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Market Entry Consulting for Chinese Companies Going Global: DKSH Business Model Development Targeting the German Market

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STATUTORY DECLARATION

I declare that I have authored this thesis independently, that I have not used other than the declared sources / resources, and that I have explicitly marked all material which has been quoted either literally or by content from the used sources.

Graz,…………………………… ……..……………………………

(Signature)

Acknowledgment

I would like to thank my supervisors from DKSH (China) Co. Ltd., Mr. Kay Geithner (Business Development Manager) and Dr. Eike Langenberg (Vice President and General Manager of DKSH Business Unit Technology China), for their guidelines and great support throughout my internship and for having given me the opportunity to work on a topic in which I personally was very much interested.

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Abstract

China's overseas investment has rapidly increased over the last few years as Chinese companies expand into new markets seeking to acquire advanced technology, modern manufacturing know-how, strong brand names or strategic natural resources. Despite great confidence and enthusiasm, however, Chinese enterprises soon find that going global is much more difficult than they have expected, as they are often unprepared to deal with the competitive global business environment. With DKSH's expertise and understanding of the Chinese and foreign markets, DKSH is able to provide market entry consulting services for Chinese organizations in countries like Germany.

Germany offers a vast area of business opportunities for Chinese companies. However, investing in Germany is not an easy task. The culture, language and business methods are different. More than ever, Chinese companies are realizing the importance of having a strong business partner that can help them succeed.

The main aim of this thesis is to develop business models for potential Chinese customers and industry segments which enable DKSH Business Unit Technology to assist and consult Chinese companies in their mission to enter and grow their business in Germany. Furthermore, the thesis gives an overview of the development of China's overseas investment and Chinese companies' outbound activities in Europe and Germany, analyzes the governmental support and its related incentives, identifies the driving forces and main challenges of Chinese firms which they are facing while going global and also shows recent examples of Chinese enterprises doing business in Germany.

Kurzfassung

China's Investitionen in Europa und insbesondere in Deutschland haben in den letzten Jahren stark zugenommen. Chinesische Unternehmen dringen vermehrt in neue Märkte vor um Technologien, modernes Fertigungswissen, bekannte Markennamen oder auch strategische Rohstoffe zu sichern. Vor allem während der internationalen Finanzkrise nutzten viele chinesische Unternehmen die wirtschaftlich schwierige Lage vieler mittelständischer Technologie- und Marktführer in Deutschland und kauften günstig Unternehmensbeteiligungen.

Trotz großer Nachfrage und Begeisterung müssen chinesische Investoren jedoch feststellen, dass „going global" oftmals viel schwieriger ist als angenommen. Die Kultur, die Sprache und auch die Business-Methoden sind unterschiedlich. Mehr als je zuvor erkennen chinesische Unternehmen die Bedeutung eines starken Businesspartners an ihrer Seite zu haben.

Das Hauptziel dieser Diplomarbeit ist es, Geschäftsmodelle für potenzielle chinesische Kunden und Branchen zu erstellen, welche es der DKSH Business Unit Technologie ermöglichen, chinesische Unternehmen bei einem Markteintritt in Deutschland zu unterstützen und zu beraten. Darüber hinaus gibt diese Diplomarbeit einen Überblick über die Entwicklung der chinesischen Auslandsinvestitionen in Europa und Deutschland, analysiert die Rolle des chinesischen Staates und die damit verbundenen Begünstigungen und Vorteile, identifiziert die wichtigsten Motive und Herausforderungen von chinesischen Unternehmen und zeigt außerdem aktuelle Beispiele von chinesischen Firmen, welche bereits erfolgreich nach Deutschland expandiert haben.

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1 Introduction

The 1980s appeared to be an era of Japanese companies and Japanese brands on the world economic stage. In the 1990s, Korean companies took over and Korean brands and products became well-know globally. Apparently, in the 21st century, Chinese companies are the next dominant player.[1]

Chinese companies are now investing around the world, through Greenfield Investment and Mergers and Acquisitions, and across a wide spectrum of economic activities, from banking and trading to manufacturing and natural resources exploitation.[2]

In the last century, many European enterprises expanded their business activities to China due to a large pool of workers combined with low labor costs and low environmental standards and specifications. However, this trend has changed into the other direction as nowadays Chinese companies invest increasingly abroad and expand into new markets seeking to acquire advanced technology, modern manufacturing know-how, brand names and natural resources.[3]

