new organization post-transaction. You may not have all the answers prior to the deal but providing guidance on when they can expect answers can help moderate any disquiet.

Geely provided C-suite engagement to target employees when acquiring Volvo (2010)

When Geely entered the field to bid for Volvo, it faced competition from a number of other potential buyers, including the Crown consortium of America and Jakob consortium of Sweden, a domestic bidder.

There were a number of hurdles in Geely's path, including strong opposition from the worker's unions at Volvo, once the bid became public. In addition to the concern of job losses, they were concerned about Geely's ability to maintain salaries and benefits, and the company's ability to integrate Volvo's culture.

- In response, Geely Chairman Li Shufu personally visited Volvo's headquarters and had open discussions with representatives of the unions. Mr. Li also provided a written promise that he would not lay-off employees and that he would ensure their welfare.

- To provide further reassurance of Geely's capabilities, Mr. Li invited Swedish media and Volvo union representatives to visit Geely's headquarters in China.

Don't ignore the customers – retention is much cheaper than acquisition

Chinese buyers must remember to reassure target company customers by working with its management team to drive direct exchanges from line managers, detailing that there will be no interruption to services and highlighting the benefits the deal will bring for them.

This would again be addressed in the messaging workshop discussed earlier, after which a specific set of tailored messaging would be developed to provide comfort to customers, and to help them understand the benefits that they will enjoy as a result of the deal.

Similarly, partners of the target company will certainly comment on the deal within their circles. Solid milestone-focused communications from the CEO of the target company reassuring partners of intentions and business direction envisioned by the Chinese acquirer will help reduce negative market chatter.

Increase credibility and calm investors through transparent and consistent dialogue

Companies must seek to demonstrate transparency and strength in management systems through effective corporate and financial public relations and investor relations programs. This will likely take the form of clear and concise earnings press releases with some degree of explanation and breakdown, analyst calls hosted by management, quarterly earnings presentations and other core investor relations materials.

Investor relations communications should take place at multiple levels depending upon the make-up of the investor base. Retail investors on both sides of the deal will expect communication of deal rationale and the financial implications through a call with management and an informative section on the company's website with deal detail, FAQs, and a management presentation as a minimum. Using an interface such as YouTube to enable the CEO to deliver the messages personally is also becoming increasingly popular.

You must clearly justify the fair valuation of the target and underscore the key strengths of the offer, especially the synergies between the two groups, and emphasize the incremental strength of the combined post-transaction entity.

Sany commissioned cross-cultural advisory services when acquiring Putzmeister (2012)

In 2012 Chinese construction machinery manufacturer SANY Heavy Industry Co., Ltd. was looking to acquire a mid-sized German company and 'hidden champion' Putzmeister, the leading manufacturer of concrete pumps worldwide. The overall critical public opinion towards Chinese investors in Germany posed a serious threat to a successful completion of the transaction. MSLGROUP's CNC was mandated by Putzmeister to provide strategic advice and operational support with regard to all communication measures.

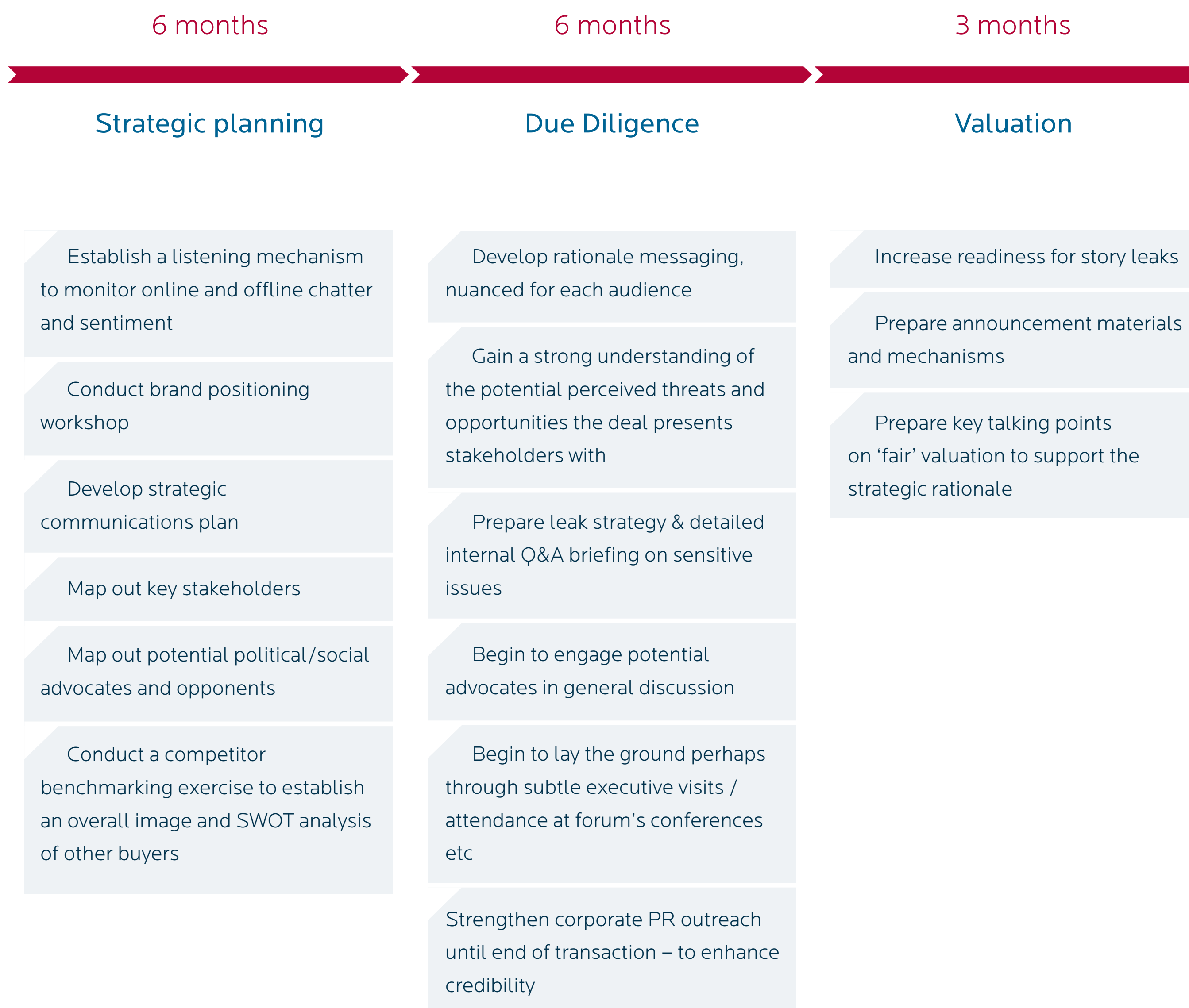
This was the largest Sino-German deal to-date, and it was taking place during a period when media was highly critical of the business and M&A deals coming from China.

