

## From Early Trade to M&As

The Evolution of German Corporate Presence in China

German companies were among the first to start an industrial engagement in China and some of Germany's big industry players' commercial relationships with the Middle Kingdom even date back into the late 19th century. Electrical and electronics giant Siemens has been at the forefront of doing business in the Far East by exporting pointer telegraphs to China as early as 1872. Only a decade later, Bayer ventured out and began marketing dyes on the Chinese market. A period of increasing ties and further investments by these and other players followed until the World Wars and the Cultural Revolution brought foreign investment to a halt.

### The Post-Opening Eras

In the very early days after China had established the Reform and Opening Up policy in 1978, it was again large German companies that made the first inroads. Siemens' exhibition of "Electrical Engineering and Electronics" in the same year in Shanghai laid the stepping stone for its Beijing Representative Office opening in 1982 and culminated in the signing of the 'Memorandum of Comprehensive Co-operation between the Machinery, the Electric and Electronics Industries of the People's Republic of China and Siemens AG' in 1985. It was the first time that a foreign enterprise was invited by China to participate in such a comprehensive co-operation scheme and initiated the era of Sino-German Joint Ventures. Bayer's early efforts were rewarded with the establishment of a Representative Office in Beijing in 1986 and a liaison office in Shanghai. Today more than ever, the People's Republic is one of Bayer's main centres of global investment.

When examining the rich history of German investment, a clear pattern becomes visible (Fig.1). What started with Equity and Contractual Joint Ventures (JV) in a highly regulated market in the 1980s and required a Chinese partner for all commercial activities with a legal set up in China, soon triggered the often cited challenge of 'sleeping in the same bed but having different dreams'. The massive market potential of more than one billion consumers lured many companies into signing JV contracts, which promised a bright future. Only few of them were able, however, to eventually align the strategic direction between the Chinese partner and the German investor. The 1990s were thus highly influenced by the aftermath of the JV era and many companies gradually sought to develop their investments into more self-determination. The possibility of setting up Representative Offices and later Greenfield projects by establishing Wholly Foreign Owned Enterprises (WFOE) coincided with the time when many German companies laid the foundation for their later market success. Only the years after China's accession to the World Trade Organisation (WTO) in November 2001 with gradual acceptance of further market liberalisation (e.g. the possibility to set up trading WFOEs in 2005) brought China into the modern day era of corporate mergers and acquisitions involving foreign investors.

### German Presence

Present day statistics of German investment show an interesting development: while Delegation of German Industry & Commerce in China (AHK) knows around 4,800 German-invested companies in the country, China's National Bureau of Statistics estimates this number to be higher at above 5,000. This discrepancy is partly due to the fact that Chinese nationals, who had spent years abroad at



An early day export to China: Siemens' pointer telegraph transmitting messages 'letter by letter'. © Siemens

German universities and set up businesses after returning to China, are included in this figure. In terms of geography the Yangtze Delta has the largest presence of German operations. Despite China's efforts in drawing investment to the more western provinces, German company clusters are still mostly scattered along the coastal belt.

Germany continues to weigh heavy among China's trading partners and ranks second only after the United States with a volume of more than USD 100 billion in 2008. The result of a recent survey among German Chamber member companies demonstrated however that - although China has had its share of the worldwide financial crisis - German companies are generally positive about business in the country and confident that the Chinese economy will pick up in the first half of 2010.

#### Development of Foreign Investments in China (Fig. 1)

M&A is a new investment form in the historical context of China's FDI realization

Trends:	1978: Joint Ventures	1993: WFOE	Now: M&A
FDI Context:	79 – 85: Restrictions 86 – 88: 22 Regulations	89 – 91: Uncertainty 92 – 96: Deng Xiaoping	02 – 05: Post WTO
Vehicle:	Equity JVs Contractual JVs	Wholly foreign owned enterprises	■ Acquisition of Chinese and foreign companies ■ Restructuring
Method:	Partnering up with Chinese Partner	Greenfield investment	Various methods
Results:	Same bed, different dreams	Largely successful	■ Searching for deals ■ Gaining experience

Source: Fiducia Analysis

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