In 2000, the Chinese government announced its "Go Global" (走出去 – Zou Chu Qu) policy to encourage and support Chinese companies in investing abroad by simplifying regulatory requirements.[4]

From 2007 to 2008, China’s overseas investment has more than doubled from USD 22 billion to USD 52 billion.[5]

The Fortune Global 500, which is an annual ranking of the top 500 corporations worldwide as measured by revenue, figured 61 Chinese companies in 2011, meaning the number of Chinese companies has increased up from 11 in 2002. Figure 1-1 shows the number of companies in BRIC (Brazil, Russia, India and China) economies, which are listed in the Fortune Global 500 between 2005 and 2011.[6]

[1] Cf. Yeung (2005), p.18
[2] Cf. Zhang (2005), p.13
[3] Cf. Klossek/Linke/Sohm (2009), p.10
[4] Cf. OECD et al. (2008b), p.83
[5] Cf. Salidjanova (2011), p.4
[6] Cf. http://money.cnn.com/, accessed on 03.08.2012

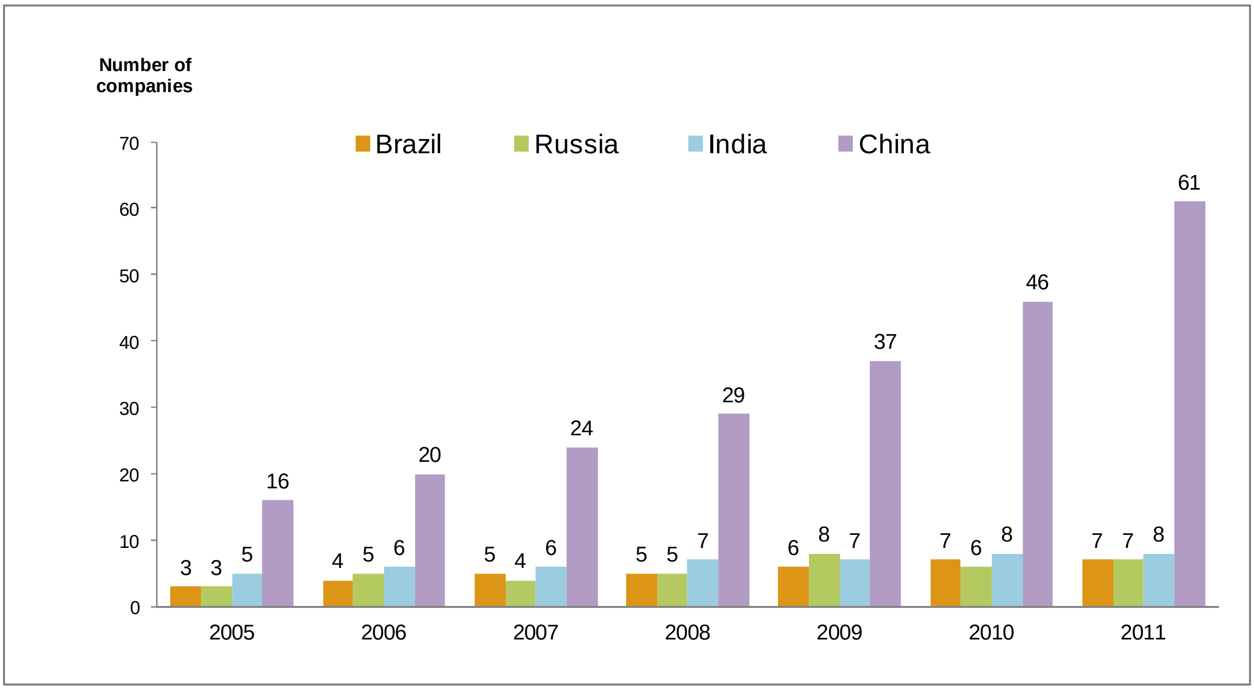

Figure 1-1: Number of Fortune Global 500 companies in BRIC economies[7]

Table 1-1 shows the Top 10 Chinese companies that were ranked in the Fortune Global 500 in 2011. All of them are state-owned companies.[8]

