

# Chapter 8

## Chinese investments in Germany: increasing in line with Chinese industrial policy

Shuwen Bian and Oliver Emons

### 1. Introduction

‘China is buying up Germany’ (FOCUS Magazin 2011), ‘China’s company purchases in Germany are hotting up’ (Lange 2016). It is not just because of headlines like these that Chinese investors have been making a name for themselves in Germany of late. In the first half of 2016 alone 37 Chinese stakes in German companies were completed or announced, amounting to just under 9.7 billion euros, more than the previous ten years put together (Gaetzner 2016). There have been record deals aplenty: right at the beginning of the year state-owned enterprise the National Chemical Corporation bought the venerable specialist mechanical engineering company KraussMaffei for 925 million euros, the most expensive takeover by a Chinese company in Germany to date. In June the private group Midea made an attractive takeover bid for shares in the market-leading robot manufacturer Kuka. Almost two months later just under 95 per cent of the company, the first (former<sup>1</sup>) MDax firm, were in the hands of a Chinese concern. In the meantime, the pace of acquisitions has accelerated such that, on average, one German company falls into Chinese ownership each week. Insiders talk of a takeover frenzy among Chinese investors in Germany and expect more acquisitions.

In the German economy and political realm the takeover wave has given rise to some concerns. As Emons shows in his study ‘Selling Off the Hidden Champions’, apart from individual headline deals Chinese takeovers mainly involve SMEs (*Mittelstand* firms) that are world leaders in their area (Emons 2013). If one recalls the first Chinese investment projects in Germany and their outcomes the worries are not surprising. As early as the 1990s a series of failed investments drew the attention of the German media and politicians. In 1998 the first factory built by a Chinese investor in Germany – the Northern German Pencil Factory in Neustadt-Glewe, Mecklenburg – had to go into liquidation. The state government of Mecklenburg-Western Pomerania suffered a loss of 4.5 million DM in subsidies. In 2003 came the closure of Hirschfelder Leinen und Textil, with 60 employees, which only eighteen months previously had been taken over by the Chinese D’Long group. In 2004 the parent company itself got into major financial difficulties and collapsed. The other D’Long affiliate in Germany – aircraft manufacturer Fairchild Dornier in Oberpfaffenhofen, Upper Bavaria – also had to declare insolvency. In Türkheim, only 60 kilometres away, there was another bankruptcy only two months later, when Schneider Electronics ceased production after parent company TCL built a new plant in Poland. All the production workers were made redundant (Bian 2016).

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1. According to the rules of the German Börse, freely traded shares may not fall below a 10 per cent threshold. As a result of the takeover Kuka’s shares were excluded from the mid-cap index.

In retrospect the instances between the late 1990s and the early 2000s were only pilot projects. After several quiet years Chinese interest in German companies picked up again around 2009/2010 and has remained strong ever since. Are Chinese investors better prepared this time than in the past? Is Germany a particularly attractive target country for them? What in particular interests the new owners in their German affiliates: returns, sustainable development, technology transfer? What are relations like between German employees and Chinese employers in the acquired firms? These are issues that, against the background of heightened investment efforts from China will become increasingly important in the future.

In the present chapter we shall try to provide some first answers to these questions. It is structured as follows. In Section 2 we begin with a review of current Chinese investments in Germany. We go beyond summarising the findings of the various studies and, on methodological grounds, look into the various data sources behind the studies carried out so far. Even though all data sets confirm the rapid increase in Chinese foreign investments in Germany there is no unambiguous data pool on the exact number of transactions and total investment volume. By analysing the pros and cons of the relevant data gathering system we show which surveys come closest to the actual situation.

In Section 3 we go into the reasons and motivations of the increasing Chinese stakes in German companies. The government has pushed the international expansion of Chinese companies since 2000 as a national strategy. That is in line with the economic interests of these companies, which for a number of reasons are ever more urgently seeking new production locations and markets outside China. German companies appear to enjoy a high reputation among Chinese investors.

In Section 4 our focus shifts from the economic policy dimension to the company level. Hitherto, the view has generally been that the experiences of German workforces with Chinese owners have been largely neutral or positive. Looking more closely at the Chinese side, however, it seems that the conflict-avoiding behaviour of Chinese multinationals in relation to German workers' representatives has partly emerged from a learning process concerning the nature and functions of foreign trade unions which took place outside Europe and was supported by the Chinese authorities.

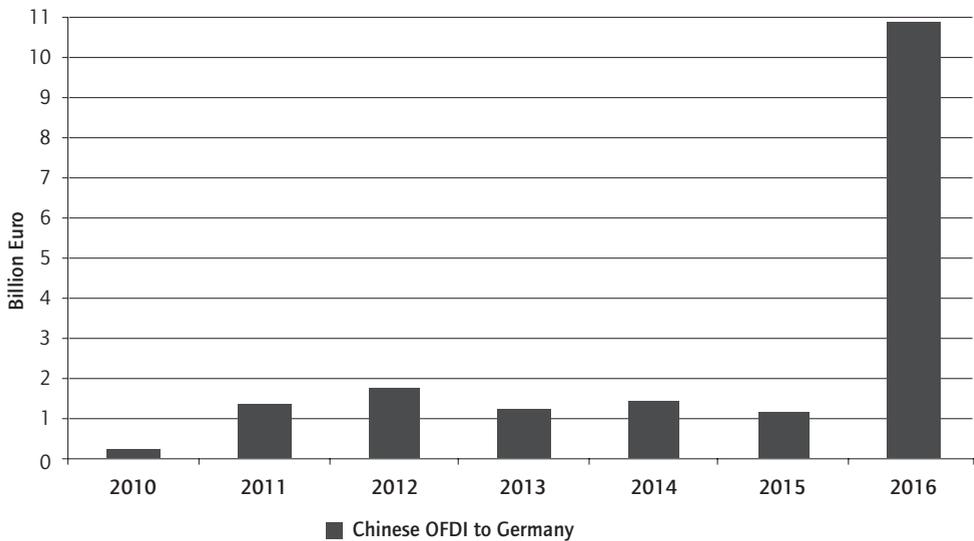
Section 5 is a practically oriented list of questions for trade unions, works councils and all other codetermination actors who find themselves facing Chinese investors. The list of questions is suitable for both examining company bids if Chinese investors come knocking with the intention of buying the company, and for evaluating the new owners if the takeover has already been concluded. We end with a cautious look at the future development of Chinese investments in Germany.