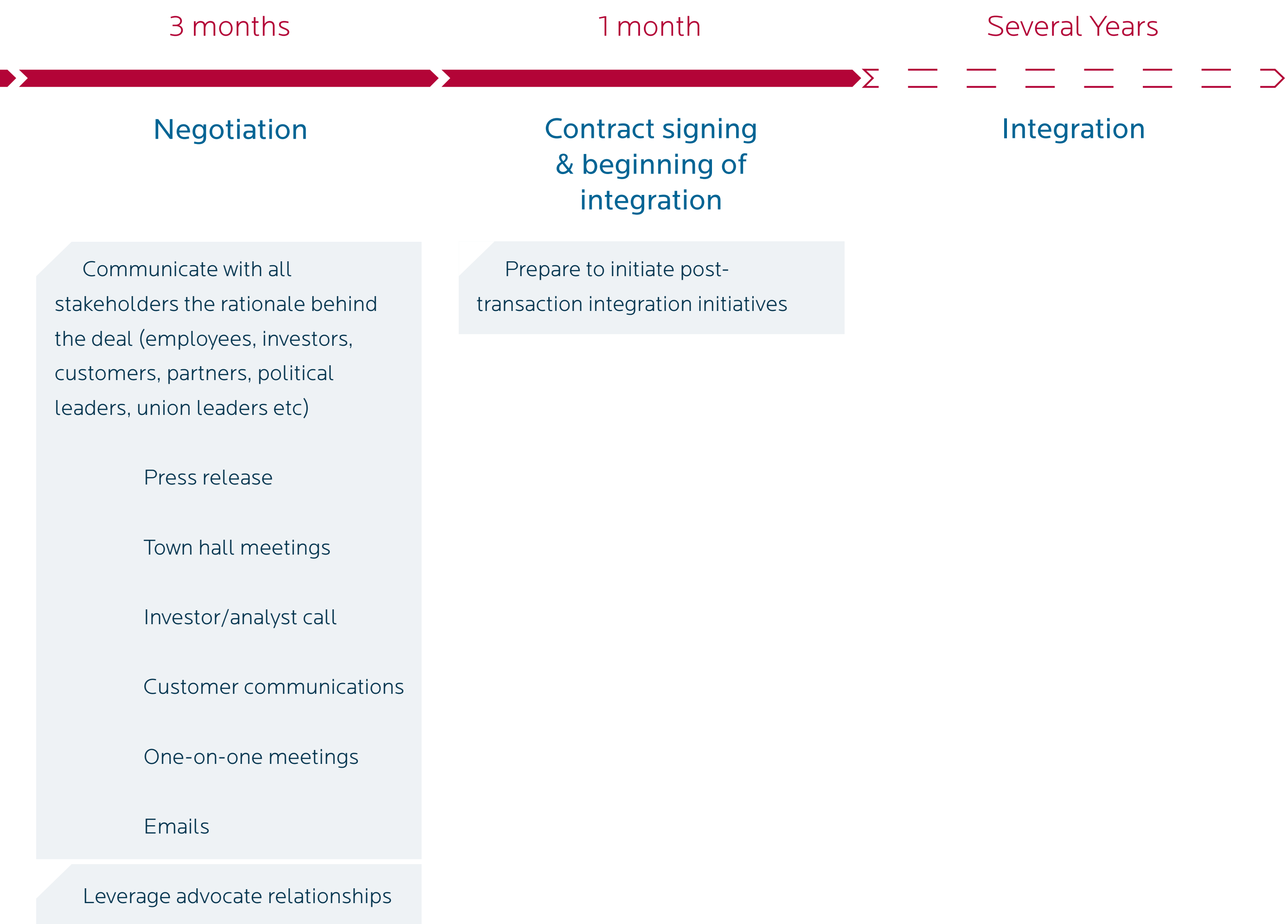
- Considering the potentially hostile environment, the management of Putzmeister knew that communications could heavily influence the outcome of the deal and worked with MSLGROUP's CNC to develop a comprehensive strategy and roll-out plan that was fully integrated within the deal timetable, incorporating seamless external and internal communications.

- Equally important, Putzmeister also recognized the need to bridge the cultural gap and mandated CNC to provide cross-cultural advisory services.

- Despite an unfavorable media environment, the largest Chinese-German transaction to that date was properly understood by the media and has been referenced to as a showcase transaction ever since.

Communications milestones during a deal




3 months
1 month
Several Years
Negotiation
Contract signing & beginning of integration
Integration
Communicate with all stakeholders the rationale behind the deal (employees, investors, customers, partners, political leaders, union leaders etc)
Press release
Town hall meetings
Investor/analyst call
Customer communications
One-on-one meetings
Emails
Leverage advocate relationships
Prepare to initiate post-transaction integration initiatives

Ten Crucial M&A Communications Considerations

1 Track and monitor all information

As an absolute minimum that should be done from day one, set up listening tools for both social and traditional media. By doing this you will catch any leaks as early as possible and be able to influence messages before they gather broad coverage. You should also map out key stakeholders and potential social and political advocates and opponents, and benchmark what competing bidders are saying. This will also enable you to gauge public and political sentiment to help mold your communications strategy.

2 Develop a comprehensive plan, including adverse crisis scenarios

Make sure your plan takes into account all stakeholders and their unique concerns and characteristics. Have in place a crisis communications manual to respond to an issue or crisis in a coordinated and effective manner, at the speed that social media demands. Be sure to include action steps and messages at least 100 days away from signing the deal, and also for the first 100 days after closing the deal.

3 Craft messages suitable for stakeholders

Every stakeholder group has its own set of concerns and characteristics. Unions and workers will have a different perspective and different levels of understanding to senior managers. Civil society and government leaders will have different expectations than shareholders. One set of messaging will not suffice. Yes, there must be consistency, but language and focus will vary by audience.

4 Prepare the ground

Familiarity fosters understanding. If you have a long term plan to acquire an entity or entities in a particular market region or segment, building a profile in key media will help people understand more about you and feel more comfortable when you eventually announce your bid for a specific entity.

5 Take a win-win position

Conduct in-depth analysis of the benefits you bring to the table, and always approach communications with a standpoint that the deal is good for both parties. It's wise to refer to the deal as 'fair value'. This will provide reassurance to employees within the target company as well as political opponents and critics.

6 Identify and engage influencers

Your stakeholder map will identify your supporters. It is wise to engage both advocates and opponents early. Subtly using advocates to push positive messaging, and taking the time to demonstrate to opponents that you are listening, that you have a clear win-win strategy and that you are trying to address their concerns will help reduce the heat in their arguments.

7 Leverage all available communication channels

Just as different stakeholders require different messaging, they also require bespoke forms of communication. Town hall meetings for employees, management calls with the investment community, direct emails and letters to customers, one-on-one meetings in some cases, and a microsite on the company website to tie it all together are some examples of the tools at your disposal.

8 Provide commitments and guarantees

Where you can, be open about what promises you can make in job security and plant locations. This addresses a concern that is at the core of all cross-border M&A transactions, but as this report demonstrates, it is a particularly strong concern when the buyer is Chinese.

9 Put a two-year plan in place for integration

The real hard work begins immediately after the deal closing party. The integration journey is often long and complex and requires a separate and comprehensive plan, complementary to your regular communications strategy.

10 Realize that communications is not just about media

Communications can make the difference between failure and success. Establishing rapport and building trust between the transaction working group of lawyers, bankers and the CEO can set the tone for the overall deal. Involve a communications advisor right at the beginning who can decode cross-cultural issues and guide you through the process.

Perspectives from Around the Globe

United States

Dancing but not yet in-step

The United States' economy is highly diversified, with strategic M&A activity across all major industries. While the economy has not fully rebounded from the global financial crisis, indicators point to a sustained recovery going forward. The U.S. exported over $110 billion in goods to China in 2012, while importing more than $425.5 billion that same year, according to the U.S. Census Bureau.

The US media tends to recognize Chinese companies as a growing force in the international marketplace, but remains skeptical of the trustworthiness of Chinese business and political organizations and leaders.

The U.S. and China are locked in a dynamic, mutually dependent economic embrace. In addition to the huge market the U.S. provides for goods manufactured in China, underpinning the economic vitality and job-creation platforms of much of the country, Chinese investment in U.S. Treasury bills underpins U.S. public sector spending. A rupture of this relationship would spark a crisis in both countries.

Chinese enterprises find the U.S. an attractive place to invest for a number of reasons:

- A U.S. brand is a vehicle for marketing made-in-China products more easily, with immediate benefits in terms of product reputation for quality, reliability, and value.
- U.S. businesses provide technical expertise and experience, accelerating opportunities for Chinese companies to transition from made-in-China to designed- or created- in-China.
- As Chinese companies accumulate large cash troves, the U.S. offers a long-term, stabile investment environment, with low political risk.

From a U.S. public opinion perspective, however, Chinese businesses looking for acquisitions and joint ventures in the U.S. face a number of challenges, headed by a growing sense of economic and strategic rivalry. Recent cyberattacks on American companies allegedly originating from China have led to increasing suspicion of the country. These cyberattacks reportedly have resulted in the loss of billions of dollars' worth of American intellectual property, according to the New York Times ("Obama and Xi try to avoid a cold war mentality" New York Times 6/9/2013). "American intelligence officials have indicated that cyberattacks ... are caused by the increasing desperation inside China to keep its economy growing at 7 or 8 percent a year," The Times wrote.

This view carries over to the political realm, where China is portrayed as an aggressive player, seeking influence on the world stage, especially in East Asia, Africa and Latin America. The U.S. and China eye each other warily over disputed territorial claims in the Pacific, as well as over concerns over approaches to dealing with North Korea's nuclear programs. ("Obama and Xi must Dispel U.S.-China Strategic Distrust" Bloomberg 6/5/2013).

US Media continue to lead opinions

The U.S. media landscape is highly competitive and far-reaching, with numerous top-tier publications on print, broadcast and online platforms. The media tend to recognize Chinese companies as a growing force in the international marketplace, but remain skeptical of the trustworthiness of Chinese business and political organizations and leaders. This skepticism runs parallel to a sense that top business leaders are closely tied to the government of China.

