Table of contens

1. Introduction

1.1 Objective of the work

Since the takeover of the German robotics manufacturer Kuka by the Chinese Midea Group in 2016 at the latest, Chinese foreign direct investment (FDI) has enjoyed increased visibility in the German public. Investments from China are encountering ever greater skepticism and resistance in politics and society. The unfamiliar situation for Germany as a target country for investments from an emerging country, which also pursues a strongly state-run economy model, leads to unease and initial defensive reactions in this country. This is also shown by the first prevented transactions such as the planned takeover of the German network operator 50Hertz by the Chinese state-owned State Grid Corporation of China last year and the ongoing discussion about the Chinese telecommunications supplier Huawei. Stricter regulatory reviews of FDI are also taking place at EU level, delaying or blocking Chinese investments.[1] This uncertainty is also fuelled by China itself: Largely staged strategic targets for the economy within the framework of the national strategy "Made in China 2025" with the aim of China's technology leadership, but also the skilfully marketed One Belt One Road initiative as a mammoth infrastructure project make China's economic ambitions as a new world power clear and are understood here as an attack on the basic market order. The debate about Chinese investments in Germany and the world is very emotional. Frank Sieren already set the tone for the debate in 2011 with the title of his book "Angst vor China" (Fear of China).[2] Unfortunately, the discussion is rather free of evidence. How high the Chinese investments really are, where they are concentrated, what are the risks and benefits, all these are questions that are not easy to answer. The present paper, therefore, aims to solve these questions. Especially, the reciprocity issue in market access will be addressed.

[1] Cf. Hanemann et al. 2019, pp.2-4

[2] Cf. Sieren 2011

1.2 Examination and Research Methods

The present paper is based on a qualitative research method. It also relies on the scenario forecasting method, whereby a prognosis is made as to which scenario may happen under certain conditions. The scenario method is not a glass ball that can be used to look into the future. Nevertheless, it is an important instrument for preparing for the unpredictability of future developments, for co-determining them, for exploiting the resulting opportunities and minimizing the risks or even for transforming them into opportunities. While forecasts merely update the past into the future, scenarios develop alternative, plausible and coherent visions of the future by identifying key factors of the development to be examined and analyzing the interactions between them. The method is based on a process developed by Shell to better assess global oil demand. In the late 1970s, Shell replaced traditional forecasts with alternative futures and weathered the first oil price crisis better than other companies in the industry. Since then, the approach has been further developed for strategy planning by companies, political actors, the military and private individuals, among others. Since the explorative approach of the scenario method plays through several alternative development trends and also includes possible disruptive events, the scenarios are a tool for developing innovative ideas for dealing with the uncertain future. If it is found that one's own current strategy is not promising in any of the scenarios, it should be adapted. The scenario method can be an effective tool to make a planning future-proof.[3]

The forecasting statements obtained in the presented paper have been divided into several influencing factors, such as political and cultural (for example, see the section 2.2), legal (3.1), and economic (throughout the whole paper) ones.

Consistency analysis[4] was also widely used in the paper. The consistency analysis assesses for all characteristics how likely it is that they will occur together. Do they fit together? Are they mutually exclusive? Or are they neutral with each other? Is it

[3] Cf. Postma and Liebl 2005, pp.162-164

[4] Cf. Heinecke 2006, p.190 f.

conceivable, for example, that China has highly innovative companies in 2030 ("Innovated in China") without the education system having been reformed ("Education remains centralistic")? The assessment enlarged on the right shows that the meeting of these two assumptions was assessed as neutral. In other words, an unchanged centralist education system does not rule out innovation, but does not promote it either. A reformed education system, on the other hand, could greatly favor China's innovative capacity, and a collapse of the education system would severely hamper it. According to this pattern, every possible characteristic of every factor is related to every possible development of every other factor.

A qualitative comparative analysis[5] has been applied to make a comparison between the market access opportunities for the Chinese investors in Germany and for the German investors in China. Based on this, the statements as to the reciprocity could be obtained (see the section 3.3).

2. Fundamentals and Definitions

2.1 Actual Investment Methods

2.1.1 FDI - Foreign Direct Investment

Besides portfolio investments and other cross-border capital flows such as bank loans or deposits with foreign credit institutions, foreign direct investments (FDI) represent one of the three categories of international capital movements.[6] The main feature of foreign direct investment compared to portfolio investments is that the investor intends to have a lasting influence on the business activity and management of the foreign investment object: Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy.[7]

[5] Cf. Pattyn et al. 2017

[6] Cf. Razin and Sadka, 2007, p.1

[7] Cf. IMF, 2008, p.144

In general, it is assumed that there is a longer-term and strategically invested capital commitment between the investor and the foreign investment property if the investor directly holds at least 10% of the voting rights of the direct investment property. The 10% share of the voting rights is to be interpreted only as a guideline which is intended to facilitate an international comparison. Complete control over the business activities of a company is only given if the investor holds more than 50% of the voting rights in the direct investment property. If the investor owns less than 50% of the voting rights, his influence on the business of the investment object depends on its ownership structure.[8]

The long-term and permanent commitment of the direct investor is also expressed in the form and extent of the transfer of resources. While portfolio investments only involve a monetary form of capital transfer, direct investments involve the transfer of know-how, production technologies, organizational structures, personnel or other tangible and intangible assets in addition to capital transfers.[9] Direct investments are therefore more long-term investments, whereas portfolio investments are more short-term investments. In many cases these are speculative investments, which are quickly liquidated if the investor has the prospect of a more lucrative investment opportunity. Foreign direct investment can come from three sources: Equity investments, reinvested earnings of the subsidiary abroad and intra-company loans from the parent company to the subsidiary.[10]

2.1.2 Mergers and Acquisitions

Acquisitions represent a company's second option to gain a foothold in a foreign market through direct investment. The buyer acquires a company located abroad and takes over its business activities, customer and supplier relationships as well as production facilities. Acquisitions of local companies mean a fast route to market entry and market penetration. While acquisitions at the national level have been examined and analyzed in a large number of theoretical and empirical studies, cross-border acquisitions have only

[8] Cf. Ietto-Gillies, 2005, p.22

[9] Cf. Pfaffermayr, 1996, p.2

[10] Cf. OECD, 2008, p.51ff.; UNCTAD, 2010, p.6

increasingly become the focus of economic research in recent years.[11] This is primarily due to the strong growth in international M&A activities over the past two decades.[12] However, cross-border and national acquisitions are similar in many respects, so that the analyses for national markets can largely also be transferred to the international level.