## 2. Overview of Chinese investments in Germany

### 2.1 General developments

The first Chinese transaction in Germany came as early as 1995. Before 2011 Chinese investments were not particularly substantial in quantitative terms. In 2010 Chinese capital stock invested in Germany constituted less than 0.3 per cent of all foreign investments. It began to rise sharply in 2011. According to the estimates of US think tank Rhodium Group (see Figure 1) Chinese capital inflows into Germany rose from 186 million euros in 2010 to 1.4 billion in 2011. While they remained relatively stable at 1.5 billion euros a year between 2011 and 2015, Chinese investments in Germany reached a new peak in 2016 (Hanemann and Huotari 2015; Hanemann and Huotari 2017).

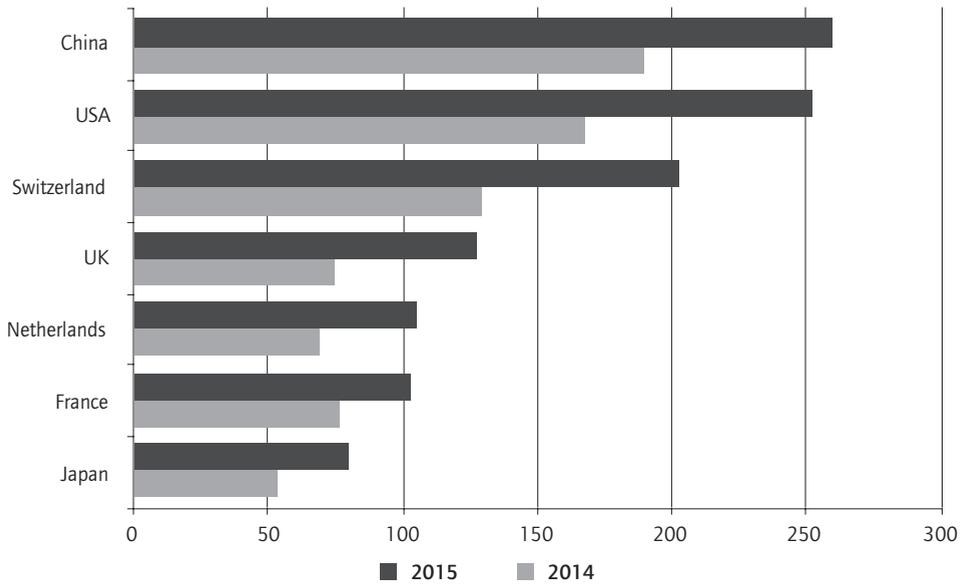
Figure 1 Outward FDI flows of China to Germany, 2010-2016



Source: Rhodium Group.

It is not surprising that Chinese multinationals engage in both greenfield and brownfield investment projects in Germany. However, greenfield investments are much more frequent. By country comparison China was ranked first in both 2014 and 2015 with regard to quantity of new investments in Germany (see Figure 2). According to the statistics of the German Länder's economic development agencies in these two years Chinese companies undertook 190 and 260 greenfield projects in Germany, respectively (Bozoyan 2016). The majority of new investments were carried out by Chinese companies founding their first establishments in the country. Such smaller commitments represent the first entry points of the parent companies in the German market, preparing themselves for subsequent further and larger investment projects.

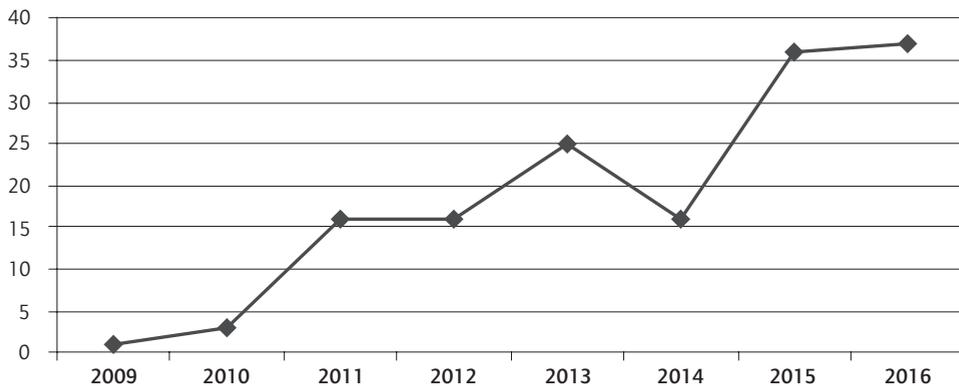
Figure 2 Greenfield investments in Germany, 2014 and 2015 (number of transactions)



Source: Germany Trade & Invest.

In comparison with new investments there is a smaller number of company stakes, mergers and takeovers. As a rule, however, the latter involve much higher transaction volumes, more employees and generally speaking much greater economic and social effects. In 2011 only 16 companies were acquired in Germany, whereas in 2015 there were 36 company acquisitions and stakes purchased. Thus within four years the number of companies concerned more than doubled (see Figure 3). The abovementioned record total in this year is largely due to the brownfield deals.