Recent examples of this point of view in mainstream media include:

- "It's typically advisable not to accept Chinese economic data at face value--as even the country's own premier will tell you. Figures on everything from inflation and industrial output to energy consumption and international trade often don't seem to gel with observation and sometimes struggle to stack up when compared with other indicators." ("How China Fudges its Numbers" Wall Street Journal (6/19/2013)
- "The scale and boldness of Chinese theft of U.S. corporate intellectual property, and incursions into commercial networks,

are shocking. Obama needs to make clear to Xi just how bad this larceny is." ("Obama and Xi must Dispel US-China Strategic Distrust" Bloomberg 6/5/2013)

In a recent high-profile and much discussed move, China's dominant sausage maker and pork processor, Shuanghui, bid $4.7 billion for Smithfield Foods, America's biggest pork producer. If completed, the deal would be the biggest takeover of an American company by a Chinese concern. The bid has raised questions regarding national security and food safety concerns, and is subject to a national security review by the Committee on Foreign Investment in the United States.

In a piece entitled "China's Pork Deal May Hinge on the Risk for an Uproar," The New York Times wrote:

"The Chinese have not done a bang-up job managing their food supply, and the recent, vivid images of 16,000 dead pigs in the Huangpu River is not great public relations for this acquisition. And let's face it, these days, the perceived foreign threat is often China. …

"Let's face it, these days, the perceived foreign threat is often China."

The New York Times

There is the possibility that the same kind of hysteria that drove Congress to act after the Dubai Ports deal may arise here. Adding to this mix is the fact that the committee [on foreign investment] has been focused on deals involving Chinese companies, even recently forcing the divestment of a Chinese deal for four United States windmill farms because they were too close to a military base. …

In the end, the biggest danger boils down to this "uproar risk." In other words, will there be a public outcry about China and food that leads the committee or Congress to act as something other than a neutral regulator?

For Smithfield, the hope is that clear thinking prevails." (5/30/2013)

At the same time, other Chinese companies have successfully crossed the Pacific and invested in thriving U.S. businesses. Wanxiang Group, the largest auto-parts maker in China and a supplier to Detroit Big Three carmakers, has quietly built a network of U.S.-based manufacturers, relying primarily on a strategy of "localization" where it does not intervene in the daily operations of its overseas subsidiaries and exercises control mainly by suggesting performance targets. All U.S. general managers and other senior officers are recruited locally and out of more than 4,000 employees, only 15 were from China ("Wanxiang Group: A Chinese Company's Global Strategy." Harvard Business School Case Study, 2008).

Chinese companies can learn from previous pain of Asian companies

Chinese companies are also in a position to draw on the experience of Japanese investors who stirred considerable anxiety in the U.S. in the late 1980s and early 1990s with high premium purchases of marquee U.S. properties, e.g., Rockefeller Center and the Pebble Beach Golf Course. Many of these investments produced returns well below expectations, weakening the appetite for further investment on the one hand, but also reducing fears of a Japanese business juggernaught.

A Chinese company looking to enter the U.S. market should be fully aware of this background, and how it would inform coverage of business initiatives here. Based on such solid intelligence, it can then develop a communications strategy for addressing key audiences in any transaction: investors, employees, public officials and regulators, and community leaders. With a thoughtfully developed and carefully executed plan, Chinese businesses can invest in American enterprises and enjoy the same success as other investors in the ever-more-connected global economy.

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Founded in 1970, Kekst and Company is a leading strategic, corporate, and financial communications firm headquartered in New York City. We are dedicated to providing extraordinary communications counsel and service to publicly-traded companies and private institutions around the world.

Brazil

Public demands respect of their own culture and sincerity

Brazil is the world's fifth largest country, both by geographical area and population, with over 193 million people. The Brazilian economy is the world's seventh largest by nominal GDP and by purchasing power parity, as of 2012. Brazil is a member of the BRIC group (Brazil, Russia, India, China). Economic reforms and its fast-growing economy have given the country new international recognition and influence.

Brazil is a large and complex market with healthy domestic industries, this presents both opportunities for foreign companies to enter the market but the local realities, especially complex state and federal policies, can be difficult to navigate.

The Brazilian GDP has shown signs of deceleration in recent months. Estimates are that growth in 2013 will reach no more than 3%, far below expectations. Although the unemployment rate is still very low, this may not remain the case if growth continues to slow. Inflation is also a constant problem, and is currently at the high end of the government's stated comfort level. This has resulted in interest rate levels, which are already very high by international standards, continuing to rise and other measures to limit price increase.

Some of Brazil's large industries include Energy (electricity, oil&gas, ethanol), Automobile, Agroindustry (around 30% of the GDP, including production and processing of products like soya, coffee, meat, poultry, pork meat, sugarcane), IT/Telecom, Electrical appliances, and finance.

Trade between China and Brazil almost doubled between 1990 and 1996 to reach $100 billion, and then more than doubled again over the next decade to $229 billion in 2006, doubling again over the next six years to $ 465 billion in 2012.

Financial challenges present opportunities for Chinese companies

In terms of general M&A activity, according to a recent study conducted by KPMG (M&A Outlook Survey), 2011 and 2012 were record years for M&A activity in Brazil, however, 2013 did not follow the same rhythm.

Due to Brazil's fast growing incomes, a consequence of low unemployment rate and increase in the minimum wage, a number of industries are expecting to show significant expansion over the next few years. This is especially true in businesses related to consumer consumption, including retail, consumer goods, and food and beverage.

Some of these industries and companies are facing financial challenges managing fast-growth and difficult competition, which could create opportunities for Chinese companies who want to buy at reasonable price, bring management and other resources and put companies back in stronger financial shape.

A recent study from KPMG showed that main areas of interest for M&A deals in Brazil in 2013 are software, IT, Health, Pharmaceuticals, Energy and Financial Services.

China missing expectations in Brazil

Total foreign trade (exports from Brazil + imports) increased ten-fold between 1996 and 2012. Exports and imports are almost of the same size. Since 2001 Brazil has a trade surplus (US$20 million in 2012).

China is usually portrayed as an economic partner that has not met expectations in Brazil. Large scale investments, partnerships and trade have been talked about for years, and though the levels have been increasing at rapid rates, there have been many unfulfilled initiatives, Brazilian government changes in regulations and policies, and trade and investment deals that have been significantly reduced or never materialized.

More low profile approach to China being seen from new government

During the Lula Presidency (2003-2010), there were more high profile public commitments about a close relationship with China

and economic deals. But in recent years the new government has taken a more low profile approach regarding China.

A constant theme amongst the media and business professionals around China include the lack of democracy, transparent economic systems and unfair practices or competition from state-run companies.

Despite these sentiments, recent announcements from Chinese groups such as Huawei, Foxxcon, Citic HIC, and JAC Motors have shown an increase in Brazilian investments and there may be a period in the near future where China's investments and Brazil partnerships are recognized.

Highly critical and progress focused media, siding with consumers

Print publications, TV channels, radio stations and websites are quite independent in Brazil. Following 21 years rule by military regimes and many battles between media and political figures, the Brazilian press are fiercely committed to their editorial and professional standards and reject influence from governments, companies or other stakeholders.

Journalists who cover finance and business in top tier media are typically very well educated, seek an immense about of information and pride themselves on critical reporting. They believe it is the duty of government and companies to be transparent and their job to ensure this standard is maintained.

In this way, often consumer rights and protection will take precedent above companies or government interests. The same is true when it comes to labor issues. Protecting consumers and workers becomes especially important when foreign companies are deemed to have been in the wrong and this can be challenging to deal with.

Brazil as a country is very open to foreign investment, cultures and is a very diverse nation itself. While there is a very open attitude towards investment, imports are tightly controlled and face many barriers including high tariffs (100%+) and other restrictions.

Typical concerns amongst influencers and the media about China include stories about the large gap between Chinese business culture and Brazilian culture, and the challenges this can create in leadership, communication and more. Chinese companies are also, generally speaking, perceived to be producers of mass goods and of lower quality compared to those from the U.S. or Europe. There also exists suspicion about the quality of technology and innovations claimed, and whether these are truly Chinese technologies or those borrowed from others.

Regular and transparent communications crucial for Chinese companies to effectively compete in M&A bidding

In order to effectively compete with other foreign investors who do spend a great deal of time and energy communicating with Brazilians, Chinese companies must become more active in their communications in Brazil, and they must address concerns about their intentions and investments.

There needs to be transparency and engagement with all corporate stakeholders, especially employees. Given the pro labor policies and media in Brazil, this can be an especially challenging area for foreign investors.

In Brazil we are very welcoming and open to foreign companies and people, however to build and maintain trust, multinational companies must actively communicate and deliver upon their commitments.

Engage the media by sharing future plans, while being very sincere and specific about what will be delivered. Brazilian media will check your progress and so it is important to provide them with regular updates and engagement as the business develops.