Depending on the level of participation, a distinction can be made between complete takeovers, majority and minority participations.[13] If the acquired company becomes a 100% subsidiary, this is referred to as a complete acquisition. A majority acquisition occurs when the direct investor acquires more than 50% of the shares of the local company. If the acquired stake is between 10% and 49%, the stake is a minority stake. As a rule, only a majority shareholding gives the buyer a controlling influence over the takeover object and permits uniform management. If the buyer has a blocking minority, he can prevent important resolutions of the company, e.g. amendments to the articles of association or the conclusion of company agreements.[14]

Acquisitions can be divided into friendly and hostile takeovers. In a friendly takeover, the buyer's offer is made with the approval of the management of the acquisition object and is therefore generally accepted by the shareholders of the company. In the event of hostile takeover attempts, the takeover offer is made directly to the shareholders of the target company - without the approval or consent of the management.[15] A hostile takeover attempt entails higher risks for the potential buyer, as he does not have the possibility to examine the takeover target in the course of due diligence, but has to make his decision solely on the basis of freely available information.[16] In addition, the management of the target company can take active action against the takeover attempt. For this purpose, it has a number of preventive and ad hoc measures at its disposal. These are intended to

---

[11] Cf. Neary, 2007, p.1229; Evenett, 2004, p.428; Shimizu et al., 2004, p.308

[12] Cf. Tekin-Koru, 2012, p.280

[13] Cf. UNCTAD, 2000, p.99; Brakman et al. 2007

[14] Cf. Lucks and Meckl, 2002, p.26

[15] Cf. Grinblatt et al., 2008, p.715

[16] Cf. Berens et al., 2008, p.36

increase the price of the transaction in order to reduce the attractiveness of the target company for the potential buyer and, at best, to make the hostile takeover prohibitively more expensive.

2.1.3 Greenfield Investments

A greenfield investment is the complete solo effort of a company to establish a physical presence in the host country. Start-ups are legally independent business units abroad. The capital employed is used for the acquisition of land or real estate, the construction of a production facility, the recruitment, training or transfer of labour and the establishment of distribution channels.[17] Newly founded companies can be divided into vertical and horizontal investments on the basis of their primary objectives, the realization of cost savings or the service of a foreign market. Vertical greenfield investments are the result of international differences in factor prices and lead to a fragmentation of the production process. The individual stages of the production process require different input factors.[18] Their costs can vary from location to location so that companies can realize cost advantages by relocating parts of their production abroad. For example, unit labour costs are an important determinant of vertical greenfield investments.[19] If parts of the production process are very labour-intensive and unit labour costs are very high in the company's home country, it is advisable to relocate production to countries where unit labour costs are significantly lower. The production of the product is thus divided into a large number of production stages, which are located in different countries depending on the necessary input factors in order to minimise production costs.[20] However, the end product is usually manufactured in the home country of the multinational company, so that the individual intermediate products have to be transported back home from the production sites abroad.[21] Vertical greenfield investments can be divided into forward

[17] Cf. Lee and Ries 2016, p.3

[18] Cf. Kalsie 2014, p.7

[19] Cf. Kim 2009, p.93

[20] Cf. Sandler et al. 2019, p.3

[21] Cf. Ekholm et al., 2007, p.777

and backward investments, depending on which production stages are located abroad.[22] If these are downstream of those in Germany, they are forward-looking greenfield investments. Backward-looking greenfield investments comprise functions that are upstream of the production stages in the home country.

2.2 Cultural Background of China and prevailing Political Situation

Since its opening in 1978, the Chinese economy has achieved a considerable economic catching-up process vis-à-vis the EU and the USA. In 2015, China became the largest country in the world in terms of income - measured by purchasing power - and by 2016 to 2030 China could double its income again; with growth rates of 5%. Although there are still about 90 million poor in China, the Chinese government wants to overcome this problem within a decade; at the same time, it should be borne in mind that there are over 200 million Chinese at the top of the income pyramid whose per capita income is about as high as the average US income. Furthermore, there are increasingly middle classes with purchasing power. In this overall economic environment, numerous young and established companies are developing, often benefiting from their proximity to Western or Japanese or Korean multinationals.[23] There are a predominant number of state-owned companies, but also numerous small private companies; the latter up to larger medium-sized companies. In the 1980s and 1990s, China's first phase of economic opening brought numerous multinational companies into the country, which were initially only allowed to produce in the Western special economic zones.[24] China has achieved an enormous increase in per capita income and in innovation and export dynamics through an education offensive and the inflow of direct investment as well as the founding of new technology-oriented companies in the four decades after 1978 - the year of gradual opening to the world economy.[25] This is why, starting from strong market and technological positions in the large Chinese market, many prospering companies with a

[22] Cf. Head, 2007, p.120ff.

