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The Experience of Promoting Foreign Investment in Saxony, Germany "It's all about People"

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Introduction

I want to thank the organizers of this important conference for the invitation to talk to you about our experience of promoting foreign investment in Saxony as a successful case story in Germany.

I represent the Saxony Economic Development Corporation, a private company established on behalf of the Saxony Government in 1991 with two business targets:

- to promote foreign investment in Saxony, and
- to help our firms get access to the international markets.

This combination of activities has proved to be extremely useful and helpful for both areas.

Saxony is one out of 16 States of the Federal Republic of Germany. We have about 4.5 million inhabitants. The capital is Dresden. There are two other major cities, Leipzig and Chemnitz, they each have a population of just under half a million people.

I am sorry to tell you that we have no statistical data on foreign investment in Saxony. Even in Germany there is no reliable statistical assessment of these data. But we started recently to put up a data basis of foreign companies with activities in Saxony. We have a number of companies with foreign shareholders we estimate in about 500. Even if we do not have more details we are quite happy about the number and the quality of foreign activity in Saxony. Let me mention names like AMD (Advanced Micro Devices) with their processor production or Toyoda/Denso in the automobile sector as very important examples.

In my following presentation I want to talk to you about:

- our competitors defining markets and targets,
- our starting point when we initiated our activities in 1991, with all the negative and positive factors, and finally about
- our strategy and policy for attracting foreign investment.

I Competitors

In a globalizing economy, we have many competitors for foreign investment. So after analysing

1. who are these competitors,
2. it becomes necessary to define the targets for our promotion activities, namely
 - the type of investment that is most likely to come to Saxony and
 - the markets where we most probably find the respective investor.

1. Countries

As to the first question who these competitors are, we may define the following group of countries:

- first of all the other **new German States** in the former communist East Germany, although sometimes we even compete with West Germany,
- the neighbouring countries looking for future membership in the European Union, as there are especially **Poland**, the **Cheque Republic** and **Hungary** and finally
- some West and Southwest European countries like **Ireland**, the United Kingdom, specially **Scotland** and **Wales**, **northern France** for the automobile industry and **Portugal**.

We exclude as competitors as you may see all the so called low-wage-countries as there are Ukrania, Rumania and Bulgaria or other countries even further East since their competitiveness is in an area that is not target of our promotion efforts.

2. Targets

This makes clear that we are not competitive in labour intensive production. Our target is the capital intensive or high technological industry. In general you may say that Saxony is competitive with industry of a maximum of up to 20 % labour cost. When labour cost makes up more than 30 % there is almost no possibility of establishing a competitive production in Saxony other than that locally required with no alternative location.

As to the industrial branches within our targets we define those where high industrial standards are required:

- the automobile industry with their suppliers,
- the machinery and equipment industry,
- the electrical, optical, telecommunication equipment and mechanical industry all as our traditional activities where we regained a leading position in the German industry, and furthermore
- the microelectronic industry that has begun to concentrate in Saxony or more specifically Dresden making it to the European Centre of this activity. I mention names like Infineon of the Siemens group for chips and AMD for processors and Wacker for the wafer industry among others.

This does, of course, not exclude any other investment and we do hope to attract also biotechnological and other high tech industry but the before mentioned branches are definitely the most popular ones.

3. Markets

We find our past and future investors basically in the following countries:

- West Germany,
this of course is not a foreign investor in the sense of the word, but decisions of West German companies are in general taken after comparing alternative locations including the neighbouring countries, and Saxony has to convince also the West German investor as being the better location,
- the European Union and Switzerland,
- USA and Canada,
- in Asia first of all Japan, but also Taiwan, Singapur and South Korea are prospective markets, and finally
- last but not least Israel.

Without forgetting the other markets we are concentrating our efforts actually on the USA with our strategic investor AMD as most important testimonial and on Japan. So far, in Saxony we have the only Japanese industrial direct investment in the new German States, namely Takata and also the Toyota group represented by Toyoda Automatic Loom Works and Denso Corporation. This last group has already announced an important enlargement of the actual investment, and we are hopeful that this example will help to get more Japanese investment.

II Starting Point

It should be taken into consideration that all that Saxony has achieved in foreign direct investment has happened only in the last eight years. So, effective period of promotion is rather short and there was quite a few number of odds that had to be overcome. It might be useful to analyse the negative and the positive factors at the start position ten years ago, when reunification of Germany took place.