Embrace "Brazilian" culture and adapt. Brazilians treat foreigners well, but they love their own culture. From company leadership to communications styles and sensitivities, it's important for Chinese companies to build local relationships, adapt and become more Brazilian with their businesses in this market.

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Founded in 1993, MSLGROUP Andreoli Brasil provides consumer PR, corporate communications strategy, public affairs and crisis management for major clients including Sodexo, Hydro, OHL, BlackRock, Danone, Royal Bank of Scotland and Louis Dreyfus. As well as being a leading player in Brazil's dynamic communications market, São Paulo-based Andreoli Brasil is also the hub agency for MSLGROUP's network of 14 affiliated agencies across Latin America and Central America.

Germany

Valued partner but prejudices remain

Germany is the fourth largest economy in the world with a gross domestic product of about $3.4 trillion. By value, it is the third-largest export country reaching $1.4 trillion, and one of the major import countries with $1.2 trillion (2012 numbers). The country managed well through the European financial and economic crisis during the last years. GDP growth is expected to be 0.5% in 2013, and 1.6% next year.

Today, Germany is Europe's most industrialized nation with major players in industries like engineering, machinery and equipment, automotive and aerospace, chemical industry, (renewable) energy and environmental technology, electronics, medical and pharmaceutical technology, logistics and many others.

Strong relations between China and Germany

Due to its export orientation, Germany has a particular interest in establishing and developing close and sustainable political and economic relations with China as one of the fastest growing markets in Asia. Germany and China maintain a strategic partnership. Bilateral relations are close, including at the highest political level. Since 2011, the Chinese and the German governments have institutionalised regular intergovernmental consultations in order to foster dialogue between the two countries.

When Li Keqiang, the new Prime Minister of China, visited Germany in May 2013, both governments officially emphasised again that they would cooperate closely in economic matters. Premier Li said:

"'Made in China' is still in the making while 'Made in Germany' is mature. If we combine both in an optimal way, a new perfect match will evolve."

Germany is generally open to Chinese investors.

The German government actively fosters foreign investment from China. Federal Minister of Economics and Technology Dr. Philipp Rösler stressed in 2012 that "Chinese foreign investments are very welcome".

Trade statistics reflect the strategic partnership between China and Germany. In 2012, Germany exported $87 billion in goods to China, while importing $101 billion. Chinese foreign direct investments in Germany amounted to $1.1 billion in 2010. In 2012, China became the third-largest foreign investor in Germany in terms of the number of projects (about 100), and reached $626 million. This figure is expected to increase to more than $2 billion in 2020.

Germany remains a highly attractive investment opportunity for China

The backbone of Germany's economy is the "Mittelstand" – small and medium enterprises which employ about 80% of the workforce and generate more than 37% of industrial turnover. These companies – often family-owned businesses which are market leaders and hidden champions in their industry niche, are one of the main reasons for Germany's economic success.

Due to their high degree of innovation, their strong and often global brand presence as well as their position in the global market, these businesses in particular have become very attractive acquisition or joint venture targets for Chinese companies - offering great opportunities for both sides in order to stay competitive in a more and more dynamic world economy.

Against the background of intensified trade and business relations between Germany and China and the further strengthening of the political ties between the governments, a further rise in acquisition activities by Chinese companies in Germany is expected.

China and Chinese companies in German media: An ambivalent picture

China is generally covered in a rather ambivalent way in German media, sometimes exposed to misunderstandings due to cultural differences. On the one hand, China is portrayed as a strong and valuable international partner that can help Germany to maintain its economic success and welfare. On the other hand, China is depicted as the "big unknown", the new superpower with a global claim to supremacy which could potentially threaten our world in Europe.

Prejudices still exist and Chinese investors are often perceived in a skeptical manner.

"China scares. Espionage. The hunt for raw materials. Armament. How threatening is it?" (Focus title, March 2013)

"The new colonial power is called China, it does not use warships, but its foreign currency reserves which amount to $3.3 billion." (Der Stern, April 2013)

These issues are also reflected in media coverage on Chinese companies and on Chinese acquisition activities. Chinese companies doing business or investing in Germany are very often observed critically and with skepticism. They are confronted with a diffuse fear that selling to the Chinese is something like a buyout of German knowledge and interests, leading to a loss of know-how, stronger competitors, job cuts in Germany, and more espionage by Chinese companies.

"In acquisitions, German managers often fear the loss of know-how to China while the employees tremble from fear of losing their jobs, because their Chinese counterparts work for lower wages." (Handelsblatt, May 2013)

"No one plunders other countries' intellectual property like China does." (Focus, March 2013)

But over the last years, German media have also started to highlight the positive aspects of Chinese companies coming to Germany:

"We need Chinese investors in Germany, because they have what we need: capital." (manager magazin, May 2013)

"In contrast to what is often assumed, Chinese investors are long-term orientated. They do not just take the technology and go back to China, but enter into sustainable cooperation with their acquired companies." (dpa, March 2013)

Recommendations for Chinese companies investing in Germany

When Chinese companies enter the German market, they are initially met by suspicion and skepticism. In order to manage a positive perception, any business activity or market entry of Chinese companies should be accompanied by strategically sound communications towards the media and, indeed, all other relevant stakeholder groups.

A strategic communications approach is necessary, tailor-made for the German market.

Professional communications is key to reaching the objective: Positive messages decreasing prejudices and establishing confidence, leading to increased transaction security and an appropriate transaction price without the "Chinese premium".

CNC has experience in developing comprehensive communications strategies for Chinese companies investing in Germany, and can help them to succeed in any investment project.

Based on our experiences within a number of Sino-German projects, CNC has developed a comprehensive communications practice for Chinese companies investing in Germany, taking into account the business-related, the political, and the cultural implications of any given transaction.

"Made in China" is still in the making while "Made in Germany" is mature. If we combine both in an optimal way, a new perfect match will evolve.

Some vital recommendations should be taken into account by Chinese companies for successful communications in the context of a market entry in Germany:

- Carry out a reputational due diligence analysis first in order to know how you are perceived in the business community, in the media, and in politics
- Develop a convincing narrative which is tailored to the specific industry and which takes into account local circumstances and expectations of the different stakeholder groups
- Know the positions, interests, and orientation of the German media community relevant for your case
- Be aware of the specific rules of Germany's "social market economy", which attaches great importance to solidarity - resulting in a strong position of labor unions
- Begin early to inform relevant political decision makers and regulators while accounting for the peculiarities of German federalism
- Identify and activate alliance partners and third-party endorsers that could add extra momentum to your case by voicing their opinion in a neutral way
- Accompany the whole transaction process on the basis of a well thought-out strategy reaching out to all relevant stakeholder groups in due time, including the often neglected post-merger integration process

Applying these recommendations will help Chinese businesses to succeed in any investment project in Germany.

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CNC – Communications & Network Consulting AG

Founded in 2002, CNC is a leading strategic consultancy specialised in communications. Headquartered in Germany and with an international presence, CNC provides corporate communications, financial communications, and public affairs counsel to corporate and individual clients from all industries. CNC has a long track record in cross-border M&A transactions, with a focus on all stakeholders and subsequent post-merger integrations.

CNC acted as communications advisor in the acquisition of the German machinery manufacturer Putzmeister by Chinese Sany Group in 2012. In addition, CNC has been strategic communications advisor for Huawei Germany since 2011, and has worked for the Chinese Embassy in Germany in the context of the "Year of Chinese Culture in Germany 2012".

France

Open for business

“We are ready to welcome more Chinese investment in France.”

That’s the invitation French President François Hollande conveyed to his Chinese hosts during his visit to Beijing on April 25, 2013, although he cautiously added “investments that create jobs.” Nevertheless the French government can hardly be choosy today in a midst of one of its most serious economic crisis in decades. Also, the recent “Dailymotion scenario” in which Arnaud Montebourg, the Minister of Productive Recovery, brutally put an end to discussions with Yahoo! to prevent one of the best French start-ups “from passing into foreign hands”. That’s exactly what many foreign investors in France, whatever their nationality, dread: a French public strongly antagonistic and even more from politicians trying to perpetuate a persistent sentiment of French exception and a superiority complex which nowadays tends to be proven.

France welcomes more Chinese investment in France, especially investments that create jobs.

So should Chinese investors be even more cautious than others before investing in France? Well not really…They should, for sure, do their math and superior due diligence before any M&A transaction but should also take into consideration a stream of favorable trends they should be able to take advantage of: (i) a strong political willingness to rebalance trade between the two countries, and (ii) an economic necessity for France to tie in Chinese investors and stakeholders with French business world – large and small enterprises – in order to develop business and create jobs.