[23] Cf. Li and Xiaodi 2008, p.134

[24] Cf. Liu 2000, p.271

[25] Cf. Wu and Liu 2007, pp. 20-22

company-specific competitive advantage, often also a technological advantage, have emerged that can also successfully produce abroad.[26]

The historical view of China does provide some useful insights that, although sufficiently well known, can enrich the current debate. Thus, two aspects are noteworthy in this political and cultural symbolism. Firstly, China's path, which in industrialized nations is often perceived as an ascent, may only be a return to world leadership from a Chinese perspective. And secondly, “Made in China 2025" in some respects corresponds exactly to the opposite of the (already then false) self-perception in the Chinese Empire, according to which nothing "useful" can be found outside the Middle Kingdom. That is definitely different today. Now that China has shaped its economic rise as a "recipient country" of direct investments, the Middle Kingdom is under criticism as a "donor country". Nevertheless, the opportunities offered by China's "outbound strategy" should not be ignored at this point. The general advantages of these markets and the special opportunities that can arise through cooperation with an investor from China are adequately documented.[27]

China's own economic growth process in particular is yielding the benefits of foreign direct investment. The fact that the central government steered this process through strict guidelines may be based not only on considerations of industrial policy but also on the fear that Western companies experienced in competition might otherwise have been able to play off their power. In the course of this process, it is no longer too steep a thesis that China now rode out as a dominant player, which must be countered accordingly.[28] For the local economy, too, the laws should not be thrown overboard in the first place and a clear rejection should be given to the compartmentalization of the markets. Nevertheless, it would certainly not be the right way to use the rules of fair competition to confront market participants with a strategic and dominant player like China. The demand for a level playing field or reciprocity in China, coupled with appropriate defensive measures

---

[26] Cf. Zhang 2001, pp.252-254

[27] Cf. Keane and Zhang 2017, pp.67-69

[28] Cf. Richardson et al. 2014, p.265

on our part, is necessary in order to be able to continue to benefit from China's resurgence without risking a sell-out. Because positioning as a "donor country" it has been worth it so far.[29]

2.3 Actual Chinese Investment Strategies in the European and German Market

2.3.1 Made in China 2025

In 2015, the Chinese government published a detailed strategy for technological upgrading of Chinese industry under the title "Made in China 2025". The intention is to improve the quality of Chinese industry sustainably by 2025 in order to establish a progressive industry standard by 2035. In 2049 - the 100th anniversary of the founding of the People's Republic of China - China is said to have become the world's leading industrial location.[30] In order to achieve these goals, so-called key industries, such as information technology, industrial robots, space, air and sea travel, high-speed trains, renewable energy, electromobility and biochemistry were explicitly defined. The strategy concentrates on reducing the dependence on foreign, industrial cutting-edge technology by strengthening domestic industry. However, as the Chinese government recently emphasized, this is not limited to Chinese companies, but also includes foreign companies operating in China. Another important component of the strategy's implementation is Chinese direct investment in foreign companies with cutting-edge technologies, such as the recent planned takeover of the automotive supplier Grammer by the Chinese company Ningbo Jifeng.[31]

Although the strategy once again emphasizes the "decisive role of the market in resource allocation", it is implemented as a "top-down" approach - as is practically always the case in China - guided by the state and government and backed up by massive financing. In total, this is said to amount to more than 20 billion euros; for comparison, the German government intends to spend only a modest 200 million euros on the implementation of

---

[29] Cf. Wu and Tang 2012, pp.364-366

[30] Cf. Zhou et al. 2019, p.7

[31] Cf. Petti et al. 2016, pp.565-566

the "Industry 4.0" concept, which China had adopted as its strategy. Top down, by the way, is not the same as the Chinese central government. Although this government sets the strategy, the 23 Chinese provinces are leading a productive race to implement it. It is precisely one of China's secrets to success that planning and competition do not necessarily have to contradict each other. Nor should we underestimate the pragmatic and experimental nature of China's economic policy. For example, 15 innovation centres should be established in selected cities by 2020 and 40 by 2025, and around 200 companies were specifically selected to implement the project.[32]

2.3.2 OBOR - One Belt One Road

The new Silk Road Initiative is an ambitious infrastructure project of the People's Republic of China, which is primarily intended to create a complex trading area in Eurasia. The aim is to tie the People's Republic more closely to Central Asian, European and African markets and in return to strengthen the Chinese economy. By opening up and establishing these markets, the Middle Kingdom would establish and strengthen relations with countries in which almost two-thirds of the population find their home.[33]

In order to realize this project, the Chinese government is willing to invest an accurate sum. Experts estimate that around USD 1.7 trillion will have to be invested annually to further expand Asia's infrastructure. By the year 2030 this sum would rise to a total of 26 trillion USD. These include investments in energy supply and the construction of new ports, roads and railways. This means that not only economically important states, but also underdeveloped regions will be united in a network of international action and become part of the global market.[34]

The project "One Belt One Road" was first mentioned six years ago. Only a few months after taking office, Chinese President Xi Jinping had talked about the important cooperation between the states and the joint development of the multi-billion-euro

---

[32] Cf. Agarwala and Chaudhary 2019, pp.207-209

[33] Cf. Cheng 2016, p.2

[34] Cf. Wang et al. 2018, p.29

economic stimulus package during visits to the Central and Southeast Asian countries in September 2013, thus arousing great interest. In the same year, Li Keqiang, China's Prime Minister, addressed the members of the Association of Southeast Asian Nations at the China-ASEAN Summit in Brunei and announced the expansion of the maritime routes of the Silk Road.[35]