Figure 3 Number of Chinese acquisitions in Germany



Source: Bruche and Wallner (2013); sps (2014); Landgraf and Köhler (2016).

If one breaks down the Chinese investments in Germany by branch, machine building, automotive and information and communications technology take the first three places (Hanemann and Huotari 2015: 23). In the eyes of Chinese investors German machine building and automobiles are favourites in two respects: first, these two branches attract by far the most Chinese capital; second, by European comparison the most Chinese investments in machine building and automotive go to Germany.

## 2.2 Discrepancies in the data sources

In the previous subsection we presented the big picture of Chinese investments in Germany. We have drawn selectively on three data sources, including the Chinese National Bureau of Statistics, the database of the think tank Rhodium Group and the data gathering of the economic development agency Germany Trade and Invest. In the literature one occasionally finds a fourth data source, namely commercial company data bases, which we have disregarded due to their considerable inaccuracy. Although all four sources confirm the same rising tendency with regard to Chinese investments they sometimes come up with very different results concerning transaction figures and volumes. In what follows we compare all sources with one another and look into the differences in their data gathering systems.

In China the official OFDI statistics are gathered by the Ministry of Commerce and worked up by the National Bureau of Statistics. Since 2006 outward direct investment flows and outward direct investment stocks have been published on an annual basis. The Ministry of Commerce uses mainly three sources to determine the Chinese OFDI data: figures from Chinese companies in their applications for foreign investments, local government registration data on investment projects of local companies abroad and the State Administration of Foreign Exchange's statistics on cross-border foreign exchange transactions. At the time of writing (September 2016) the latest available data come from 2014. The investment streams are broken down by target country and divided into two groups (investments in the financial sector and in the non-financial sector).

According to official Chinese statistics Germany had received a total of 5.79 billion US dollars of Chinese investments by the end of 2014, putting it fifteenth among 186 recipient countries (see Table 1).

Apart from the fact that the data publication time lag of 8–18 months makes it difficult to keep up to date it is nonetheless evident that offshore capital hubs have attracted strikingly high capital flows from China. Hong Kong, the British Virgin Islands and the Cayman Islands are the three premier target regions for Chinese OFDI and together have received more than three-quarters of Chinese capital. Such offshore hubs – especially Hong Kong – because of their historical development and geographical position serve as the favourite capital hubs of Chinese companies. It can be assumed that a considerable portion of the 509.92 billion US dollars used Hong Kong merely as a waystation and ultimately has flowed into the real target investment countries. Thus real investments in Germany will probably turn out to be higher than what is reflected in the Chinese statistics.

Table 1 Top 20 destination countries (regions) for China's OFDI stock by the end of 2014

Rank	Country (region)	Stock (in bn. \$)	Share (%)
1	Hong Kong (China)	509.92	57.8
2	British Virgin Islands	49.32	5.6
3	Cayman Islands	44.24	5.0
4	United States	38.01	4.3
5	Australia	23.88	2.7
6	Singapore	20.64	2.3
7	Luxembourg	15.67	1.8
8	United Kingdom	12.81	1.5
9	Russia	8.70	1.0
10	France	8.45	1.0
11	Canada	7.79	0.9
12	Kazakhstan	7.54	0.8
13	Indonesia	6.79	0.8
14	South Africa	5.95	0.7
15	Germany	5.79	0.6
16	Norway	5.22	0.6
17	Laos	4.49	0.5
18	Netherlands	4.19	0.5
19	Macau (China)	3.93	0.4
20	Myanmar	3.93	0.4
	Total	787.26	89.2

Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment

The think tank Rhodium Group estimates higher Chinese FDI flows to Germany. As its basis for calculation it identifies individual Chinese transactions using the so-called bottom-up approach. Transactions comprise new establishments and company stakes above 10 per cent, in both cases with a minimum value of 1 million euros. A variety of channels are used to identify the transactions: 'among others, commercial databases, online search algorithms, media reports, notifications to the authorities, business reports, business associations, official sources, investment development agencies and sectoral contacts' (Hanemann and Huotari 2015: 60). As a result, the Rhodium Group comes up with a higher Chinese capital stock in Germany than the official Chinese statistics.

In contrast to the data gathering of the Chinese authorities, which look at the first direct target countries of Chinese capital, the Rhodium Group's data system is based on sources from the ultimate recipient countries of Chinese OFDI. This makes it possible to correct for the distortions caused by the use of offshore hubs. Their breakdown of investments by economic sector is another advantage of the Rhodium studies.

Besides the breakdown by economic sector the Rhodium Group's database also divides up Chinese transactions into greenfield and brownfield investments. However, the minimum transaction value of 1 million euros makes it inevitable that transactions below this threshold were neglected. The resulting distortion affects above all

greenfield projects which, experience shows, involve less capital. The share capital required by law to establish a GmbH – a form of association often chosen by Chinese investors – in Germany is 25,000 euros, far below the 1 million euro threshold. There are thus likely to be substantially more Chinese new establishments than the Rhodium Group estimates. A useful means of correction in this respect are the data provided by the economic development agencies of the German *Länder* and their umbrella organisation, Germany Trade and Invest. The economic development agencies are tasked, among other things, with touting for greenfield investments internationally and with supporting and advising interested investors in the establishment process. They are informed about Chinese new establishments, regardless of level of investment, at first hand.

In the international management literature commercial company databases are often used in order to identify companies with foreign participation in a particular economy. Such databases as a rule contain figures on the direct or global parent companies and their countries of origin. In our own investigation we were able to establish that their data gathering methods are not accurate enough. Many known cases of Chinese company stakes in Germany are not identified as such. Whenever there is a holding company not registered in China between the Chinese parent company and the German affiliate it appears as if the parent company does not come from China. We therefore assume that the studies that rely solely on these data sources identify a lower number of Chinese company stakes than there really are.