Strong political willingness to rebalance trade and an economic necessity for France to tie Chinese investors into the business world are trends favoring Chinese investments.

French media and the general public will eventually follow in acceptance and get it when they let down the false pretense of Chinese investments trying to loot French technology and acknowledge the importance of carrying through a realpolitik-based relationship, simply far from immoderate passion and even more far from paranoid rejection!

Three-quarters of the trade between the countries is in favor of China: in the last decade some one thousand French companies have invested over $13 billion in China, while Chinese investments in France tended to be more discreet. In 2011, France was the first European investor in China, but only came third for Chinese investors in Europe behind Germany and the United Kingdom.

China is the 8th largest source country of foreign investment in France, with around 200 Chinese companies setting up subsidiaries located in France, employing around 9,000 people. Figures which are all the more spectacular given Chinese companies in France were nearly non-existent just ten years ago. Today, Lenovo has its European headquarters in France and Yonyou, a major software company in China, formed a joint-venture with Atos in 2011. And

lately it's all about Fosun. This Chinese conglomerate took an almost 10 percent stake in Club Med and, together with private equity fund Axa Private Equity, launched a friendly takeover bid of the tourism group.

Spurring Chinese investments in France, in September 2012, Caisse des Dépôts, sort of French sovereign fund, launched in partnership with the China Development Bank (CDB) a Franco-Chinese fund of 150 million Euros to support the international growth of SMEs between the two countries with investments ranging from 5 to 15 million Euros. A fund managed by Cathay Capital, a Franco-Chinese management, founded by Mingpo Cai, former head of Seb in China, and Edouard Moinet, a former partner of Siparex private equity firm.

Another remarkable move towards Chinese investors, the Invest in France Agency opened a third office in China last year, in Beijing, in addition to its existing offices in Shanghai and Hong Kong.

One clear goal is to diversify Chinese investments from those originally focused on natural resources to more industry and services.

Chinese entrepreneurs seeking opportunities

In June 30 this year, major Chinese bosses, members of the China Entrepreneur Club (CEC), landed in Paris and Brussels and met with Francois Hollande and the Foreign Minister Laurent Fabius, but also with heads of large French companies such as Dassault, Schneider Electric, BNP Paribas, Cartier and Chanel. In Brussels, they saw the President of the European Commission José Manuel Barroso, Prime Minister Elio Di Rupo and Crown Prince Philippe. The combined worth of this delegation weighed between 4 and 5 percent of Chinese GDP. In 2012, the total turnover by 46 entrepreneurs CEC amounted to 2000 billion Yuan (245 billion Euros). Founded in 2006, membership of the China Entrepreneur Club is limited to the most influential business leaders in China such as Liu Chuanzhi (Lenovo) and Charles Chao (Sina).

Until recently, enlarging the Chinese economy abroad was mainly led by state-owned groups (CIC took in late 2011 a 30 percent stake in the exploration and production arm of GDF Suez for 2.3 billion Euros) but now the private sector is ready to expand and this delegation is another testament of their willingness to take the French-Chinese relationship to a higher level. One clear goal is to diversify Chinese investments from those originally focused on natural resources to more industry and services.

And wine is no exception. The vineyards of Gevrey-Chambertin in Burgundy fell (after 25 properties in Bordeaux) for 8 million Euros into the hands of the owner of Macau casinos.

Optimists and pragmatists jockey for visibility

Skepticism about a balanced trade relationship between France and China still persists in the minds of the French public and media. Sentiments of less enthusiastic general press journalists or trade unions could be read in the highly respected daily Le Monde, "Chinese investments in France, should we fear them or wish for them?"

"The French now have to dispose of a certain naivety against the Chinese. They are attracted by the Chinese stance for cooperation, which in reality often masks a desire for power and quick profits. And they are confused by the constant collusion in China between political authorities and businesses, which is contrary to their conception of what a liberal economy should be. It's time for Europe to reform its law to preserve risks of some Chinese investments and retain only those that will be beneficial. It could take as an example the Chinese law whose priority is always the protection of the interests of China. Otherwise, there is concern that the active assets and heritage of Europe will turn into Chinese hands, without any profit to Europeans."

Yet, optimists and pragmatists voices prevail: The Ambassador Wu Jianmin said "the French side may bring innovation and the Chinese side the capital. This forms a beautiful couple! "

And Denis Ferrand, CEO of Rexecode, "the main growth driver for CAC 40 groups is surely now in emerging markets and China than in France."

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Based in Paris and operating across the country, Publicis Consultants teams work with clients from all sectors. Expertise ranges from employer branding to change communications, financial and corporate communications, public affairs, social media and events. The teams have won a number of major awards in the last year for clients such as GDF-SUEZ, Carrefour, Groupe TF1 and Société Générale.

The Nordics

Preserving the Nordic model

The Nordic countries, henceforth referred to as the Nordics, comprise of Denmark, Finland, Iceland, Norway and Sweden as well as their associated territories, such as Greenland and Svalbard. Aggregate GDP in 2012 was US$1.17 trillion, accounting for around ten percent of total European Union GDP. Major industries include motor vehicles, forestry, hydroelectric power, fisheries, telecommunications, pharmaceuticals, chemical goods, iron and steel.

China is the Nordic countries' largest Asian trading partner, with which the Nordics have a sizeable trade deficit. For example, China was both Denmark's and Norway's third largest trade partner in terms of imports in 2012, but only the tenth largest trade partner for exports. China constitutes one of the largest foreign investors in the Nordics. In 2012, a Bank of China office opened in Sweden to serve the Nordic market, and they report that they have seen a surge in demand from Chinese investors.

Chinese investors need to understand the special nature of the Nordic model to succeed.

The Nordics have stable political and diplomatic relations with China, recognizing the importance of the Chinese economy. Yet, public and political concerns over, as well as criticism of, Chinese human rights abuses are relatively common, with extensive press coverage on events in Tibet and Xinjiang for example.

Chinese outbound investments in the Nordics are expected to keep increasing.

Public wary of Chinese motives

The Nordic media landscape is diverse. News spread through a variety of channels, with social media becoming increasingly important. Media sentiment about Chinese acquisitions is often skeptical, questioning the motives and rationale for Chinese investors. Moreover, numerous critical articles on the work environment for factory workers in mainland China have exacerbated the distrustful views of Chinese investors.

Nordic media often depict a negative image of Chinese investors, questioning motives as well as work conditions and rights of employees.

Sweden

When Chinese carmaker Geely acquired Volvo Car Corporation in 2010, concerns were voiced from various stakeholders; trade unions feared job losses as well as worsened conditions for the employees and the public feared that the "Swedishness" of the Volvo Car Corporation brand would be lost. Many people associate Chinese goods with poor quality, and Swedes therefore expressed worry concerning Chinese investors being in charge of a brand that had been representing high quality products.

"If China is to take a leap from being the rich world's dirty workshop to become an economic superpower, it needs to learn to understand all components of the complex system that is an international company." Affärsvärlden (major business weekly), March 2010

Openness and transparency are key in the communication with stakeholders.

Norway

Awilco Offshore ASA, a Norwegian offshore drilling and accommodation service company, was acquired by China Oilfield Services in 2008. A common perception, in the Nordics as well as internationally, of Chinese acquisitions that are related to natural resources is that China wishes to "lay its hands on the world's resources" in a close to imperial manner. The Nordic countries, all of which are small economies with limited political powers, are particularly wary of Chinese investors acquiring their natural resources, as they fear that this may further undermine their power.

"China's thirst for large overseas oil companies - and for resources to feed its booming economy - ..." The New York Times, July, 2007

Nordic public finds it difficult to differentiate between whether an acquisition is motivated by political or business objectives.

Furthermore, China Bluestar Group, a subsidiary of Sinochem, acquired Elkem AS, a leading company for environment-friendly production of materials, in 2011. There was a delay in the acquisition, and many newspapers reported that the delay was due to Chinese opposition to the Nobel peace prize being awarded to a Chinese human rights activist. Even though the rumors may have been unfounded, they nonetheless shed a negative light on Chinese investors, exacerbating the public view that the Chinese government is authoritarian.

Iceland

In the past couple of years, there has been much debate over a Chinese billionaire hoping to set up a luxurious resort in a remote part of Iceland, at an expected cost of more than US$100 million. Icelandic politicians and citizens have been skeptical of the plans, arguing that the investment may be a geopolitical move or a way of securing natural resources by gaining a foothold for future deep-water drilling. Generally, as delineated in this case, the Nordic public finds it difficult to differentiate between whether an acquisition is motivated by political or business objectives.