This is an infrastructure axis going west as far as Germany/France, which will facilitate trade with China in intermediate and end products. Logistics is therefore an important sector from the perspective of China's economic policy. With the establishment of the Asian Infrastructure Investment Bank (AIIB) in 2015, China's economic policy has also been able to set an institutionally important course. The AIIB has its headquarters as a multilateral bank for financing investment projects in Beijing. Through the AIIB, China has created a large international bank that can finance investment projects by Chinese companies - and other companies - in dozens of countries in Asia and also in Europe. AIIB has an important European branch in London to date. But after the BREXIT it is quite conceivable that Chinese banks, including AIIB, will increasingly pitch their tents in continental Europe - with the EU27 - after 2019.[36]

With the silk road project, China is moving further towards Europe via infrastructure projects, some of which are co-financed by the Chinese government. This in turn is important for Chinese direct investments in each of the 60 or so countries that belong to the double silk road. It shows that China's direct investments in the Silk Road countries increase over time, with the growth rates of private direct investments being higher than those of projects by state-owned companies; however, these usually have relatively large direct investment projects.[37]

[35] Cf. Cheng 2016, p.3

[36] Cf. Wang et al. 2018, p.30

[37] Cf. Cheng 2016, p.4

3. Theoretical Analysis of Chinese Business Investments in Germany

3.1 Prevailing Legal Situation

China itself did not become a member of the World Trade Organization until 2001, which in this way integrates one of the largest economies into international rules and regulations: those that affect trade, but also those that protect copyrights of technology-oriented companies in particular. Since the beginning of the 21st century, as China's technological catching-up process progresses, there have also been an increasing number of Chinese companies interested in effective patent protection and trademark rights. However, the increase in innovation dynamics emphasized by Chinese economic policy in the new five-year plan 2016-2020 for 2016-20 is also an indication that China as a whole is willing to close existing knowledge and research gaps vis-à-vis Western countries and Japan plus Korea. Of course, direct investments by Chinese companies in leading Western industrialized countries, especially in Germany, can play a major role in this. To want to acquire companies in Germany first of all usually means that high acquisition or participation prices have to be paid and that investors also need to think their way into the co-determination culture in Germany; investment projects in Germany almost always offer good access to the EU internal market.[38]

China's economic policy essentially controls government foreign investment through the National Development and Reform Commission (NDRC). As a rule, private companies also require approval from the relevant ministry (trade ministry/economics ministry) for direct investments in foreign countries. China's "Going Global" strategy became the official economic policy guideline in the tenth Five-Year Plan of October 2000.[39] According to official Chinese statistics, direct investment outflows increased from EUR 2.6 billion in 2002 to EUR 18.2 billion in 2007, EUR 40.1 billion in 2008 and EUR 51.4 billion in 2010. As an important reason for this development it is emphasized that with China's accession to the World Trade Organization the direct investments of Chinese

[38] Cf. Britzelmaier et al. 2018, pp.2-4

[39] Cf. Beate 2001, p.76

companies became strategically important. On the one hand, Chinese direct investors had greater legal security for their foreign projects due to their membership in the World Trade Organization, as far as part of production was to go abroad as exports to other countries. On the other hand, this meant that new trade regulations exerted increased pressure on companies in China due to increased import competition in the Chinese market. China's government therefore relied on giving its own companies more options to gain experience or competitive advantages on a new basis through direct investments abroad. In addition, the accumulation of high foreign exchange reserves at China's central bank led to an appreciation discussion with regard to the Chinese currency. China was able to counter this pressure in part by outflowing currency reserves abroad via direct investments by Chinese companies.[40]

So there are two sides to the coin. On the one hand, German companies wishing to invest in China are struggling with legal requirements and the danger of an involuntary technology transfer; on the other hand, Chinese companies largely have a free hand in Germany if they want to make investments. In short: an equal partnership at eye level looks different. And: Not all investments are the same. The fact that the suspicion might arise that China is pursuing a master plan does not seem entirely absurd. In any case, the Chinese leadership is still mapping out the desired economic development in five-year plans and adopted a catalogue of guidelines "designed to guide investments in certain industrial sectors and countries". In line with this, recent purchases in Germany are concentrated on certain sectors, such as mechanical engineering, vehicle construction, and chemicals. The aim is to concentrate on companies that are world market leaders in very specific market segments, so-called "hidden champions".[41]

However, Germany has reacted to the legal situation described above. In 2017, the Federal Cabinet passed an ordinance granting the Federal Government new veto rights on the sale of German companies to non-European purchasers of companies. The black-red coalition wants to prevent foreign investors – with the help of state money – from

---

[40] Cf. Britzelmaier et al. 2018, pp.3-5

[41] Cf. Britzelmaier et al. 2015, p.3

buying up German high-tech companies and transferring their know-how abroad in order to compete with the German economy. The decision was a reaction to the shopping spree of Chinese investors in Europe - especially in Germany. In 2016, they bought the robot manufacturer Kuka, among others. Then, they tried to take over Aixtron.[42]

For the first time, the federal government defines rules in which company takeovers become a threat to public order. This applies, for example, to important infrastructure: hospitals, power grids, ports. The purchase of operating companies by purchasers from outside the EU should be made more difficult if necessary. The same applies to companies that develop the necessary high-tech. In addition, the new regulation will allow the German government four months to obtain the necessary information. So far it has been two months.[43]

The Federal Republic of Germany currently examines an average of 40 to 50 cases per year. With the new regulation, an increase by further ten cases is expected. In future, the investigation will also be extended to companies that develop key technologies in the field of defense. In addition, care will be taken to ensure that foreign companies do not simply set up a company in Germany in order to circumvent the new law in the event of a takeover. Here, too, investigations will be carried out in the future.[44]

3.2 Chinese FDI in Germany

3.2.1 Chinese Mergers and Acquisitions in Germany

International takeovers and shareholdings dominate Chinese direct investments in Germany and Europe. Chinese firms adapt to the economic, political and social conditions of the host country, whereby intercultural differences may also cause temporary adjustment problems for individual firms. In the case of takeovers and participations, Chinese companies accept the framework conditions in the host country as part of the

[42] Cf. Britzelmaier et al. 2017, p.492

[43] Cf. Ebd.