We are aware that the pros and cons of the various data sources analysed above are not limited to Chinese investments abroad. Rather it proves the general methodological difficulties caused by the nowadays common practice of nested structures in the case of cross-border foreign investments. Discrepancies between the various FDI statistics represent a general challenge to scholars and practitioners in their quantitative evaluations (World Bank 2011: 320).

### **3. Reasons for the increase in Chinese investments in Germany**

The increase in Chinese interest in German companies described in the previous section is certainly taking place against the background of China's gradual transformation from an FDI import country to an FDI export country. However, the tempo and intensity are remarkable. Analytically the rapid increase can be understood in terms of the interaction of two kinds of forces: (i) in China there is a driving force that pushes Chinese companies to expand abroad; (ii) at the same time, Germany is particularly attractive for Chinese companies. In this section we look into these two different forces.

#### **3.1 Driving force of expansion**

The internationalisation of Chinese companies, which in China is described vividly as 'going out' (*zouchuqu*) has been a full-fledged policy in Chinese reform and opening-up policy since 2000. At the fifth plenum of the fifteenth Central Committee of the

Communist Party of China in October 2000 the so-called ‘Going-out Strategy’ (sometimes referred to as the ‘Going Global Strategy’) was included for the first time in the proposal for the tenth Five-year Plan (2001–2005) and thus embedded in national economic policy (Jungbluth 2014: 102). The Going-out Strategy was included in all three subsequent five-year programmes<sup>2</sup> – the eleventh (2006–2010), twelfth (2011–2015) and thirteenth (2016–2020). As in the case of all major policy drafts in China the Going-out Strategy, after its principles and guidelines were adopted by the state leadership, was implemented and coordinated by the various government departments. The Ministry of Commerce is responsible overall, but other relevant authorities include the Ministry of Foreign Affairs, the National Development and Reform Commission and the State Administration of Foreign Exchange. Between 2000 and 2010 the authorities worked out a policy framework comprising 38 rules, regulations and guidelines, of which 12 measures concern overseas investment and asset management, eight measures financial and taxation support, 14 measures foreign exchange and four documents general services offered by the authorities (Bernasconi-Osterwalder 2013; Yuan *et al.* 2016).

Before the introduction of the Going-out Strategy in 2000 Chinese companies invested only sporadically abroad and required special approval in each instance. The majority of the considerable body of papers and regulations concern the establishment of a standardised approval procedure for foreign investments and various promotional measures. The intention is clear: the government would like to make ‘going out’, first, easier for companies and, second, more attractive. We shall not go into more details about the ways in which the approval procedure was made easier or the financial and tax concessions. The question that particularly interests us is whether the government offers guidance concerning the orientation of investment. And indeed that turns out to be the case: with the *Catalogue of Countries and Industries for Guiding Investment Overseas* the authorities indicate the desired regional, country and sectoral foci for expansion abroad. Companies that invest in accordance with the list receive preferential treatment in relation to public support, including financial assistance, foreign currency approval and tax and duty concessions. The list of countries and sectors was produced for the first time in 2004 and listed 67 countries with selected sectors. In 2005 and 2007 it was revised twice and other countries were added. Germany was included in the first version, with eight focal sectors: electric appliances and equipment manufacturing, medicinal and pharmaceutical product manufacturing, chemical raw materials and chemical product manufacturing, electronic equipment manufacturing, trading and distribution, transportation, banking, research and development (Ministry of Commerce of the People’s Republic of China *et al.* 2004).

The attempt on the part of the Chinese government to guide foreign investment towards particular sectors in certain countries is evident. But to what extent does it influence companies’ actual investment decisions. In a recent study Yuan *et al.*, on the basis of a sample of 1460 Chinese companies, show that after the issue of the Catalogue of

2. From the eleventh period onwards the five-year plan (*wunianjihua*) was replaced by the five-year programme (*wunianguihua*). The name change reflects the switch from binding planning to indicative planning. A five-year programme does not lay down detailed plans and implementation is not compulsory. Nevertheless the Chinese government uses it to communicate its goals and priorities.

Countries and Industries for Guiding Investment Overseas there was marked increase in foreign investment on the part of Chinese companies (Yuan *et al.* 2016). Unfortunately, however, the study contains no information on whether the geographical and sectoral distribution of the heightened foreign investment activities was in line with the goals set out in the list.

Having presented the system of state economic policy incentives we shall now look at the business motives of Chinese companies. In retrospect we can establish that the foci of Chinese foreign investments since the introduction of the Going-out Policy have shifted twice. First of all, Chinese companies invested almost exclusively in developing countries in Asia, Africa and Latin America with a clear focus on raw material extraction and infrastructure projects (Brautigam 2009). In the mid-2000s they began to take an interest in the raw materials sector in some industrialised countries, such as Australia and Canada. From 2010 their appetite for investment finally took in the industrial sector and services in the United States and Europe (Shambaugh 2013). In this dynamic and complex expansion of Chinese capital needless to say the forms of investment have differed from region to region and business considerations from sector to sector (Cardenal and Araújo 2014). Here we shall concentrate on the motives of Chinese companies in the third wave mentioned above, that of Chinese investors in industrial and service companies in the developed countries. The following five reasons are most often presented in both the scholarly literature and by the firms themselves:

1. *Growing bigger*

Sometimes Chinese companies are no longer able to grow any further in the domestic economy. Cut-throat competition, which sometimes goes together with overcapacity in many areas, reduces company profit margins. Inflation and, in particular, rising wage levels are increasing general workforce costs. The protectionism widespread among local governments results in restrictions for economic dealings between regions (Herrmann-Pillath 2015: 194) and thus imposes a growth cap on the domestic expansion of many companies. In these circumstances expansion abroad seems an attractive solution.