Clear investment rationale will help allay concerns

As has been illustrated above, Chinese investments are often viewed differently than investments made by other nationals. Recommendations for Chinese companies entering, or looking to acquire local companies already in, the Nordic market are similar to the guidelines already expressed in the MSLGROUP whitepaper "Leveling the M&A Playing Field".

While it is indeed important to perform reputational due diligence analysis as well as developing a convincing narrative, it is also crucial to understand the nature of the Nordic Model. Trade unions are particularly important stakeholders, with which effective communication is essential for Chinese outbound M&A to be successful.

An important reason for why the Nordics are hesitant to embrace Chinese investors is the fear of disadvantageous organizational changes and worsened workers' rights following an acquisition. Chinese investors may counter these sentiments by communicating a clear rationale for investment.

Chinese investments in the Nordic countries are already extensive, and are expected to increase further. Current Nordic sentiments should not discourage Chinese investors. Rather, the Chinese investor who communicates effectively will have a great advantage over their competitors.

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JKL Group is the Nordic region's leading strategic communication advisor. We counsel management groups from a number of industries on how communication can contribute to reaching business goals. Our clients approach us for advice on issues such as financial communication, IPOs, crisis management, media relations, public affairs, and lobbying.

The United Kingdom

Thaws in the diplomatic deep-freeze

The United Kingdom (UK), made up of England, Scotland, Wales and Northern Ireland, is the world's sixth-largest economy by GDP, and the third largest in Europe.

After being the first country to industralise in the 18th century, the UK continued to play a dominate role in global business throughout the 19th century. Following the Second World War the UK suffered economic hardship and underperformance through to the 1980's, at which point huge changes were made in it's economic policy. The financial markets were deregulated, taxes loweres and nearly all state enterprises and infrastructure was privatised, giving rise to global leaders such as BT, Centrica, and BP.

For the past 20 years, London the capital city, has battled New York to claim the crown of being the world's largest financial centre. Despite the financial crisis, The City of London remains at the heart of the UK economy. Aside from the financial services sector, the UK's major industries include aerospace, manufacturing, pharmaceuticals, and energy.

Adaptability: The UK has a proven history of adapting and rising to the challenges of an ever changing business environment.

UK exports hit $1 billion despite deep-freeze

The UK has a long established trading relationship with China. However, over recent years, the UK has been locked out of growing its trading relationship with China due to political disagreement. Since David Cameron met with the Dalai Lama in 2012, many believe that the UK government has been in China's diplomatic deep-freeze, and as a consequence, in contrast to Germany and France, the UK has suffered and has failed to significantly increase exports to China.

That said, 2013 saw UK monthly exports to China hit $1 billion for the first time and, since January 2012, China has risen from 9th to 7th in the UK's most important export markets by value. Many believe that the 'deep freeze' is beginning to thaw. The People's Daily recently commented; "Maybe the differences between China and the UK on human rights and other issues are hard to overcome in the short term, but the key is how to ensure these differences don't influence the overall development of bilateral relations."

The relationship and demand for British goods continues to rise and in 2012 Chinese imports from the UK increased 15.5 per cent, more than the 8.8 per cent rise in imports from the US or the 0.4 per cent increase in imports from the EU as a whole.

Global: The UK has a global economic and business outlook and is increasingly open for business to China.

The UK public remains both skeptical and concerned by the rise and dominance of China. This opinion has been developed based on two levels of misunderstanding. Firstly, there is a level of mistrust from a consumer perspective, with many believing that 'Made in China' equates to poor quality design and construction, whilst there are wider concerns about human rights and Chinese employee welfare.

From business and political perspectives, many see China as a threat due to its unprecedented economic success. There are frequent claims that Chinese businesses benefit from China's refusal to play by global economic rules and regulation, and subsequently acquire established Western corporate success stories and brands at knock down prices.

Critical: UK media are amongst the most skeptical in the world. 9 out of 10 stories are classed as negative.

These concerns are often reflected in the UK media's sentiment towards China. Leading publications from the Financial Times to The Economist have questioned China's end objective and called upon the UK Governement and businesses to resist the temptation of take overs. As the influential London daily newspaper, The Evening Standard, commented following the Sunseeker acquisition by Dalian Wanda; 'Are we wise to be selling so many of our firms to foreigners?'

Prejudice: The UK's public and business community remain both skeptical and somewhat prejudiced against China.

Britains reserve the right to say no

Whilst the UK is somewhat skeptical and prejudiced against Chinese businesses, products and politics, trust and understanding is increasing. The UK understands and appreciates that China will most likely become the world's biggest and most important economy. Chinese ties and investment in the UK will continue to increase.

Communication: The UK operates and encourages open communications. The more open a business is, the more likely it is to succeed

In order for these ties to grow, and for investment to be successful, Chinese organisations and companies need to better explain their rationale for investment and their wider role in society, both in the UK and beyond. UK consumers and businesses welcome inward investment from overseas, yet they welcome it on their terms. Britain may no longer be a superpower, but it reserves the right to say no. Recent consumer campaigns against US companies including Google, Starbucks and Amazon, who were revealed as failing to pay adequate levels of UK Corporation Tax, serves to highlight that the UK public and media refuse to turn a blind eye to what they see as unseemly conduct by those from abroad.

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Capital MSL is an international corporate and financial communications consultancy. The firm offers corporate and financial public relations, investor relations, transaction support and talent communications to a range of ambitious, international companies. We are a trusted advisor to many of the world's leading businesses, governments and financial institutions - often during critical stages in their development.

Japan

A strained relationship with a complementary future

Japan's economy remains by far the third-largest economy of the world after it has been recently taken over in size by China. Following the change in towards the Abe government in late 2012, Japan has embarked on a growth track that is expected to be sustainable in the midterm.

China is Japan's No. 1 export and import market. Japan exported over $144 billion in goods to China in 2012. The same year, Japan imported more than $189 billion from China, a figure exceeding Japan's combined imports from the United States and the European Union.

Japan and China are mutually dependent by intensive trade and investment flows.

Japan and China are locked in a dynamic, mutually dependent relationship that is best described as a mixture of rivalry and complementary. As trade statistics indicate both countries depend on the other as highly important markets for their goods, where Japan provides massive capital good exports to China in exchange for mainly food and consumer goods from China.

Investment flows between both countries are likewise important and ever growing. While overall foreign direct investment into China in 2012 declined by 3.7%, Japanese investors bucked this trend. In 2012, companies from Japan increased their investment into China by 16.3% year-on-year making up a substantial part of the overall investment figure of $112 billion.

Chinese companies have likewise steadily increased their investment into Japan over the last couple of years. In 2010, Chinese firms purchased 37 Japanese companies and thus exceeded deals by U.S. firms for the first time in history.

Chinese investment motifs in Japan are rather straightforward: Technology, Brand, Expertise.

Chinese companies find Japan an attractive place to invest mainly for three reasons:

- Gain technology: Japanese manufacturers are global market leaders in terms of technology and still several years ahead of most of their Chinese competitors
- Acquire brands: Japanese brands are well-known around the world including a high reputation for quality, very different from most Chinese brands
- Increase expertise: Japanese companies do not only feature a decade-long expertise in all aspects of the value chain including distribution, they also have highly skilled engineers and other experts not available yet in China

Rising labor costs and lower margins at home force Chinese companies to move rapidly towards higher value-added activities

and accelerated internationalization. Japanese firms have a lot to offer in this regard with their superior technology, established world-famous brands and global distribution channels plus their skilled people.

The following past deals that attracted most public attention fall into above mentioned categories:

- Lenovo's joint venture with NEC in the area of personal computers
- Haier's purchase of Panasonic's household appliance unit
- Hon Hai's investment into Sharp
- Sunning Appliance's acquisition of electronics retailer Laox

Despite these high-profile examples actual Chinese investment in Japan is still low. Single investment values rarely exceed $100 million. This is in striking contrast to Chinese FDI in other developed countries that often reaches or exceeds $1 billion per deal.

Main reason is the historically strained relationship between China and Japan that still leads to political frictions between both countries. These frictions continue to heavily influence the general stance of the Japanese public versus China and Chinese investors.

A BBC survey in May 2013 revealed that only 5% of Japanese have a positive view of China, by far the lowest among 25 polled countries. This general view and public opinion translates into additional hurdles for Chinese businesses looking for acquisitions and joint ventures in Japan.

In spring 2013, the public broadcaster NHK aired a 3-part TV program titled "Made in Japan" on the survival struggle of a Japanese electronics company. While being purely fictional this drama depicted the harsh reality of major Japanese electronics firms amid growing competition from China. The drama showed how a Chinese firm deliberately lured away key engineers from Japan and later planned a take-over of its Japanese counterpart.