[44] Cf. Britzelmaier et al. 2017, p.493

overall institutional package at the local level, i.e. also the co-determination rules in Germany. In China there is no equivalent for co-determination, even in the local companies.[45]

In 2016/2017 there has been a considerable discussion in Germany and other EU countries about Chinese direct investment activities in Europe, as there are hardly any political opportunities to oppose company takeovers by investors from China - beyond security policy relevant sectors. One of the most interesting developments from a German point of view is the foreseeable participation of the Chinese financial investor HNA in Deutsche Bank, whereby only one financial investment is initially planned here; i.e. a participation of less than 10% (above 10% it is a direct investment). Another interesting challenge in Germany is the planned takeover of Opel by the PSA group - Peugeot-Citroen - in which the Chinese investor Dongfeng holds a 14% stake. In the case of an Opel takeover by PSA, this would result in an indirect Chinese Opel participation on the part of the Chinese car company Dongfeng. Should the Chinese investor acquire a majority stake in PSA in the course of time, Europe's second-largest car manufacturer would then be in Chinese hands. In the longer term, further such developments with relevance for Germany could arise. The PSA(Dongfeng)-Opel case is an excellent example of how hardly any EU direct investor perspective is appropriate in some industries. For in the EU internal market with free movement of capital, "European takeovers" - assuming corresponding Chinese interests in the acquiring company - can also result in stronger Chinese direct investment positions in Germany. In addition to conventional direct investments from China (or country x), indirect international takeovers (greenfield investments if necessary) must also be taken into account, in which the participation in a company in country i with a direct investment target in country j means an indirect takeover by Chinese capital.[46]

In view of the sustained economic growth in China, it can be assumed that the long-term weight of investors from China in Germany will more than triple by 2030. Investors from China have a variety of takeover opportunities resulting from the logic of industrial

[45] Cf. Britzelmaier et al. 2018, p.2

[46] Cf. Britzelmaier et al. 2018, pp.2-3

structural change, but also from succession problems at German companies and from economically motivated investment projects on the part of the Chinese leadership. The present important direct investment cases and the current and conceivable future patterns as well as the problem structures in direct investment projects from China need to be addressed and corresponding conclusions drawn. In view of the EU internal market, conceivable economic policy response strategies should not only be considered by the Federal Government, but also by the EU Commission.[47]

3.2.2 Chinese Greenfield Investments in Germany

Numerous Chinese companies have their German or European branch in North Rhine-Westphalia and Chinese investors are also very active in the federal states of Baden-Württemberg, Bavaria and Hesse. The increase in direct investments in Germany is often achieved through mergers or shareholdings, with an acceleration in direct investments in Germany since 2011 and numerous investor motives appear relevant:

- High technological standard

- legal certainty

- Quality of the workforce and the German education system

- great market power of Germany

- Central location of Germany within the EU

- respectful and good image of Germany

- Diversify currency risks

- Increasing competition on the Chinese market

- Know-how acquisition and distribution channels

[47] Cf. Ebd.

- Access to the European market and distribution channels.[48]

As investors, Chinese companies represent different types of investors from their country of origin: There are:

- state-owned companies

- private companies with their own financial resources

- private companies that use the assistance of sovereign wealth funds.[49]

Therefore, these different types of investors in Germany can also show different behavior (with further gradations if necessary), whereby the type of investment presence - i.e. new establishment of a business in Germany by investors ("greenfield investment") or international takeover/participation in companies in Germany - may also play an additional role for the investor strategy and investor relations as well as conceivable conflicts. In the case of international mergers and acquisitions (M&A), the foreign investor takes over existing and established corporate structures. This also includes co-determination elements and related functioning institutions. The situation is different when an investor from China sets up a new business, as the initial situation is different and business and employee growth usually only takes place over time or will be realized in certain phases. As a rule, co-determination will always play a role. The participation of employees in the supervisory board for companies is a special element that depends on the size of the company - with corresponding requirements from the "Drittelbeteiligungsgesetz", according to which employees have one third of the seats; this applies to different legal forms (AGs, limited partnerships on shares, cooperatives and GmbHs, the latter being the typical legal form for many foreign investors). In corporations with up to 2000 employees, one-third parity applies. If the number of employees exceeds this, the supervisory boards are composed on a parity basis. Many Chinese investors find access to target companies in Germany via advisory centres in the

[48] Cf. Fallon 2014, pp.2-4

[49] Cf. Britzelmaier et al. 2015, p.2

federal states or municipalities, some of which actively solicit investors from China and other Asian countries and can also provide information on the legal framework for business activities in Germany.[50]

A study[51] examined Chinese investments in the EU. The empirical findings show that a distinction has to be made between greenfield investments and international participations and mergers and acquisitions (M&As): The market size and the intensity of foreign trade with China are the main influencing factors for Chinese direct investments in the EU. Within the EU there are certainly locations that are relatively underdeveloped and attract Chinese direct investment - presumably because the intensity of competition is not very high. As far as the differences between greenfield investments and M&As are concerned, unit labour costs are partly relevant, i.e. when Chinese investors set up new companies. Following the transatlantic banking crisis, Chinese investors have become increasingly interested in technology-intensive industries in Europe, with some EU countries with low per capita incomes becoming more attractive.[52]