2. *Acquiring technology and know-how*

In the Chinese economy the realisation dawned quite a while ago that Chinese firms need more than a favourable cost structure in the face of domestic and international competition. They have thus been trying to make up ground on the developed economies with regard to technological backwardness and management know-how. The idea is to wean themselves off technological dependence on foreign contract manufacturers and to acquire technological leadership, on the principle 'if you can't beat 'em, join 'em'. And indeed it is much quicker and cheaper to acquire technology and know-how by buying an existing company than to develop them from the ground up. That puts takeover candidates from the industrialised countries in the frame.

3. *Building brands*

Despite the size of the Chinese economy the country has comparatively few international brands. Those Chinese companies that have managed to establish an international reputation are also those that have been investing actively abroad. Lenovo's purchase of IBM's PC division, Geely's takeover of Volvo and Haier's takeover of Sanyo's white goods business have all helped to raise the purchasing company's profile on the North American, European and Asian markets, respectively. 'Manufacturing competence or technology are not enough for brand expansion. It is more effective to take over established foreign brands' (Song and Kang 2012). While in 2006 the only Chinese company on Millward Brown's ranking list of the Top 100 Most Powerful Brands was China Mobile there are now 15 companies on the list (Millward Brown Optimor 2006; Schept 2016).

4. *Diversifying risk*

Another reason for Chinese economic actors, whether private companies, state-owned companies or sovereign wealth funds, such as the China Investment Corporation, to invest abroad is risk diversification, which takes place in the form of distribution of risk across various investment vehicles (Meier and Reisach 2008: 49). Purchasing real estate and companies abroad offers investment opportunities on top of the US Treasury Bonds that China has acquired in vast quantities for monetary policy reasons. Chinese companies and funds seeking takeover targets have struck gold in Europe since the European financial and economic crisis, as a consequence of which demand for additional capital has risen, leading to a greater readiness on the part of European governments and enterprises to accept investments from China (Fallon 2014; Meunier 2014; Ma and Overbeek 2015). While before the crisis the main targets were companies in difficulties, today healthy companies are also on Chinese investors' shopping lists. Such companies may find themselves in temporary financial difficulties due to the crisis or are on sale because of problems of succession, which are increasing in relation to family companies.

5. *Circumventing trade barriers*

Chinese companies also invest in Germany and Europe in order to circumvent EU tariffs on their products. Fifty six out of 73 current EU anti-dumping measures concern Chinese imports. Hitherto, higher tariffs on imports of steel, solar modules and other products have been possible because the EU does not recognise China as a market economy.<sup>3</sup> Only this May China's request to be recognised as a market economy was rejected by a majority in the European Parliament. Given the EU's trade protection instruments it is not surprising that the solar industry was one of the earliest target sectors in Germany. Chinese investors have either taken a stake in German solar farms or have taken them over (Emons 2013: 20).

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3. The relevant transitional rule adopted 15 years ago when China joined the World Trade Organisation expires on 11 December 2016.

### 3.2 Attractions of Germany

The five business goals cited above can generally be achieved by purchasing technology-leading European firms. It doesn't really matter which European country the takeover candidate comes from. However, at the moment no other European country is attracting anything like as much investment from China as Germany. Is Germany a particular favourite among Chinese investors? The answer is an unequivocal 'yes', at least according to an authoritative Chinese ranking of the best investment target countries. In the *China Overseas Investment Country Risk Rating Report* the Institute of World Economics and Politics at the Chinese Academy of Social Sciences annually evaluates 57 main target countries or regions in accordance with their investment risks for Chinese companies. The evaluation criteria include more than 60 economic, social and political measurements in five categories: general economic health, public debt and creditworthiness, social stability, political security and bilateral relations with China. For three years in a row (2013–2015) Germany was rated the target country with the lowest risks for Chinese foreign investments. In 2015, indeed, Germany was the only country put in the highest evaluation class (IWEP 2017).

Apart from the strength of the economy, general stability and good diplomatic relations with China there is another important factor that explains the constant Chinese interest in German companies: the favourable position of German companies with regard to Industry 4.0 by international comparison. China's newest industrial strategy, whose main features are internationalisation and digitalisation, is conceptually based on Germany's Industry 4.0 model. By means of internationalisation worldwide sales markets are to be secured and expanded for Chinese industry. Digitalisation is supposed to make Chinese industry competitive in high technology sectors in relation to the industrialised countries. According to the most important strategy paper in this context, *Made in China 2025*,<sup>4</sup> manufacturing industry in China in general and key industries in particular are supposed to achieve significant improvements in relation to 'innovation competence', 'quality and efficiency', 'integration of industrialisation and informatisation' and 'sustainability' (State Council of the People's Republic of China 2015). In order to bring the plan to fruition the government promised comprehensive financial, fiscal and legal support measures, including measures on the internationalisation of Chinese companies by opening up new markets and investments abroad. The paper explicitly mentions four areas as foci of foreign takeovers and mergers: (i) high-speed rail transport, (ii) electricity generation, (iii) automotive and (iv) machine building. In the course of putting *Made in China 2025* onto a more concrete footing major projects are being launched, such as the Chinese-European Investment Fund. At the first China-EU roundtable conference on digital cooperation, which took place in Brussels in July 2015, the head of the Cyberspace Administration of China, Lu Wei, spoke of building a 'digital silk road'. In order to bring this into being he expressed the wish that more Chinese internet firms expand their business in Europe. It is thus not surprising that Chinese investments are increasingly flowing into German companies that are either drivers or suppliers of Industry 4.0. Besides Kuka

4. *Made in China 2025* is the first part of a far-reaching plan that is supposed to help China become the leading industrial nation by 2049. Published in May 2015 the paper contains in particular the development goals and strategies for the next 10 years, the first of three stages leading up to 2049.

another current example of the purchase of a technology company is the takeover bid by the Fujian Grand Chip Investment Fund worth 676 million euros for the Aachen based Aixtron SE, which specialises in manufacturing metalorganic chemical vapour deposition equipment for clients in the semiconductor industry.