Country Rank China	Company Name	Fortune Global 500 Rank	Revenues USD Million
1	Sinopec Group	5	273,422
2	China National Petroleum	6	240,192
3	State Grid	7	226,294
4	Industrial & Commercial Bank of China	77	80,501
5	China Mobile Communications	87	76,673
6	China Railway Group	95	69,973
7	China Railway Construction	105	67,414
8	China Construction Bank	108	67,081
9	China Life Insurance	113	64,635
10	Agricultural Bank of China	127	60,536

Table 1-1: Top 10 Chinese companies in Fortune Global 500 in 2011[9]

[7] Cf. http://money.cnn.com/, accessed on 03.08.2012, own illustration
[8] Ibidem
[9] Ibidem, own illustration

1.1 Problem Definition

Headlines of some published articles about China and its overseas investment reflect China as a threat: "The Chinese are coming" from the *Spiegel* in January 2005, "The coming wave of Chinese takeovers" from the *Economist* in November 2010 or "China goes shopping for German factories" from *Bloomberg Business Week* published in June 2012.[10]

Generally speaking, Chinese investment is welcome in Europe and in certain countries even more because of their debt crisis. But extensive media coverage has caused worries by the Western civilization that Chinese companies are buying up the world. By taking over existing European companies with well-known brands and technological capabilities, Chinese companies are able to upgrade their products and processes to higher added value in their domestic market. Chinese companies are under enormous pressure to move away from low cost leadership position and focus more on branding and innovation to ensure future success in both the domestic and global market. The acquisition of European brands and technology is regarded as a shortcut, because it helps Chinese companies not only to differentiate them from their domestic competitors, but also to compete in the premium market segments that are typically dominated by Western companies.[11]

Despite great confidence and enthusiasm, Chinese companies soon find that going global is much more difficult than they have expected, as they are often unprepared to deal with the competitive global business environment.[12]

In 2005, China's largest appliance maker Haier offered USD 1 billion for Maytag, one of the most famous consumer brands in the United States. However, the U.S. media supposed that Haier would move production to China and downsize Maytag's head count. As a result, the competing bidder Whirlpool acquired Maytag. Some couple of months later, Whirlpool announced closure of three plants and laid-off more than 4,000 employees. As a matter of fact, Chinese companies lack experience in communication with the U.S. media, leading to suspicions from American people.[13]

In 2004, TCL Corporation, a Chinese multinational electronics company, set up TTE, a Joint Venture with French company Thomson, in which about 9,000 employees of Thomson joined. In 2005, TTE lost almost EUR 70 million. In 2006, TCL launched a restructuring plan on TTE and stopped its sales activities in the European market. By

[10] Cf. Schüller/Turner (2005), p.3
[11] Cf. Van Den Bulcke/Yang/Zhang (2012), p.8f.
[12] Cf. Yeung (2012), p.1f.
[13] Cf. Chowdary (2009), p.ii

2006, TTE lost more than EUR 250 million due to high restructuring costs and business loss. TCL experienced problems due to lack of understanding of differences between the French and Chinese culture. French prefer a work and life balance, while Chinese generally not care to mix work and life together. TCL also suffered lack of dealing with the European Union as they strongly protect worker's rights, leading to difficult negotiations and high restructuring costs.[14]

An export manager of a Chinese company and graduate of a leading German University said once: *"A market entry in Germany can be compared to participating in a card game in which one does not know the rules, and one is also not allowed to ask."* [15]

Germany is named as one of the top markets for Chinese investors to invest. Germany offers great business opportunities for Chinese companies, e.g. high-quality technology, a solid infrastructure, economic and political stability and a strategic geographical location. However, investing in Germany is not an easy task. The ways Germans do business is different. The culture, language and business methods are also different. More than ever, Chinese companies are realizing the importance of having a strong business partner that can help them succeed, no matter how they want to invest in countries such as Germany.[16]

1.2 Company Profil: DKSH (China) Co. Ltd.

DKSH, also known as "DiethelmKellerSiberHegner", is the leading market expansion services group with focus on Asia. As the term "Market Expansion Services" suggests, DKSH helps other companies to grow their business in new or existing markets by delivering the services they need to achieve their goals.[17]

"Providers of market expansion services help their partners and manufacturers to grow in existing markets and enter new markets by gaining access to customers, setting up marketing, sales and distribution structures and thereby exploiting their full business potential." [18]