This means that Chinese companies are setting up their own sales companies, factories, research and development centers etc. "on the green field" or are expanding existing company structures. In this way they create new values, for example in the form of jobs, and contribute to tax revenues. According to preliminary figures from Germany Trade and Invest (GTAI), there were 147 Chinese new settlement and expansion projects in Germany in 2017, i.e. about three times as many as company investments.[53]

Although new business is the predominant factor in the number of Chinese investment projects in Germany, these are largely taking place under the radar. As mentioned above, public attention is focused primarily on Chinese company investments. This is due to the fact that existing values (technology, jobs, land, etc.) are taken over and that the

---

[50] Cf. Britzelmaier et al. 2017, p.492-494

[51] Cf. Dreger, Schüler-Zhou, and Schüller, 2015

[52] Cf. Britzelmaier et al. 2017, p.495

[53] Cf. Britzelmaier et al. 2017, p.495

investment sum is generally much higher than for new settlements. This combination underpins fears that Chinese investors may take over politically subsidized German high-tech companies, leading to a systematic technological "sell-out" of Germany.[54]

3.3 Reciprocity in Market Access

In fact, China clearly emphasizes its own interests in the industrial policy approach it pursues and acts less according to the principle of multi-lateral cooperation, which has largely shaped European policy since the post-war period. China justifies this with reference to its formal status as a developing country (e.g. in the context of the World Trade Organization - WTO). However, this justification has increasingly lost relevance, since its strong industrial regions and companies can now survive in global competition and continue to catch up. The China 2020 Initiative could become a game changer here, as a detailed analysis of this strategy shows.[55]

For example, China wants to turn some of its state-owned enterprises into global champions in the identified key industries. In doing so, these companies mainly benefit from subsidies and subsidized loans from state banks, so that there is no level playing field on the Chinese market and also on the world market compared to foreign companies that produce according to market conditions. Over-investment also leads to massive overcapacities in some sectors (such as steel). However, the EU can counter these competition-distorting Chinese strategies on its own market. If local companies and industries come under too much pressure from artificially cheap Chinese imports, the EU has instruments such as anti-dumping and anti-subsidy procedures at its disposal with which it can try to protect the European economy from unfair competition without fundamentally violating WTO world trade rules.[56]

In contrast to the EU, China very strongly restricts the access of foreign investors to its market. According to the restriction index for (inflowing) foreign investments of the

---

[54] Cf. Britzelmaier et al. 2017, p.496

[55] Cf. Wübbecke et al. 2016, p.2

[56] Cf. Wübbecke et al. 2016, pp.2-4

OECD, China ranks fourth-last among 62 countries. In the top ten of this ranking are without exception EU countries, Germany ranks tenth. The EU has little to offer against this lack of reciprocity.[57]

European appeals to China to relax the restrictive access conditions have had little effect to date, although a bilateral investment agreement has been under negotiation since the end of 2013. The literature mostly criticizes the fact that the Chinese government has made promising announcements in the recent past about greater market opening, but that so far hardly any action has followed words. Although improvements in market access and regulation in the pharmaceutical industry are seen as particularly positive, in some other areas there have even been stronger restrictions and problems. These include the automotive industry, food/beverages and the establishment of other Chinese state-owned companies (through mergers) in numerous sectors.[58]

In addition, European companies are likely to face major challenges from China's new cyber security strategy and the very comprehensive data collection requirements that the Chinese government is planning. This not only entails considerable bureaucracy, but also concerns about industrial espionage and intellectual property theft.[59]

In addition, China has been using the strategy of technology transfer to its advantage very consistently for years. China only grants foreign companies in important sectors certain access to the domestic market if they enter into a local joint venture with Chinese companies. The aim is to transfer technology to the Chinese partner. China uses its large sales market, which multinational companies cannot ignore, to implement this strategy against the resistance of foreign investors.[60]

However, European companies have incentives and certain opportunities to defend themselves against China's technology transfer strategy in order not to be forced out of

---

[57] Cf. Britzelmaier et al. 2017, p.497

[58] Cf. Britzelmaier et al. 2017, p.499

[59] Cf. Britzelmaier et al. 2017, p.498

[60] Cf. Britzelmaier et al. 2017, p.502

the market by new Chinese competition in the foreseeable future. They can prevent a too extensive technology transfer by producing in China not with their best technology, but with a predecessor version. This is also facilitated by the fact that China has a different demand for goods than the EU states.[61]

But the Chinese government can try to play competing foreign companies off against each other with a view to their concessions for market access and thus exert pressure to locate even the latest technologies. The above-mentioned China-2025 strategy strengthens China's position even further, because additional business opportunities for European companies are on the horizon and modern technologies are necessary for this strategy. The question also arises as to the extent to which China attracts foreign innovative companies with subsidies.[62]

Another strategy pursued by China for a long time was to gain access to the latest technologies in industrialized countries through industrial espionage, against which European companies can largely protect themselves through security measures. In addition, the China-2025 strategy also aims to accelerate the acquisition of European companies in order to maintain (in addition to better access to the European market) access to the latest technologies at the innovation frontier. One example of this trend is likely to be the takeover of the German robot manufacturer Kuka by the Chinese household appliance manufacturer Midea, which is much less technologically developed than Kuka and is also active in another sector (but relies on efficiency gains with robots).[63]

As explained, in Germany and Europe, there is so far no way to prevent this industrial policy strategy from being implemented.

---

[61] Cf. Britzelmaier et al. 2017, p.504

[62] Cf. Britzelmaier et al. 2017, p.506

[63] Cf. Wübbecke et al. 2016, pp.3-5

4. Conclusion

4.1 Findings and Limits of the Paper

Direct investments by Chinese companies in Germany and Europe has increased significantly since about 2005. In direct investment cases in Germany, it is not only direct investments that need to be taken into account, but also indirect participations/acquisitions are relevant - as the example of Peugeot with the Opel acquisition shows. From an economic point of view, direct investment inflows from China generally bring advantages for the companies and sectors concerned, but if critical proportions of Chinese companies in individual sectors are reached, the behavior of Chinese investments is also likely to change qualitatively. From Germany's point of view, it is important that access for German companies in China is sustainably improved, as otherwise one-sided advantages for Chinese investors would be expected.