Finally, we can summarise the main reasons motivating those Chinese investors who have already made Germany an investment target country. The summary is based on a survey carried out in 2015 by the Chinese Chamber of Commerce in Germany among its member companies concerning their satisfaction with Germany as a location (Chinesische Handelskammer in Deutschland 2015: 9):

- Stable political and economic relations between China and Germany
- Better access to other European markets from a central position
- Germany's leading international position and competitiveness
- Relatively well-developed economic and tax system
- The good reputation of the 'made in Germany' label
- Relatively well-developed infrastructure and logistical network
- Part of the internationalisation strategy of the parent company
- Strong innovation capacities
- Highly qualified workforce

## **4. Company-level labour relations**

### **4.1 Labour relations in German companies that have been taken over<sup>5</sup>**

It is important to take due note of the fact that every takeover raises the question of the future cooperation between the new owners and the workforce. In German companies with Chinese investment a new situation has arisen for all labour relations actors. The Chinese investors are having their first experiences with the German working world, in particular the dual structure of labour relations. At the same time, German workforces and interest representatives are encountering Chinese employers and managers for the first time. A mutual rapprochement is thus taking place. The following remarks thus represent something of a snapshot.

The experiences with the new owners among the interest representatives of companies that have been taken over are fairly similar. The same takeover pattern can be discerned across Germany. After purchase no drastic changes are made to the existing personnel structure. Personnel changes generally take place only at the level of central management. The former German central management is supplemented by a new Chinese CEO, in many cases also with a new CFO from China. Operationally the management of the affiliate retains considerable decision-making autonomy. The company that has been taken over retains its membership of the employers' association so that all collective

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5. There has not yet been a systematic and representative investigation of company-level labour relations and interest regulation in German affiliates with Chinese owners. The experiences made use of here derive primarily from the authors' conversations with works councils, managers and investors from companies taken over, whom the authors met in the course of their research and practical activities over the past few years.

agreements continue. On the side of the Chinese investors new growth targets are often announced. In the eyes of interest representatives these targets appear achievable to the extent that the Chinese investors in most instances invest in the German location, whether by expanding research and development or boosting production capacities. In the course of this either production plants are modernised or production capacities are expanded. Furthermore, agreements are often reached on safeguarding employment or the location itself. That means that various concessions are made to works councillors. Such investors can appear like knights in shining armour to a company in economic difficulties. Above all it seems that subsequent to the takeovers the takeover target has been left to operate independently. On this basis, takeovers by Chinese investors to date can be described as positive. To be more precise, they are more positive than was originally feared.

However, the outcomes are not solely positive. Often a certain transparency and integration are lacking. This can be concluded from the fact that after a purchase has gone through the works councils often have no contact with the new owners. Although the new owners often carry out inspections, regular exchanges with employee representatives in the firm are rare. Either the present management remains in place and reports directly to China or someone from the new parent company is appointed to act as intermediary between the German and Chinese managements. The new owners thus remain 'invisible' to the workforce, which does not go down well with the employee representatives, who previously in some instances had direct access to the owners in SMEs. The high degree of autonomy of the affiliate company, however, also means that the main guarantees of success for each M&A deal (Fleischer 2008) – post-merger integration in the new company group and adaptation of corporate culture – are not really implemented.

The report outlined here of the experiences of company-level interest representatives is in line with our observations on the ground. The usual dealings between Chinese managers and owners and German works councils and trade unions can best be characterised in terms of three 'nots':

1. they do not contact interest representatives on their own initiative;
2. they do not reject interest representatives' efforts to make contact out of hand;
3. they do not enter into direct confrontation with the trade unions.

Furthermore, we can say that the Chinese management tends to have only minimal previous knowledge of labour relations and employee interest representation structures in Germany. Very few Chinese managers can really tell the difference between works councils and trade unions. Those Chinese managers who were involved in the takeover negotiations register the existence of German trade unions, but not their tasks and responsibilities. Often the dominant view is that dealings with the trade unions cease the moment the contract is signed. The fact that in their new company there is a body called a works council is realised by many Chinese managers only when the works council initiates contact or when the first conflict arises.

## 4.2 Learning by buying

Despite their lack of previous knowledge Chinese investors in Germany to date have taken a cautious approach to employee representatives, avoiding conflict, as expressed in the agreements safeguarding locations and employment in many instances. However, that is in sharp contrast with the behaviour of Chinese multinationals in other countries. In our research we found many instances in which Chinese investors clashed with local interest representatives, not infrequently ending in scandal. Chinese research on labour relations identifies cases in which Chinese owners have been confronted by labour disputes in their foreign affiliates, under the term ‘union-gate’ (gonghuimen). Nothing exemplifies this better than the mining company Shougang Hierro in Marcona, Peru. In what follows we shall present the history of labour disputes at Shougang Hierro in brief to illustrate how, during the first decade of their international expansion, Chinese investors unthinkingly exported domestic labour relations to other countries and what lessons they learned from this.