1. Negative factors

Saxony before the Second World War had the highest income per capita in Europe and was the industrial heart not only of Germany but to a certain degree also of Europe. But 45 years of communist rule in East Germany left this part of the country in a **deplorable state**:

- Practically all private enterprises were shut down and sooner or later nationalized. This system was of much more rigor than in the other European communist states.
- Owners and entrepreneurs went to the western parts of Germany and founded new enterprises, such as
cameras “Zeiss Ikon”
chinaware “Villeroy & Boch”
car manufacturers DKW, Audi and many others
- For 45 years – from 1945 to 1989 when the wall came down – all private initiative was banned out of economic life
- All potential entrepreneurs if they did not escape to the West had to arrange themselves in some way with the socialist system, but could not develop their specific skills, so two generations of potential entrepreneurs were lost

The **economic situation** in Saxony when the wall came down was characterized as follows:

- It was generally believed that the Economy of the GDR was the 10th strongest in the world – but in fact it was close to a collapse, it was bankrupt.
- Industrial installations and buildings - apart from individual but not general exceptions – were in a situation as any equipment or building could be after 50 or more years of use without maintenance and reinvestment.
- Telecommunication was a problem, railways and roads were deteriorated,
- Environmental conditions were poor and in standards at the beginning of the century.
- No private enterprise was left and economic activity organized in large combines with self sufficient structure.

- All prices were administered by the authorities and the investments decided by the authorities, while the funds remained as debits.

Germany's reputation for foreign investment has suffered during the last years. Right or wrong, it is widely believed that labour cost is high, labour legislation inflexible, trade unions an obstacle to enterprises, taxes prohibitive, authorities love red tape and so on.

Except for some recent half-hearted measures, we do not have in Germany a **federal agency for foreign investment**. That means that the promotion agencies of the 16 states in Germany are left alone for promoting the image of Germany as a country for foreign investment location.

2. Positive factors

Turning to the positive factors favouring promotion of foreign investment in Saxony, first of all it must be noted that Saxony as already mentioned was the **birth of the German industry** many years before other regions like Bavaria or North-Rhine-Westphalia developed their proper industrial activities. Saxony used to be the industrial heart of Europe and the area with the highest per capita income. Even in socialist times these roots did not get lost and became a most important factor in the rebirth of the Saxony economy.

Research and Development has always been popular in Saxony. Also in socialist times, the government put much emphasis on vocational training, university and research institutes. Today, Saxony is the German region with the highest density of research and development institutes.

Even so **political and economic measures** taken before and after the reunification process **were drastic** and lead in the short run to a complete breakdown of the economy, it was the only possible medicine in order to get a sane patient back. The measures consisted in:

- a total and immediate privatization of the economy,
- the extension of the DM-currency to East Germany without delay or restriction,
- the takeover of all European and German legal framework on one day, the 3rd of October 1990, the day of the reunification.
- likewise, the immediate and direct institution of authorities, administration, police and justice according to West German standards.

This is definitely a very positive factor compared to the situation in the neighbouring countries where old and modern tendencies are still fighting each other.

3. Strong Arguments in favour of Saxony

Out of this situation we defined arguments in favour of a location in Saxony in the following five areas: market, labour, social and economic factors, infrastructure, and government support without red tape.

3.1 *Market*

As to the market, apart from other important arguments that deal with local and regional location factors in the heart of Europe or as a gateway to Eastern Europe, we put special emphasis on the fact that Saxony is a **traditional industrial area**. That means for the new investor he will find a broad spectrum of small and medium sized local enterprises in all traditional and new economic activities. We help the new investor find suppliers of all kind and of the highest standard. This creates a framework of special attraction to most foreign investors.

Sometimes it gives us also some sort of consolation, when as happened some months ago, we lost a Japanese investor to our competitor in the Cheque Republic. But we keep in contact while this investor is going to establish business relations to our suppliers, because he cannot find the same standards at his new location.

3.2 *Labour*

The next argument is the **high quality** of labour in Saxony. Only 11 % is unskilled labour. 29 % has a University degree and 60 % has a completed vocational training of the high standards Germany is internationally well known for.

Labour is **flexible**. Not only men but also women are eager to work. They travel even over large distances. Men and women are willing to work in shifts, including on weekends and public holidays. Personal time accounts make labour supply flexible according to needs of enterprise.

Labour is **available**, since unemployment rates are still high with locally up to 25 %.

Wages are about 25 to 30 % **lower** in Saxony compared to average standards in Germany. On top of that, annual working time is about 10 % longer and only 5 % shorter than in Japan.

Labour is exceptionally **efficient** in consequence of high quality and flexibility which in combination with comparably low wages makes labour cost highly competitive.

3.3 *Social and Economic Factors*

Social and economic factors as third argument are positive.

Political stability in Saxony as in Germany is high.

Fiscal contributions are moderate. It is true that peak tax rates are rather high, but average tax contribution of only 19 % is much lower than in Japan or even compared to the USA. The corporate tax reform in course will simplify and further reduce taxation in Germany.

Trade unions in Saxony are weak since labour is widely not organized. So wages can be lower than in Western Germany and even below tariffs negotiated with trade unions. Strikes are practically inexistent and less popular than even in West Germany.

3.4 *Infrastructure*

The fourth argument is a completely renewed infrastructure, whereas our neighbouring countries still have a long way to go:

Telecommunications are privatized and completely digitalized. ISDN and DSL are standard. GSM is standard in mobile telecommunication. In Germany, USTM licenses have just been granted to six private companies in order to go into operation in the year 2002.