The current paper is limited in terms of the conditions, currently going on or described in the previous literature, since these serve as a basis for a forecasting. Should these be even slightly altered in the future, the prognoses made in the current paper are no longer valid. Also, it should be noted that the reliability of the statistics published by the Chinese authorities has been often questioned in both political and academic circles. For this reason, the key figures that indicate the China’s economic growth are limited as they may not be able to provide a real picture for the future prospects. Finally, another limitation refers to the subjective perception of the facts by the author of the present paper as well as the literature incorporated in this work. For example, the papers may be divided depending upon whether they adhere to a European-centered or China-focused discourse. Hence, the sources selection issue as to which papers are implemented in the present work is limited to the author’s subjective preferences and may not cover all the opinions, which exist in the academic circles on the topic.

4.2 Further Research and Outlook

As soon as Chinese direct investments in certain sectors reach critical levels or as soon as high-tech companies are affected, the increase of direct investments from China will in individual cases also be perceived as a problem by the companies and their employees or by economic policy. The sooner it is possible to establish meaningful overall EU rules and to shape the expectations of direct investors from China on the basis of good information, the sooner a sustainable Chinese direct investment dynamic can develop: in the economic, social and ecological sense. In many cases Germany will be too small as a negotiating partner with China, and a regular EU-China direct investment dialogue is recommended. Relevant discussion forums could also be the G20 and the OECD Development Center in Paris, as well as conferences between trade unions, scientists and other groups from Germany and China.

Of course, international technology transfer from OECD countries to China is part of the economic logic of Chinese direct investment abroad. From the microeconomic point of view of the company concerned, this may not be unproblematic at times - for example, because later rising exports of goods from China could affect the price position on the world market; by the way, a counterargument can arise if the price position on the world market is improved by increasing world market shares. Macro-economically, however, a technology transfer in favor of China increases China's product potential and thus its gross domestic product in the long term. This, however, will increase Chinese import demand via a macroeconomic expansion effect in China, which in turn generally means rising German exports. From the perspective of Germany and the EU, the macroeconomic effects of Chinese direct investment "in the aggregate" must also be considered.

Best practice examples of Chinese direct investment should be widely scientifically investigated and publish via all possible channels in terms of direct investment experience with Chinese investors. There is certainly still a considerable need for further research.

References

Agarwala, Nitin and Chaudhary, Rana. (2019). China's Policy on Science and Technology: Implications for the Next Industrial Transition. India Quarterly: A Journal of International Affairs. 75. pp.206-227.

Beate, K. (2001). Perspectives of China-Germany economic cooperation. 16. pp.75-78.

Berens, W., Mertes, M., and Strauch, J. (2008): Unternehmensakquisitionen, in: Berens, W., Brauner, H. U., and Strauch, J. (Hg.) (2008): Due Diligence bei Unternehmensakquisitionen, 5th ed., Stuttgart, Schäffer-Poeschel, pp. 23-71.

Brakman, S., Garretsen, H., van Marrewijk, C. (2007): Cross-border mergers and acquisitions: The facts as a guide for international economics, in: Gregoriou, G. N., Renne boog, L. (Hg.) (2007): International Mergers and Acquisitions Activity since 1990: Recent Research and Quantitative Analysis, 1st ed., Amsterdam, Academic Press, pp. 23-49.

Britzelmaier, Bernd & Britzelmaier, Emil. (2018). Chinese FDI in Germany and Italy – a comparison. Conference: 15th CIRCLE conference, At Sarajevo

Britzelmaier, Bernd & Flum, Caroline & Gog, Martina. (2015). Chinese Direct Investments in Germany: Development and Implications. Conference: Euromed Conference 2015, At Verona

Britzelmaier, Bernd & Flum, Caroline & Gog, Martina. (2017). Chinese direct investments in Germany: threat or opportunity for the German part of the merger or acquisition. World Review of Entrepreneurship Management and Sustainable Development. 13. pp.492-520.

Cheng, Leonard. (2016). Three Questions on China's "Belt and Road Initiative":. China Economic Review. 40. 10.1016/j.chieco.2016.07.008.

Dreger, C.; Schüler-Zhou, Y.; Schüller, M. (2015), Determinants of Chinese Direct Investments in the European Union, DIW Discussion Paper 1480, Berlin.

Ekholm, K., Forslid, R., and Markusen, J. R. (2007): Export-Platform Foreign Direct Investment, in: Journal of the European Economic Association, Jg. 5, H. 4, pp. 776-795.

Evenett, S. J. (2004): The Cross-border Mergers and Acquisitions Wave of the late 1990s, in: Baldwin, R. E.; Winters, L. A. (Ed.) (2004): Challenges to Globalization. Analyzing the Economics, 1st ed., Chicago, The University Press of Chicago, pp. 411-467.

Fallon, Theresa. (2014). China's Pivot to Europe. American Foreign Policy Interests. 36. 10.1080/10803920.2014.925342.

Grinblatt, M., Hillier, D., and Titman, S. (2008): Financial Markets and Corporate Strategy, 1st ed., Maidenhead, McGraw-Hill.

Hanemann, T., M. Huotari, and A. Kratz (2019), Chinese FDI in Europe: 2018 trends and impact of new screening policies, MERICS Papers on China, MERICS and Rhodium Group, Berlin.