In 1992 Chinese state-owned enterprise Shougang, now the tenth largest steel producer in the world, took over the iron mine in Marcona for 118 million US dollars from the Peruvian state-owned enterprise Hierro Peru. This was the first takeover by a Chinese state-owned enterprise abroad. The history of Shougang Hierro over the past 20 years or so is one of uninterrupted tensions between the Chinese owner and the workforce. Protests, strikes, court proceedings – employer-employee relations at Shougang Hierro have been the worst in the whole Peruvian mining sector (ECLAC 2010: 117). It all began quite innocently, at least from the standpoint of the Chinese management. Right after the takeover Shougang’s enterprise trade union at the behest of the company management invited their Peruvian colleagues to company headquarters in Beijing. It was intended to be a friendly gesture. The Peruvian trade unionists were supposed to get to know the Chinese staff and trade union activities at the parent company (Wang 1997). In the early years both the management in Beijing and the Chinese managers on the ground firmly expected that their relations with the Peruvian trade union would be similar to those they enjoyed at home, harmonious. They were not counting on confrontations. When the first demand for a wage rise came in 1996 and a strike was organised after it had been rejected the Chinese managers felt caught off guard. In their eyes strike action was a provocation that had to be met with corresponding harshness (Wang 1997). The four strike leaders were dismissed. At the same time they were characterised as provocateurs in Chinese media coverage. Although the dismissal was later declared illegal by a Peruvian labour court Shougang did not revoke the decision. Company representatives still insist that it is legitimate to dismiss employees who do not act in the interests of the firm. They also manifested their utter incomprehension with regard to the Peruvian government: ‘How could the government permit the impairment of production through such a strike?’ (Hongxiang 2013)

Despite the tough stance on the outside, within the firm the Shougang managers drew the for them bitter conclusion that cannot be summarised better than the original words of an internal report from 1996:

'Difficulties with trade unions will be one of the biggest challenges with which Chinese companies are confronted abroad. In other countries trade unions do not behave anything like how they do in China, where they function as a transmission belt or bridge between workforce and management. The sole task of foreign trade unions is to protect the legal position and material interests of the employees across the board' (Che 1996: 55; own translation).

In view of the growing Chinese investments abroad the abovementioned report predicted, more than 20 years ago, that difficulties with foreign trade unions would be one of the major challenges facing Chinese firms. So it has proved. In another prominent case in 2009 the long-standing tensions between the Chinese management and the South Korean workforce at Ssangyong Motors – an affiliate of Shanghai Automotive Industry Corporation (SAIC) – boiled over into a widespread plant occupation. Between May and August the 1,000 employees at the main location Pyeongtaek protested against the planned dismissal of 1,700 workers. This was the last straw, causing SAIC to sell its majority holding in Ssangyong. The Chinese media reported uniformly on the '500 million dollar lesson' for China's biggest car manufacturer, which in 2004 had been the first Chinese automobile company to invest in a foreign car maker.

The extent to which the continual news stories about labour disputes in foreign affiliates have unsettled Chinese managers can also be seen from proposed investments that have been withdrawn. In 2006 the Jianlong Group, after months of investment-planning, decided not to go ahead with building a steelworks in India, based on fears of possible strike action (Zhao 2006). In 2007 the First Automotive Works reluctantly withdrew its takeover bid for Chrysler at the last minute, even though every other consideration indicated it was a good deal. The Chinese company had reservations about its ability to handle the US trade union the United Auto Workers, which pursues its members' interests extremely diligently (Gong 2007). At the height of the strike and protests in Marcona in 2004 Shougang considered selling Hierro. However, they did not pursue this course of action due to the lack of potential buyers.

Labour conflicts in Chinese foreign affiliates have not gone unremarked in China. The Ministry of Commerce not only plays a key role in preparatory and approval procedures for foreign investments, but it is also active in collecting and summarising the experiences and feedback of Chinese companies. When more and more Chinese companies were complaining about losing millions due to work stoppages and the subsequent uncertainty abroad the Ministry investigated the causes. The companies concerned were asked about their experiences, Chinese researchers were tasked with producing studies on foreign labour relations and Chinese diplomatic representations were asked for technical support in terms of regional and cultural studies. Authorities and experts rapidly agreed that Chinese companies had misjudged the nature and function of foreign trade unions. The assumption that workers' representatives would be cooperative was so firmly fixed in the minds of Chinese companies that they were not ready for coping with organised labour resistance abroad. At home the companies had never had to face confrontational trade union activities. Before appropriate strategies for dealing with foreign interest representatives could be developed, first of all a new awareness had to be inculcated in Chinese companies that 'foreign trade unions are

totally different from Chinese ones. Trade unions abroad do not inevitably clash with management; peaceful dealings are also perfectly possible. But ultimately they are an opponent of the employer' wrote Zheng, a renowned Chinese scholar (cited in Gong 2007: 71; own translation). According to Professor Zheng, an expert on US and European labour relations at the China Institute of Industrial Relations, the university of the All-China Federation of Trade Unions, the principal error that Shougang made is to attempt to transfer employer-employee relationship familiar from China to Peru without further ado.

As detailed in the previous section the responsible authorities in China regularly indicate to companies their desired investment foci in Germany. But it is not only the economic aspect that interests the Chinese government. The authorities also have something to say about dealing with German trade unions. In an article with the admonitory title *Chinese companies have to tread carefully when it comes to labour relations if they invest in Germany* the then economic attaché to the Chinese general consulate in Munich explained German employee rights and trade union organisations:

'In Germany employee representation is different from at home: it is independent and has certain codetermination rights in such areas as overall company development and social affairs [...] German trade unions are dialogue partners of the employer on an equal footing. They are economically independent from the company and defend the interests of the employees by means of collective bargaining, strikes and so on. This is a profound difference compared with most trade unions at home, which function as companies' internal department for social affairs' (Gao 2005; own translation).

