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An OECD Member Country Perspective Experience of German Investment Promotion in China

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1. What are the main reasons for German investors to invest in China ?

- 65 % Foothold for global or Asian strategy
- 63 % Market development
- 46 % Market expansion/maintaining of market share
- 28 % Low labour and production costs
- 13 % Avoiding import restrictions
- 3 % Low levels of operational conditions
(environmental protection policies)
- 2 % Following a partner

They are, as you can see, largely reasons of market development: globally, in Asia and in China.

Chinese market conditions, but especially creating a JV with a Chinese partner, range low.

2. This is somewhat contrary to the Chinese concept of FDIs, which promotes

- Creating JVs with mostly SOEs
- Capital input of foreign enterprises
- Transfer of technology and know-how
- Professional training and management-skills
- Contribution to Chinese export revenues

and therefore offers a limited access to the Chinese market.

3. What are the main reasons for failure of German FDI in China:

- 63 % False expectations
- 59 % Different goals of collaborating partners
- 41 % Problems with distribution network
- 40 % Wrong choice of legal entity
- 40 % Customers' reluctance to pay
- 38 % Insufficient planning and preparation
- 37 % Unsuitable or expansive products
- 34 % Lack of support from parent company
- 28 % Nepotism, political pressures

I'll point out three:

- False expectations (unknown Ch-market)
- Different goals of collaborating partners
- Wrong choice of legal entity.

4. If we compare German enterprises under the criteria of location factors, we see that unsuccessful companies have ranked the location of their partner very high and that physical infrastructure, social infrastructure and general location factors were considered less important. Successful companies have found the infrastructural factors much more important and didn't rank the location of a partner that high.

Common to both successful and unsuccessful companies is that investment incentives were regarded rather unimportant when considering location factors. Only 25 % of German enterprises have invested in SEZs.

5. German investors are largely satisfied with their performance in China. 94 % would invest again in China on the basis of their experience.

BUT!!

- 33 % would choose a different location (1/3 of investors);
- 39% would choose a different legal entity (2/5).

Problems show: a reasonable amount of German investors lacked sufficient information about investment in the China-market before investing.

German investors, especially SMEs, need reliable consultation before investing in China.

This consultation must be:

- transparent
- simple
- independent, and
- the economic calculus must dominate the political calculus

6. Last year I mentioned problems of Chinese institutions of FDI promotion. I won't elaborate on that today.

What do German institutions in China do for FDI-promotion?

Our classical foreign economic relations rely on three pillars:

1. Economic analysis: this is taken care by the economic department of our embassies and general consulates.
2. Economic information: the Federal Office for Foreign Trade Information (bfai) has correspondents in major capitals all over the world. The publications spread knowledge about market trends and opportunities.
3. Trade and FDI promotion: a network of Chamber of Industry and Commerce (AHK) outside of Germany consults and helps traders as well as investors realizing their business targets.

I will focus on the problems of these three pillars in China. The first two pillars function quite well. **BUT!!** the AHK faces tremendous difficulties in China, despite it might be the most important for FDI-promotion.

7. Foreign Chambers in China are based on the „Interim Provisions for the Regulation of Foreign Chambers of Commerce in China of 1/7/89“ which consists of 4 ½ pages with 15 articles - the implementation rules are not published.

It took Germany six years to establish her chamber in China, which is incomplete in its functionality, because it faces hard restrictions:

- a) - Only 1 Chamber of a foreign guest country is allowed, and its seat must be in BeiJing, with no regional branches.
 - General assemblies are only allowed in BeiJing.
 - The President must be a resident of BeiJing.
- b) Membership is restricted:
 - no Chinese enterprises
 - no Chinese citizens
 - no JV
 - no WFOE, if managed by Chinese
 - no German enterprise not yet invested in China.
- c) The carrying body, the DIHT, is considered and treated as a private foreign company's representation.

If China doesn't ameliorate this regulatory barrier, FDI-promotion is largely hindered.

8. To solve some problems, since long, Germany has added to the 3 pillars the Hafö (Trade and Investment Promotion Office) under the roof of the German Embassy. It solves state to state problems in the field of FDIs, but often has to go deeper into FDI implementation questions.

This office does good work in China, but symbols several effects:

- - Chinese economic foreign policy is state and not market guided;
- - FDIs need political support in China instead of having a market-based-system.

A further result: lack of transparency for German investors, as Germany duplicates institutions with no clear hierarchy.

9. As China lacks a completed rules-based-system, Germany helps its investors in various additional ways:

- a) Confederation of German Trade Fair and Exhibition Industries (AUMA): official supported participation in Chinese international exhibitions. About 1/3 of German supported exhibitions in Asia are in China;
- b) Support of German Centres for Industry & Commerce (DIHZ) in BeiJing and ShangHai by German regional banks, which shelter young German investors and help them settle in China;
- c) German Agency for Technical Cooperation (gtz): preparing Chinese enterprises as potential partners of German FDIs: internal/external (not necessarily JV);
- d) German Finance Company for Investment in Developing Countries (DEG): evaluating Chinese potential partners. Criteria: Chinese partners already have to be successful in the China market (German enterprises are no welfare institutions.);
- e) GTZ and private enterprises: professional training: duales system;
- f) China Europe International Business School (CEIBs) and foundations of German political parties: management training.
- g) China is a large country and therefore the Deutsche Länder have promoted their relationship with China provincial partnerships. This is of some help for German investors but faces the problem of political influence and that investment is bound to a certain location.

RESUMÉE

10. German FDI promotion institutions cover a wide range, but they are not transparent to newcomers and also not to those who are in the field since long. This is a result of China not being completely market-ruled-based.

This necessitates an investment promotion on an “ad-hoc” basis instead of a sustainable basis:
TO THE DETRIMENT OF BOTH !!

Abbreviations:

AHK	Außenhandelskammer/German Chamber of Industry and Commerce
AUMA	Ausstellungs- und Messeausschuß/Confederation of German Trade Fair and Exhibition Industries
bfai	Bundesstelle für Außenhandelsinformationen/Federal Office for Foreign Trade Information
CEIBS	China Europe International Business School
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH/ German Finance Company for Investment in Developing Countries
DIHT	Deutscher Industrie- und Handelstag/Delegation of German Industry and Commerce
DIHZ	Deutsches Industrie- und Handelszentrum/German Centre for Industry and Commerce duales system dual vocational training (in enterprises and in vocational training centres)
FDI	Foreign Direct Investment
gtz	Gesellschaft für Technische Zusammenarbeit/German Agency for Technical Cooperation
Hafö	Handelsförderungsstelle/Trade and Investment Promotion Office (German Embassy)
JV	Joint Venture
SEZ	Special Economic Zone
SME	Small and Medium Sized Enterprises
SOE	State Owned Enterprises
WFOE	Wholly Foreign Owned Enterprises