This example reflects the general uneasiness of Japan's public versus products but also investments from China. In general, the Japanese media is known for being very fact-oriented and mainly taking a neutral stance in its reporting. Over the last two years, however, there have been also many general newspaper articles describing the recent rise of Chinese real estate investments in Japan with an underlying negative sub tone.

"Overcoming China tensions key for Japan Inc."

Nihon Keizai Shimbun (20 May 2013)

" China Muscles Way into Bidding for Elpida"

Nihon Keizai Shimbun (1 May 2012)

Japanese business media is usually referring to foreign investment in a rather neutral or even positive way. There have been, however, also examples of negative connotations. The Nikkei, for example, titled "China Muscles Way into Bidding for Elpida" on 1 May 2012, when a Chinese investment fund emerged as a major contender to become the failed Japanese memory chipmaker's sponsor. The same article even concluded that an acquisition of Elpida by a Chinese fund could "spur a collapse of the Japanese electronics industry", quoting a METI official.

"Friction as China Clout Grows in Japan"

Wallstreet Journal (5 August 2012)

Any Chinese company looking to enter the Japanese market should be fully aware of this background. It needs to develop a solid communications strategy addressing the various issues of different key audiences and stakeholders well ahead of the actual investment. This includes a carefully developed and executed media plan. Taking into account the specific environment and obstacles in Japan and strategically tying up with potential allies Chinese business can successfully invest in Japan and further propel their internationalization drive also in this country.

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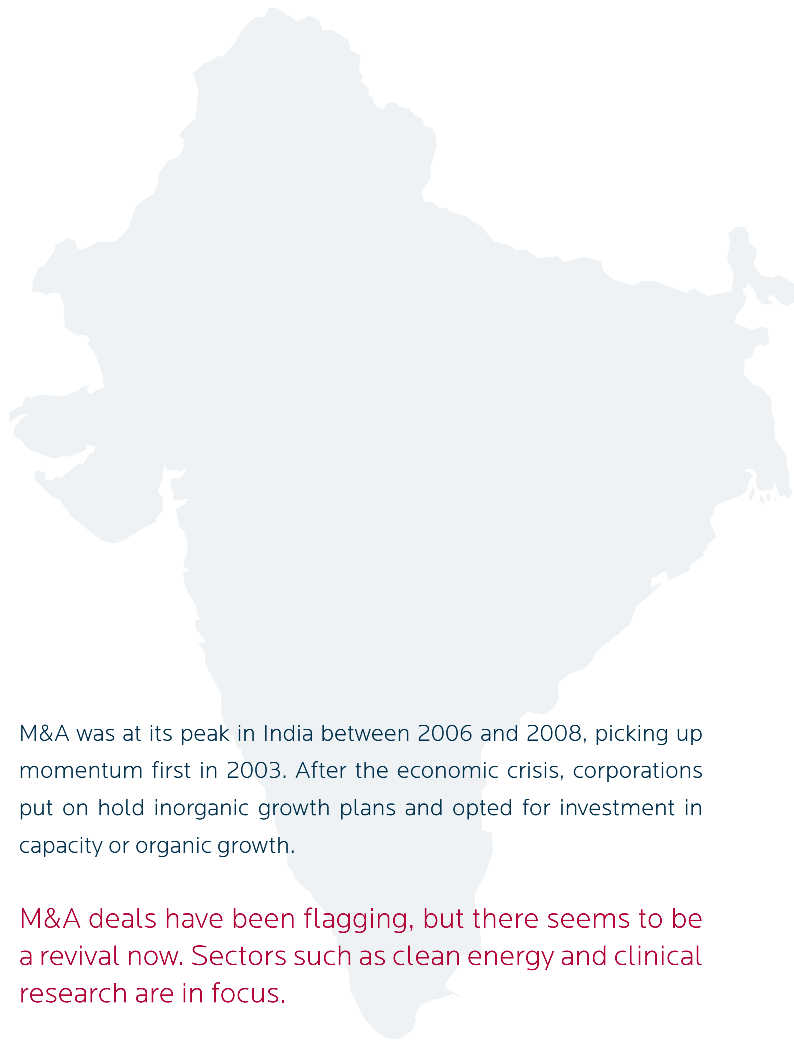
Founded in 2002, CNC is a leading strategic consultancy specialized in communications headquartered in Germany. CNC provides corporate communications, financial communications, and public affairs counsel to corporate and individual clients from all industries. CNC's Tokyo office was opened in 2004. Since then has established a strong track record providing communications advice and service with a focus on cross-border issues to nearly 100 clients.

India



Progress requires patience

While India is still among the fastest growing economies in the world, growth has slowed to decade's low of 5%. The GDP is valued at $1.824 trillion (nominal) and the major components of the economy are agriculture (15.7% of GDP), services (55% of GDP) and industry (28%of GDP).

Growth is slowing, yet India is among the fastest growing economies in the world.

India-China trade in goods for 2012 stood at $66.57 billion, recording a decline of almost 10%. This decline in overall bilateral trade can be attributed to decline in both India's exports to China (@20%) and India's imports from China (@5%). Commodity-wise, bilateral trade was dominated by reactors, boilers, machinery, etc; electric machinery, sound equipment, etc; organic chemicals; ores and cotton. India's exports to China for 2012 reached US$18.8 billion, recording a decline of more almost 20% y-o-y whereas imports touched a total of $47.75 billion, recording a decline of more than 5% over the figure for 2011. Trade deficit for India for Jan-Oct, 2012 stood at $29 billion.

In 2012, India was the 15th largest trading partner of China with a share of 1.72% in China's overall trade, recording a decline of almost 10% y-o-y; 7th largest export destination for China, comprising a share of 2.33% of overall Chinese exports and 19th among the countries exporting to China with a share of 1.1% in overall imports by China.

M&A was at its peak in India between 2006 and 2008, picking up momentum first in 2003. After the economic crisis, corporations put on hold inorganic growth plans and opted for investment in capacity or organic growth.

M&A deals have been flagging, but there seems to be a revival now. Sectors such as clean energy and clinical research are in focus.

However, we are again seeing a revival of interest in M&A. Large-cap players are acquiring firms in the technology, software, clean energy, etc, spaces. Among start-ups, clean energy, software, telecom and data analytics are the favourites. Indian firms are focusing on firms in countries like Malaysia, Thailand and South Africa. The West is not very attractive.

Many European and Japanese firms are buying attractive Indian firms in unconventional sectors such as polymers, engineering (fibreglass, for instance), clinical research and auto ancillaries.

Focused, strategic deals are expected, rather than hostile bids or bidding wars. Asian buyers, including from China, are looking to India. However, completing the transactions is troublesome due to regulatory issues and red tape.

Chinese firms entering India will not have it easy as the two countries share a tense relationship. There will be regulatory hurdles and public suspicion.

China is viewed with suspicion by both the general public and in political circles. This is a legacy of the war fought with China and

also because of China's claims on Indian territory. In terms of trade, China is associated with cheap, low-quality goods that are not very reliable. However, Chinese goods sell in large volumes because of the low prices.

China considered the biggest economic rival in the region

India is one of the largest media markets in the world with more than 82,000 print publications in over 100 languages including English. Hindi is the most popular language with 32,000 publications followed by English (11,400) and Urdu (3,000). There are more than 575 TV channels in English and in several regional languages. Traditional media dominate the media landscape but internet media is catching up.

China is viewed as India's greatest regional rival and the centre of much regional tension and this is reflected in the media. All media recognise that China is a major story and many are setting up bureaux there to ensure better coverage. Media consumers too are increasingly interested in China. Some headlines:

'Chinese daily warns India against 'petty burglars' of Japan' – The Times of India, May 29

'China plays down border frictions with India' – The Times of India, May 16

'Chinese firewall blanks out Tiananmen anniversary' – The Times of India, June

Senior engagment will open doors

Spend a lot of time engaging influencers and decision makers in government. You need a very strong media engagement strategy and a transparent approach to ensure you are not viewed with suspicion. Understand that acceptance will take time, no matter how good your intentions are. You might also find it tougher to get regulatory approvals, given the tense relationship the two countries share. Hire as much local managerial talent as possible, adopt a strong CSR culture.

"By 2020, 47% of Indians will be between 15 and 59, compared with 35% now. The working-age populations of the U.S. and China are projected to shrink. So India is destined to have the world's largest population of workers and consumers. That's a big reason why Goldman Sachs & Co. (GS) thinks India will be able to sustain 7.5% annual growth after 2005."

Business Week Magazine

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MSLGROUP India is the country's leading PR-led integrated communications network. Headquartered in Mumbai, it has a pan-India reach and comprises more than 500 consultants servicing brands such as UTC, Lenovo, Haier, Huawei, Volkswagen, Singapore Tourism Board and eBay.