Published in October 2005 in *International Business Daily*, the Chinese Ministry of Commerce's official organ for international issues, the article reads like a crash course in German workers' rights. It conveys to its target group – Chinese companies that want to invest in Germany or have already done so – among other things basic knowledge about collective bargaining, codetermination, job security, employment protection and maternity rights. At the end of the article comes a list of specific recommendations to be followed by Chinese investors in their new role as employer in Germany. Recommendations number 1 and 2 are: 'Learn about German labour law and comply with it' and 'Heed German law on establishing employee interest representative organs, such as trade unions and works councils'. And if the call to obey the law were not sufficient, the diplomat at several points adds that investors should also take care not to damage China's image in Germany.

And indeed to date China's image has not been damaged. Not only have there been no major negative headlines about Chinese employers, but some have even been held up as exemplary investors.<sup>6</sup> Uncertainty about future development cannot be dismissed, however: will any agreements that have been concluded be honoured if the Chinese economy weakens further? Will German production locations continue to enjoy generous expansion if the Chinese parent company finds itself in financial

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6. The NRW-Invest Award, a prize offered by the Land of North Rhine Westphalia for exemplary foreign investors, was given to XCMG in 2013, Huawei in 2014 and ZCC Cutting Tools in 2015.

difficulties? Will the Chinese commitment be maintained if Germany's technological lead is reduced by knowledge transfer? The ultimate answers to these questions remain to be seen. What can be said is that employee representatives will have to cope with uncertainty in such instances. M&A transactions are already complex procedures; the involvement of an investor from China increases this complexity substantially, which makes it difficult for employee representatives on executive and supervisory boards to estimate the economic consequences of a buyout by Chinese investors and the resulting effects on security of employment and the future of the production location. We want to help the employee representatives concerned by providing a list of questions, which we present in the next section, to enable them to obtain more transparency about the Chinese owners and investment interests and to get an overview of the situation as a whole.

## **5. Guide for practitioners**

In this section we gather a few key questions designed to help employee representatives in their control and monitoring activities. The list of questions is based on a study initiated by the Hans Böckler Foundation (Reisach 2016), which we have supplemented with a number of current considerations. It can be used both in the run-up to a pending takeover bid and to evaluate the investor subsequent to a done deal.

### **Economic policy framework**

Which sector does the Chinese owner or prospective investor belong to? Is it among the sectors and programmes being promoted by China and thus of national strategic interest from the standpoint of the Chinese state?

### **Political networking**

In which city and province in China is the headquarters of the Chinese owner or prospective investor located? Is the investor politically well connected in their homeland? Do the owners or their close relatives hold political offices? How substantial is the official support for the investment in China? Do representatives of the Chinese Embassy or the Chinese General Consulate come to the signing of sales contracts or partnership agreements?

### **Financial capacity and transparency**

Is the investor's announced investment amount so high that their investment plan has to be examined separately on the grounds of currency restrictions by the State Administration of Foreign Exchange? Do the investment volumes and plans indicate a realistic business strategy? How transparent is information on the investor? On what stock exchanges is it listed? What information – business reports, ad hoc reports, analysts' opinions – is available in the media (for example, Bloomberg, Reuters) and at ratings agencies?

### **International management experiences**

Is the investor active internationally? How diverse and international is its ownership structure? What about the technical competence and experience of the investor in the target sector? Where does it stand in the international rankings with regard to quality and brand image? Which international companies does it cooperate with and how long has this cooperation been going on? Is some sort of cultural integration envisaged in this present instance?

### **Innovation prospects**

What is the technological status of the Chinese investor? How strong is their research in comparison with us? What know-how that we possess is not available to them? How quickly could this know-how be transferred by means of plans and training? Is our innovation potential big enough to make it worthwhile for the investor to keep it in Germany and expand it?

### **Dealings with employee representatives**

Has the investor already carried out takeovers in other countries? If so, how are they regarded in those locations? Have they been sensitive to the concerns of the employees, society and environmental protection? How well acquainted is the investor with German labour relations? To what extent do they accept German codetermination? Are employee representatives accepted as partners and their activities supported?

### **Network of employee representatives**

Has the investor taken over other companies in Germany and Europe? What are the experiences of other enterprises with this investor? Is there a network of colleagues from other firms?

## **6. Summary and outlook**

We have provided a quantitative and qualitative overview of Chinese investments in Germany. It is clear that in order to understand the phenomenon of Chinese investments in Germany and Europe it is not enough to put the research focus on Europe alone. Rather explanations of the increase in investment and the sectoral distribution, as well as of dealings with codetermination actors depend closely on the politico-economic situation in China and the previous investment experiences of Chinese companies in other regions of the world. Given the Chinese government's current industrial policy orientation and the open dealings with Chinese investors in Germany we take the view that investment flows out of China into German industrial companies will remain stable or increase slightly. While Chinese investors value legal certainty and protection of intellectual property in Germany and largely have a free hand to make investments, foreign companies that want to invest in China have to contend with investment restrictions (Germany Trade & Invest 2014) and greater legal uncertainty. At this point

the question arises of what that would mean for ongoing negotiations on an investment agreement between the EU and China. Whether such an agreement is reached or not, for employee representatives in Germany it is evident that a large number of takeover negotiations are in the pipeline. At the same time, in many of the companies that have already been taken over the existing agreements on location and employment security will shortly expire. They must therefore be renegotiated. How would the Chinese owners react if they were confronted with labour disputes in Germany? To what extent, when faced with a stressful situation as employers, will they heed the advice of their own government to avoid labour disputes as far as possible? Will the Chinese investment supervision authorities once more revise their recommendations on dealing with employee representatives? Many questions remain open.

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