Roads have been reconstructed or new built. Railways are being modernized. We have two international airports, Leipzig and Dresden.

3.5 *Government Support and no Red Tape*

The fifth and last argument has to do with government support.

We have developed **industrial sites** for the establishment of new industries all over the country. So it is possible to identify the appropriate site for any investor fulfilling almost any requirement.

Since the new German states formed part of the European Union from the very first day of reunification, they took advantage from the scheme of **subsidies** provided and authorized for the less developed regions in the European Union like Ireland, Scotland, Portugal and other areas. Thus it was possible to grant subsidies up to 35 % of investment. These subsidies apply also to the other regions mentioned before, but not to West Germany. So subsidies constituted a very important argument for investment, but on the other hand their application was under control of the European authorities in order to avoid deteriorating competence.

Unfortunately, this system does not apply yet to the neighbouring countries waiting for EU membership. It is widely believed that investment grants, tax deductions and other direct and indirect incentives differ substantially from what is allowed by Brussels.

Furthermore, the government has taken measures to assure all necessary **training of manpower** at its own expenses but according to the investor's requirements.

The Saxony Government puts emphasis on its flexibility and ban of all type of **red tape**. The self-understanding of the government is to act as a service provider and partner to private business. We have quite a number of good examples where local authorities act fast and efficient. E.g. building licenses are granted in short time, normally they are issued in 4 to 8 weeks according to the complexity whereas in Western Germany periods of up to one year or more are quite frequent. Also decisions on subsidies are practically being taken on the spot. The investor gets reliable information on the grants available for him within one or two weeks.

Last but not least, the company I represent, the **Saxony Economic Development Corporation** acts as a guide to the investor and if really something unexpected would occur will help solve problems as a true partner and in the shortest period possible.

III Strategy

Let me say something to our strategy. Strategy has changed and is constantly under discussion. Strategy of foreign direct investment promotion started in the early nineties with the intention of nothing else but “to put Saxony back onto the map”. The Saxony Government, as Prime Minister Prof. Biedenkopf said, tried to put big “lighthouses” into the economy. He meant strategically important big investments like those of Volkswagen, Siemens, or AMD giving them all the support possible and allowed by the European Authorities. Behind this policy was the idea to make it attractive for small and medium sized enterprises to invest and develop business activities in Saxony. In the meantime and after some years, we may say now that the once lonely lighthouses have turned into full chains of lights with self growing strength.

While it was in the beginning relatively easy to get new German and foreign investment because of the international attention drawn to this new area, it has since then become much more difficult to attract foreign investment in a highly competitive global market.

It was necessary to develop a proper strategy and last year we presented our new concept defining a better structured policy and with new ideas without leaving behind measures whose value has been proven.

Acquisition 2000

I am going to give a short outline of what we called “Acquisition 2000”. We started our work recognizing that most of the general approach to marketing Saxony got lost for two reasons:

1. It is necessary to define our **product, targets and markets**, and
2. we must be **different** from the others, we have to make clear to our customers, the potential investors, what is different in Saxony, where our assets are and why they should come to us instead of go to our competitors.

In the first part of my presentation, I roughly defined our product, targets and markets. We put emphasis on concentrating our marketing activities as precise as possible on our targets. That means:

- We try to identify potential customers with the help of our different partners in the foreign markets.
- We take advantage of our contacts to the strategic investments already realized in Saxony in order to find out where we can find complementary firms. We are looking for so-called missing links.
- We use successful investors as testimonials.

But that is not enough. Nowadays you cannot do any successful marketing or promotion arguing with the blue sky in Saxony, the good incentives and so on. Our competitors are at least doing the same and the customer gets confused without receiving any valuable information.

Together with our marketing consultants we started brainstorming in order to define the **Unique Selling Proposition** for Saxony or just the USP. We found the position that *Saxony is the country of the entrepreneur*. This statement is based on the recognition that:

The people of Saxony are fighting for their personal economic independence out of their long industrial and scientific tradition and this behaviour is therefore much more present than elsewhere. Innovation is practised out of tradition. That is why also employees and civil servants act and think as entrepreneurs. This business approach of the people is a factor of success for foreign enterprises engaging in Saxony.

Jerry Sanders, the chairman and CEO of AMD, who was responsible for the decision to build a new processor chip factory in Dresden, brought it to the point: *“It’s all about people”*.

Defined this as our USP we have started to streamline our marketing campaign along this line. All our mottos include the human touch inherent to this USP. Our sales arguments are based on the five areas: market, labour, social and economic factors, infrastructure and government support without red tape, including henceforward directly or indirectly this reference to Saxony as the country of the entrepreneur or more simply: *It’s all about people*.

Outlook

Coming to an end of my brief presentation I regret that time allows me to line out only some highlights of the issue from my point of view. But I invite you to further contacts if you are interested in more details about our work and of course about Saxony.