MENA

The move from silk road to silk highway

Merger and Acquisition (M&A) deal value doubled across The Middle East and North Africa (MENA) region in the first quarter of the year, reaching $14.6 billion compared to $7.3 billion in the first quarter of 2012, according to a recent report published by Ernst & Young. Compared to M&A activity in more developed markets such as the USA or Europe, the Middle East is still an infant when it comes to volumes, regulations and diversity. International investors are wary of investing in the region because of the political tensions that have swept several countries, most recent of which is the second Arab Spring currently taking place in Egypt. Despite the political tensions, local sentiment is positive and analysts believe the Middle East is a territory of growing opportunities.

M&A activity in the Middle East is still limited when compared with the USA or Europe, but the region's transition from frontier to emerging status is promising for investment and development.

Political instabilities have changed global geo-politics and influenced Foreign Direct Investment (FDI) volumes and country targets alike. Countries like the United Arab Emirates (UAE) and Qatar have seen the best outcomes, with investors steering away from Egypt and Libya and focusing more towards the Gulf Cooperation Council (GCC), which includes the UAE, Saudi Arabia, Bahrain, Kuwait, Oman and Qatar. Further hopes for the UAE and Qatar have been fuelled by the recent MSCI decision to upgrade both countries from frontier to emerging status. In the first quarter of 2013, the UAE and Qatar accounted for 76 per cent of total disclosed domestic deal value in the region, according to the same report.

The most attractive sectors in the region, which led the deal activity during Q1 2013, were the financial and professional services sector, totalling 16 deals. These sectors were immediately followed by the oil & gas sector, with seven deals and by the consumer products sector with six deals. The telecom sector, as well as the real estate sector, recorded four deals each. The telecom sector recorded the largest disclosed deal value, representing $7 billion.

Looking forward, recently announced Government infrastructure spending in Qatar, Saudi Arabia and the UAE is beginning to flow into the market, especially in the real estate sector. Tourism in the UAE remains high and property prices are moving upwards. This all helps to attract M&A investors looking to achieve growth in their businesses by investing in some of the fastest growing economies in the world.

UAE, the crossroads between East and West

Trade between China and the UAE exceeded $35 billion last year and has been growing at 35 percent year on year.

China is the UAE's biggest trading partner, after India. Trade between China and the UAE has grown by an impressive average of 35 per cent per year for the past decade, according to the

Dubai Chamber of Commerce. Trade between the two countries exceeded $35 billion last year.

60 percent of China's total trade passes through the UAE.

Most importantly, and perhaps even more surprising, about 60 per cent of China's total trade passes through the UAE, to be re-exported to Africa and Europe. This effectively makes the UAE one of China's most crucial trading partners and one of the most fortunate beneficiaries of China's rise and power. Adding the Gulf country's other advantages and recognitions on the global stage, the UAE has become a major hub on the new silk route, linking South Asia, the Middle East, Central Asia, and Europe. The new silk route initiative hopes to improve the economic and political connectivity of countries across the new route, triggering the liberalisation of trade barriers, customs procedures and development of transit and energy infrastructure.

"Since Dubai is positioned as an international centre in finance, technology, trade, transport, culture, economy and knowledge, the Emirate can definitely represent a major hub on the new silk route," Gulf News reported.

Perceptions of China in regional media are neutral to positive, with the majority of articles highlighting the economic benefits the mutual relationship brings. On the consumer side, the challenges that remain are the low quality, fake product perceptions when it comes to Chinese merchandise. However, even in this regard, the ties between the two countries are solid: Dragon Mart, the largest Chinese shopping outlet outside Chinese territory is located in the UAE and is currently undergoing expansion.

"Dragon Mart is already the world's biggest trading hub for Chinese products outside mainland China," The National reported.

Stronger China – Middle East ties

According to Vali Nasr, one of the leading American experts on the Middle East, "For China, the Middle East is a rising strategic interest. The Chinese are looking to the region -- from Pakistan to Iran to Saudi Arabia and Turkey -- to help supply their vast need for energy and products".

Better links between the Middle East region and China should continue to provide exciting opportunities for the remainder of 2013.

It is widely considered that stability in the Middle East is important to China's own stability. Better links between the Middle East region and China should continue to provide exciting opportunities for the remainder of 2013, with companies such as Huawei, a leading global ICT solutions provider headquartered in China, already completing deals in the region. Other major Chinese businesses, such as the Industrial and Commercial Bank of China (ICBC) and the China State Construction Engineering Corporation, have said they are seeking acquisitions and investments in the region. The four largest Chinese banks, including ICBC, Bank of China, Agricultural Bank of China and China Construction Bank, now have their regional headquarters in the Dubai International Finance

Centre (DIFC). Likewise, a number of GCC firms are interested in making acquisitions in China as the two regions become strategically closer.

Legal barriers to entry are being lowered and welcomed with enthusiasm

In a recent deal study conducted by law firm Clyde & Co, it highlighted that Joint Ventures (JV) remained as attractive as M&A in providing a route to market. In fact, JV transactions occurred as frequently as M&A transactions during 2012 which can be explained by the regulatory environment in the Middle East, where local partners and market knowledge is often required.

Regulatory changes have transformed the Middle East into seller-friendly market with entrepreneurial businesses attracting international investors.

Overall, the study highlighted an increase in market confidence, a rise in the use of the auction sale processes and an enthusiasm from new entrants trying to gain a foothold in the region. These elements have transformed the Middle East into a seller friendly market, with entrepreneurial businesses attracting international investors looking to access the Middle East market.

The possible reductions to the 'barriers of entry' in doing business in the Middle East market, brought about by either the new investment law which may increase foreign ownership limits or the upgrade of the UAE and Qatar to Emerging Markets by the MSCI, which comes into effect on 31 May 2014, have the potential to make the region even more attractive to international companies and investors. This could have a positive impact on the region's deal market, invigorating the private sector to follow the upward investment trend seen through public sector spending in critical areas of the economy.

The Clyde & Co study highlights that sellers and buyers should expect split signing and completion when doing an M&A deal. 31 per cent of M&A deals took between three and six months to complete, bringing up a host of related issues such as walk away rights and management of the target during this period. The study also found a clear tendency towards the use of English law, with M&A deals split between courts and arbitration (41 per cent and 59 per cent respectively).

All companies looking to access the Middle East should be aware of cultural, political and legal landscape that governs the country or countries.

All companies looking to access the Middle East region should be aware of the cultural, political and legal landscape that governs the country or countries they are looking to access. Following a thorough due diligence process, Capital MSL can guide any company to ensure all relevant stakeholders are informed and knowledgeable about the company, the transaction process and the growth story associated with the deal.

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Capital MSL is a trusted advisor to governments, corporates and financial and professional services firms throughout the Middle East. We combine international expertise and local market insight to support our clients' business objectives and address their specific communications challenges. We are a leader in international financial communications, advising on many of the world's most high profile and complex transactions, as well as providing on-going communications and investor relations support to organisations globally.

About MSLGROUP Financial Communications Practice and MSLGROUP

About MSLGROUP Financial Communications

MSLGROUP Financial Communications offers specialist, best-in-class advisory and other services across the world's major financial and business markets. Financial brands within the group include Kekst and Company, CNC Communications & Network Consulting, Capital MSL, Publicis Consultants and JKL. The firm has more than 50 professionals working within the financial practice across Asia, with a strong presence in China and India.

MSLGROUP has teams in Beijing, Shanghai and Hong Kong fully focused on supporting Chinese and global companies achieve their global ambitions through communications counsel around complex financial transactions.

These borderless teams advise daily on deal-related stakeholder communications. MSLGROUP offers a host of services including financial public relations, investor relations, mergers and acquisitions (friendly and contested, international and domestic) and post-deal integration programmes, share offers and restructurings, initial public offerings, divestures and spin-offs and other transaction communications. The firm was ranked second in terms of deal value and first in terms of deal volume in for M&A rankings by a leading industry report in for the year 2012.

About MSLGROUP

MSLGROUP is Publicis Groupe's strategic communications and engagement group, advising in all aspects of communication strategy: from consumer PR to financial communications, from public affairs to reputation management and from crisis communications to experiential marketing and events. With more than 3,500 people across close to 100 offices worldwide, MSLGROUP is also the largest PR network in fast-growing China and India. The group offers strategic planning and counsel, insight-guided thinking and big, compelling ideas – followed by thorough execution.

Learn more about us at: mslgroup.com blog.mslgroup.com | Twitter: @msl_group | Facebook: www.facebook.com/mslgroup

MSLGROUP Financial Communications and Corporate Advisory Practice

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