Head, K. (2007): Elements of Multinational Strategy, Springer Publishing, Berlin.

Heinecke, Albert (2006): Die Anwendung induktiver Verfahren in der Szenario-Technik. in: Falko E. P. Wilms (Hrsg.): Szenariotechnik. Vom Umgang mit der Zukunft, Haupt Verlag: Bern, pp.183-213.

Ietto-Gillies, G. (2005): Transnational Corporations and International Production: Concepts, Theories and Effects, 1st ed., Cheltenham, Edward Elgar.

IMF (2008): Balance of Payments and International Investment Position Manual, 6the ed., Washington (D.C.), IMF Statistical Department.

Kalsie, Anjala. (2014). FDI in Greenfield Investment vs M&A : its Impact on GD : a Comprehensive Analysis of Developed, BRICS & East Asian Economies. Review of Professional Management- A Journal of New Delhi Institute of Management. 12. 1. 10.20968/rpm/2014/v12/i1/69644.

Keane, Michael & Zhang, Joy. (2017). Formats, cultural security and China's going out policy. International Journal of Digital Television. 8. pp.65-80.

Kim, Young-Han. (2009). Cross-border M&A vs. greenfield FDI: Economic integration and its welfare impact. Journal of Policy Modeling. 31. 87-101. 10.1016/j.jpolmod.2008.08.005.

Lee, Hyun-Hoon & Ries, John. (2016). Aid for Trade and Greenfield Investment. World Development. 84. 10.1016/j.worlddev.2016.03.010.

Li, X. and Xiaodi Z. (2008). Impact of FDI on China's Technological InnovationCapability and Regional Difference.China Industrial Economics9: 77–87. pp.133–154

Liu, Y. (2000). Research on Foreign Direct Investment of Germany, vol. 6, pp. 270–305. Wuhan: Wuhan University Press

Lucks, K. and Meckl, R. (2002): Internationale Mergers & Acquisitions, 1st ed., Berlin, Springer.

Neary, J. P. (2007): Cross-Border Mergers as Instruments of Comparative Advantage, in: Review of Economic Studies, Jg. 74, H. 4, pp. 1229-1257.

OECD (2008): Benchmark Definition of Foreign Direct Investment, 4th ed., Paris, OECD Publications.

Pattyn, Valérie & Molenveld, Astrid & Befani, Barbara. (2017). Qualitative Comparative Analysis as an Evaluation Tool: Lessons From an Application in Development Cooperation. American Journal of Evaluation. 40. 109821401771050. 10.1177/1098214017710502.

Petti, Claudio & Prota, Francesco & Rubini, Lauretta. (2016). Two decades of Made in China innovation. Industria. 37. pp.565-585.

Pfaffermayr, M. (1996): Direktinvestitionen im Ausland: Die Determinanten der Direktinvestitionen im Ausland und ihre Wirkung auf den Außenhandel, 1st ed., Heidelberg, Physica-Verlag.

Postma, Theo & Liebl, Franz. (2005). How to improve scenario analysis as a strategic management tool?. Technological Forecasting and Social Change. 72. pp.161-173.

Razin, A. and Sadka, E. (2007): Foreign Direct Investment: Analysis of Aggregate Flows, Princeton, Princeton University Press.

Richardson, Jessie & Millage, Phil & Millage, Jacob & Lane, Samuel. (2014). The effects of culture on leadership styles in China, Germany and Russia. Journal of Technology Management in China. 9. pp.263-273.

Sandler, Manuela & Bobek, Vito & Maček, Anita & Horvat, Tatjana. (2019). Greenfield investment vs. merger and acquisition as an entry strategy in Mexico - the case of Austrian companies. J. for International Business and Entrepreneurship Development. 12. 6. 10.1504/JIBED.2019.10024888.

Shimizu, K., Hitt, M. A., Vaidyanath, D., and Pisano, V. (2004): Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future, in: Journal of International Management, Jg. 10, H. 3, pp. 307-353.

Sieren, F. (2011). Angst vor China. Berlin: Econ.

Tekin-Koru, A. (2012): Asymmetric effects of trade costs on entry modes: Firm level evidence, in: European Economic Review, Jg. 56, H. 2, pp. 277-294.

UNCTAD (2000): Cross-border Mergers and Acquisitions and Development, New York, United Nations (World Investment Report).

UNCTAD (2010): Investing in a low-carbon economy, New York, United Nations (World Investment Report).

Wang, Hongwei & Zhekenov, Duman & Kurmangali, M.. (2018). Chinese global project: One belt and one road. KazNU BULLETIN. International relations and international law series. Vol 81. Pp.28-35.

Wu, X. and Liu, A. (2007). Development of Germany Direct Investment in China and Its Prospects. Germany Studies1, pp.19–23

Wu, Yuan and Tang, Yinshan. (2012). Venture capital investment culture differences between China and the West. 2012 International Symposium on Management of Technology, ISMOT 2012. pp.363-366. 10.1109/ISMOT.2012.6679494.

Wübbecke, Jost et al. (2016), Made in China 2025 – The making of a high-tech superpower and the consequences for industrial countries, Merics Papers on China, Mercator Institute for China Studies, Berlin

Zhang, Kevin. (2001). What Explains the Boom of Foreign Direct Investment in China?. Economia Internazionale / International Economics. 54. pp.251-274.

Zhou, Tianjun & Luterbacher, Jürg & Wu, Shaohong & Li, Chao & Chao, Qingchen & Cheng, Xiao & Duan, Yihong & Li, Jian & Stevens, Bjorn & Voigt, Sebastian & Zhang, Yuanhang & Zheng, Xunhua & Zou, Liwei. (2019). A new era of China-Germany joint research exploring the climate mystery of Earth. Science Bulletin.