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# Inventory 2019 (1) | Why China's auto overseas strate should go to Pakistan

The cover story of the last issue of "Sanlian Life Weekly" in 2019 is "The Temptation of Africa-Chinese Entrepreneurship Investigation". It deserves the attention of the Chinese travel market. It is Pakistan, and the people there are affectionately called "Pakistan Railway" by many Chinese military fans and netizens.

Pakistan is known as the bridgehead of China's "One Belt, One Road" initiative, and the China-Pakistan Economic Corridor, which was launched in April 2015, is also known as the "One Belt, One Road" banner project and an important project to be tried first. After nearly five years of development, this country with a population of more than 200 million (the sixth most populous country in the world) has effectively alleviated the problems of insufficient electricity and backward transportation infrastructure in its economic development. In addition to Chinese investors, it has also attracted companies from major investment countries in the world such as Japan, South Korea, and Saudi Arabia to enter Pakistan, investing and building factories in Pakistan on a large scale.

In 2019, in the field of travel, the most important investment of Chinese capital in Pakistan should be a tire manufacturing joint venture with an investment of 500 million US dollars reached by Duowei Capital, Qingdao Double Star, Pakistan MSD Tire and Rubber Co., Ltd., and Daewoo Pakistan Coach Co., Ltd. protocol. According to the agreement, the four parties will jointly establish a joint venture tire factory in Pakistan, with an annual production capacity of 2 million sets of all-steel tires and 5 million sets of semi-steel tires. The products will cover the Pakistani market and be exported to overseas markets.

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Signing Ceremony of China-Brazil Tire Production Joint Venture

In this cooperation, Multidimensional Capital is both an initiator and an in-depth participant. Xu Peng, managing director of Multidimensional Capital, pointed out in an interview with a reporter from Travel Finance that "Pakistan today is the same as China 30 years ago, and there are many investment opportunities."

Pakistan has entered the golden period of industrial investment

The double-gap model put forward by economist H.B. Chenery believes that in order to increase the growth rate of the national economy, developing countries must introduce foreign capital and stimulate exports. The China-Pakistan Economic Corridor project solves the problem of limited investment capacity caused by insufficient savings and foreign exchange shortage in Pakistan, and provides a high-quality source of power for Pakistan's economic development.

According to the data, as of January 2019, there were 22 early-harvest projects completed and under construction in the China-Pakistan Economic Corridor, of which 9 have been completed and 13 projects are under construction. my country's total investment in the above-mentioned projects is 19 billion US dollars , Drive Pakistan's annual economic growth by 1 to 2 percentage points, and create 70,000 job opportunities for Pakistan.

China's top leaders affirmed the success of the China-Pakistan Economic Corridor in 2018 and 2019. According to the introduction, most of the 22 early projects were national projects. It mainly invests in infrastructure, roads, railways, ports, airports, electricity and power grids in Pakistan. The success of these projects has laid a good foundation for Pakistan's industrial development and foreign investment attraction.

Xu Peng told the reporter of Travel Finance that the above-mentioned infrastructure projects, especially the operation of Gwadar Port, will greatly improve the investment environment in Pakistan. And I believe that many new state-owned industrial capital and private capital in China will increase investment in Pakistan: "Pakistan's business circles and international investment institutions concerned about Pakistan agree that China's investment in Pakistan can be led by the two governments in the early stage and combined The success in the field of infrastructure has been regarded as CPEC version 1.0, and the



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Xu Peng, Managing Director of Multidimensional Capital

Chai Yongsan, Chairman of Double Star Group, like Xu Peng, is positive and optimistic about the future of Pakistan. But his confidence is not based on theoretical derivation and experts, but by his real swords and guns.

Before joining Double Star Group in May 2013, Chai Yongsan was the executive vice president of Haier Group and the general manager of Haier Group Electric Industry Co., Ltd. He was the leader and promoter of the Haier-Luba Economic Zone with a background in import and export.

Since joining Haier Group at the age of 21, Chai Yongsan has served as the deputy manager of the import and export company. During the investment demonstration period of Haier's establishment of an industrial park in Pakistan, he was the head of Haier's overseas promotion headquarters; in 2000, he was promoted to executive vice president of Haier Group, the No. 3 leader of Haier Group.

Haier's industrial park in Pakistan was established in 2001. After five years of development, it has established a supply chain platform and industrial supporting system for large and small home appliances, black and white home appliances, and a sales and after-sales service network in Pakistan. The gathering of industrial chains drives the development of the local economy. It also contributed to the establishment of one of Pakistan's three major economic zones - Haier Ruba Economic Zone.

In November 2006, Haier won the bid for the overseas economic and trade cooperation zone bidding project organized by the Ministry of Commerce of the People's Republic of China, and jointly built the Haier-Ruba Economic Zone with the Ruba Group, which is registered in Pakistan.

Now Haier is relying on its rich experience in operation and human resources in Pakistan to attract other companies to settle in the "Haier Ruba Economic Zone" Industrial Park, and provide business platforms and related services for other Chinese companies going global.



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Therefore, in the above-mentioned US\$500 million tire joint venture agreement, Double Star is the main investor and the exporter of technology and brands. .

It should be pointed out that Doublestar Tire, a subsidiary of Doublestar Group, has an industry development advantage in the field of truck and bus tires. In July 2018, it successfully acquired a 45% stake in Kumho Tire, thus gaining a foothold in the car tire market and helping Doublestar to become a China's first world-class tire company.



