

German Companies Drawn to the Chinese Market (July 6, 2017)

Abstract

Despite considerable barriers against outsiders trying to enter the Chinese market, an economist argues that the country remains the most important trading partner for the German economy in the future if companies avail themselves of help by others with prior experience.

Source

China Remains Attractive for German Companies

Economic growth in China is slowing while the Chinese market is becoming more difficult. Nonetheless, German companies are still given the red-carpet treatment.

Over the past few decades, economic relations between Germany and China have grown increasingly close. In 2016, China surpassed both France and the US to become Germany's most important trading partner. Some 8,000 German companies have invested in the world's largest growth market. Of late, however, there have been growing complaints about unfair treatment by the Chinese government. According to a survey by the German Chambers of Industry and Commerce Abroad (AHK), around one-third of German companies feel less welcome than they did ten years ago.

"This certainly also has to do with the fact that there was a different policy in China at the time, which aimed at attracting foreign companies," said Alexandra Voss, Managing Director of the AHK in Beijing, on the sidelines of the Greater China Day of the Cologne Chamber of Industry and Commerce. In other words, the privileges have diminished somewhat. "Another factor is that the current pace of economic reform has not been as fast as many foreign firms expected. This has resulted in a certain amount of disillusionment," maintained Voss in an interview with the Deutsche Welle.

Even Michael Clauss, the German ambassador to China, does not expect any large-scale reforms in terms of the market opening up in the near future. "Things are moving step-by-step in this direction, but the steps are still tentative," said Clauss in Cologne. China will continue for some time yet with its "socialist market economy with Chinese characteristics" or state capitalism, however one prefers to call it. Its typical features are a lack of transparency and unequal treatment of local and foreign companies.

China remains a worthwhile investment

In light of this, is it worthwhile for German companies, which previously regarded China as a blank sheet, to enter the Asian market, especially now that the period of double-digit growth rates has passed? "Yes," says Alexandra Voss. Developments in China are far more differentiated by region and sector than previously. "For German companies considering a new commitment in China, it also pays to first look closely at which sectors are expected to show particularly strong growth in the coming years—and also at the expectations of the Chinese leadership."

These include sectors such as renewable energies, robotics, electromobility, aerospace engineering, and high-speed trains. And with its "New Silk Road," China's project of the century, the country is promoting its infrastructure projects in Eurasia, while also pursuing geostrategic goals, according to Ambassador Clauss. "In the high-tech sector, China has already approached German companies. Many of these

requests concern consultation and analysis. Chinese, however, is spoken on the construction sites and a technology transfer is expected in return for participation on a project,” says Michael Clauss.

For many German companies, the term ‘technology transfer’ strikes a raw nerve and many regard it as being not much better than ‘technology theft.’ Yet, the days when a Chinese joint-venture partner would build a new factory on the other side of the street and drive their German partner to bankruptcy have long since passed. In the meantime, China itself has advanced to become a land of innovation. In 2016 alone, some 1.3 million patents were filed in China. Every day, 12,000 new companies are registered, including many start-ups in the high-tech sector.

The Chinese are open to new technology

“I currently do not know of any other nation that is as tech-savvy as China. The Chinese are open to innovation, especially when it comes to smartphones, Internet services, and electronics,” enthuses Bettina Schön-Behanzin, chairwoman of the German Chamber of Commerce in China and representative of the Freudenberg Group. China’s consumers are included in the innovation process. Schön-Behanzin provides the example of Xiaomi, a company that produces smartphones. The company regularly surveys around a million users about feature improvements. “The speed is just breathtaking. Companies can only be successful in China if they pursue research and development,” says Schön-Behanzin. Siemens has built 20 research centers in China. “We innovate in China, for China, and with China, together with Chinese universities, start-ups, and companies,” said Lothar Herrmann, Siemens CEO in China.

Rainer Berthan, managing director of Dentsply Sirona Bensheim, regards the traditional model of technology transfer to China as obsolete. “More often than not, many still associate ‘technology transfer’ with the idea of a gifted German engineer travelling to China from time to time in order to teach the Chinese something new.” Over the years, however, Chinese subsidiaries have assumed the important role of opening up new markets from their site of operations. German engineering departments would simply be too slow to react. Berthan summarizes developments: We’ve gone “from ‘Made in China’ to ‘Made for China’ and the next step will be ‘Designed in China for the World.’”

Lothar Herrmann of Siemens advises German companies that have not yet ventured into Asia to try their luck in the Chinese interior. The personnel costs there are still low and it is possible to receive subsidies from the Chinese state.

The political conditions for a commitment in China are also favorable. Relations between Germany and China have become closer than ever since President Donald Trump took office. According to Ambassador Michael Clauss, China is politically stable and economically robust. Although the Chinese market has become more difficult, the government in Beijing is prepared to accommodate German companies. “The importance of German companies to China will continue to grow. And companies in the high-tech sector, in particular, will find the red carpet being rolled out for them.”

Source: Zhang Danhong, “China bleibt attraktiv für deutsche Firmen“, Deutsche Welle, July 6, 2017. Available online:

<https://www.dw.com/de/china-bleibt-attraktiv-f%C3%BCr-deutsche-firmen/a-39484815>

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