Kumho Tire Equity Delivery Site

Commercial vehicles go first, and the car market has great potential

The so-called China-Pakistan Economic Corridor takes the China-Pakistan Karakoram Highway as a link to form a China-Pakistan cross-border economic belt. It is an international logistics node for western China to enter the Middle East and the Indian Ocean through Gwadar Port, Karachi, and Peshawar in Pakistan. Therefore, in the early harvest projects of the China-Pakistan Economic Corridor, the interconnection of infrastructure such as roads, ports and airports is an important investment area.

There is a saying in China that "If you want to get rich, build roads first". In the past five years, the road infrastructure projects that have been started include the second phase of the Lakoram Highway (Hevelyan-Takot section), the Karachi-Peshawar Expressway Projects - Sukkur to Multan section, Lahore "Orange Line" rail transit project, Gwadar Port's port roads, storage yards, wharves and nearby airports.

"Travel Finance" believes that in addition to population size, political and economic development levels, the construction of road infrastructure is also a key factor affecting the development of the automobile industry.

First of all, the construction of a large number of national-level projects directly gave birth to the market development of construction vehicles and logistics vehicles in Pakistan. In the past four years or so, the stock market has been huge and the demand for tires has been strong.

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driving the continuous development and prosperity of the logistics vehicle market.

Third, with the participation of the nine economic zones in the early stage and more and more diversified investors in the future, Pakistan's urbanization process will be accelerated, and large and super cities will emerge. On the one hand, the population flow brought by it is promoting the development of the passenger transport and urban bus market; on the other hand, the process of urbanization is also the basis for the development of the car market.

According to the investment announcement previously issued by Haier Group and Multidimensional Capital, the tire joint venture established by Qingdao Double Star Group, Pakistan MSD Tire and Rubber Co., Ltd., Daewoo Pakistan Coach Co., Ltd. and Multidimensional Capital is the truck and bus tires under the parent brand of Double Star. .

Obviously, first developing and producing truck and bus tire products locally that meet the needs of the local market can enable the joint venture company to start business quickly and maintain normal revenue, thereby ensuring investors' returns; while car tires that require more technology may It will still take a certain amount of time, and it is entirely possible to wait until the car ownership or production capacity on the market comes up before increasing investment.

The current Pakistan market is indeed "a lot of investment opportunities", but it needs to be pointed out that it is necessary to start early; the China-Pakistan Economic Corridor built at the speed of China has made Pakistan the hottest investment country in the region.

In the past five years, the average GDP growth rate of Pakistan reached 4.77%, especially in the 2017-18 fiscal year, Pakistan's GDP growth rate reached 5.8%, a new high in the past 13 years. In the past five years, Pakistan's annual foreign direct investment has increased from US\$650 million to US\$2.2 billion, and the per capita annual income has increased from US\$1,334 to US\$1,641. Therefore, its sedan market may enter a period of rapid development in the next 3-5 years.

However, the city of Rome was not built in a day. To satisfy Pakistan's automobile market with a population of 200 million, imports alone will be difficult to meet the demand. Localized production must be carried out, but as long as it is localized production, it will involve the cultivation of the industrial chain. Just like the severe situation that Pakistan's domestic truck and bus tire market is currently facing.

It is reported that Pakistan's domestic tire companies are unable to meet the huge market demand in terms of scale, product technology and quality. However, the Pakistani government is still willing to support local industries, so it implements a high tariff policy on imported tires, and tires are still included in the latest tariff increase list for imported goods in 2019.

At present, nearly half of Pakistan's tire supply depends on imports and smuggling, which directly leads to serious local dollar outflows and property losses. Therefore, Xu Peng and Chai Yongsan believe that there is a vast "blue ocean" of tires in Pakistan. Of course, this market is also sending out such a signal: as the sixth most populous country in the world, Pakistan's growing consumer group is forcing the domestic tire market to continue

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Therefore, Xu Peng told the reporter of Travel Finance that they plan to introduce more outstanding Chinese companies or industrial funds to make strategic investments in Pakistan. In the future, they plan to introduce the upstream and downstream industrial chains of automobiles to this investment hotspot that is gradually heating up. In addition, Duwei Capital is currently promoting multiple projects in the country simultaneously, aiming at Pakistan's large domestic natural gas demand gap, assisting in the construction of Pakistan's entire LNG industry chain, and looking for high-quality EPC engineering teams in China to help treat urban sewage and ocean desalination and other items.

It should be pointed out that in the new tire joint venture project, in addition to Duwei Capital and Double Star Group introduced above, Pakistan MSD Tire and Rubber Co., Ltd. and Daewoo Pakistan Coach Co., Ltd. are two Pakistani companies. Among them, the former is the largest tire importer and distributor in Pakistan; its parent company, Master Group, is also the largest car dealer in Pakistan. In October 2018, Changan Automobile and the Master Automobile Company under the group established a joint venture company. A range of light commercial vehicles will be jointly launched in Pakistan. However, Daewoo Pakistan Long-distance Bus Co., Ltd. has no relationship with Daewoo of South Korea. Its behind-the-scenes shareholder is an industrial fund in Hong Kong, China. The company is also optimistic about the future development of Pakistan.

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