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[14] Cf. Value Partners et al. (2008), p.17
[15] Berners/Fritz (2012), p.2
[16] Event organised from Germany Trade & Invest, Intelligente Geschäftslösungen für chinesische Unternehmen, 18.09.2012, Fairmont Peace Hotel, Shanghai
[17] Cf. http://www.dksh.com/, accessed on 30.07.2012
[18] Berger et al. (2011), p.6

Market expansion services focus on sales growth and increasing market share, not only on efficiency gains and cost cuts.[19]

In 2002, "Diethelm Keller Services Asia" and "SiberHegner" merged to form DKSH. Over the past ten years, DKSH was transformed from a trading business into a market expansion services provider and therefore has re-invented its business model.[20]

Headquartered in Switzerland, DKSH covers 650 business locations in 35 countries, 630 of them are in Asia. DKSH employs more than 24,000 specialists and is one of the Top 20 Swiss companies ranked by sales and employees. In 2011, DKSH generated net sales of CHF 7.3 billion.[21]

DKSH is organized into four Business Units: Technology, Consumer Goods, Healthcare and Performance Materials. Technical solutions are offered for the key industries machinery, renewable energy and electronics, instrumentation and hospitality.[22]

DKSH provides a full range of services to international companies interested in marketing and selling their products, technologies, services and investment projects in China. DKSH now serves companies that are looking for new growth opportunities and which are considering entering the German market with little or no knowledge about Germany. The impacts of the value-added services are the following ones:[23]

- **Sales:** By leveraging on synergies with external partners and a global supplier network, DKSH is able to provide market insights and consulting to Chinese organizations.
- **Marketing, promotion and brand building:** With the experience and know-how learned from branding, DKSH could be valuable to Chinese organizations when trying to build awareness overseas.
- **Local product adaptation:** The supplier portfolio provides the best advisory source for understanding the needs of the West and the consultation for product adaptations.
- **Legal consulting and product certification:** Technology setups across Europe and Asia provide a foundation for providing legal-relevant consultancy.

19 Cf. Berger et al. (2011), p.4
20 Cf. http://www.dksh.com/, accessed on 31.07.2012
21 Cf. http://www.dksh.com/, accessed on 30.07.2012
22 Ibidem
23 Cf. DKSH et al. (2012), p.43

1.3 Objectives of the Thesis

DKSH leverages its broad network and cultural knowledge to identify and qualify Chinese investors for overseas investment opportunities in Germany. The main question deals with how is DKSH able to provide market entry consulting services for Chinese companies in Germany with the existing expertise and understanding of the Chinese and German market?[24]

DKSH is the number one market expansion service provider in Asia, helping other companies to grow their business in new or existing markets by providing a complete range of specialized services along the entire value chain. Acting as a bridge between Europe, America and Asia Pacific, how can DKSH support Chinese companies in going global? Who are potential customer and industry segments that hold best prospects in going abroad?[25]

The overall objective of this thesis is to develop distinct business models for potential customer and industry segments which enable DKSH Business Unit Technology to assist Chinese companies to enter and grow their business in Germany, which is an attractive location for Chinese investors due to its technological leadership position and its economic and political stability. The business models will be primarily based on "Business Model Generation" from Alexander Osterwalder and Yves Pigneur. Necessary modifications of the business model scope, design and development process, however, were required to fulfill the goal of the thesis.[26]

1.4 Assignments of Tasks

The thesis will cover the following topics:

- To give an overview of the development of China’s overseas investment and Chinese companies’ outbound activities.
- To identify main drivers and forces of Chinese companies going global.
- To analyze the governmental support and its related incentives for Chinese companies going abroad.
- To identify the main challenges and problems Chinese companies are facing when going global.

[24] Cf. DKSH et al. (2012), p.43
[25] Cf. http://www.dksh.com/, accessed on 30.07.2012
[26] Discussion with Mr. Geithner (Business Development Manager), 10.09.2012, Shanghai

- To find recent examples of Chinese companies entering Germany.
- To conduct market research in order to determine which customer and industry segments hold best prospect in entering the German market.
- To create business models that allow DKSH Business Unit Technology to assist and consult Chinese organizations to enter and grow their business in Germany.

Figure 1-2 shows the timeline of the thesis with its activities and milestones.

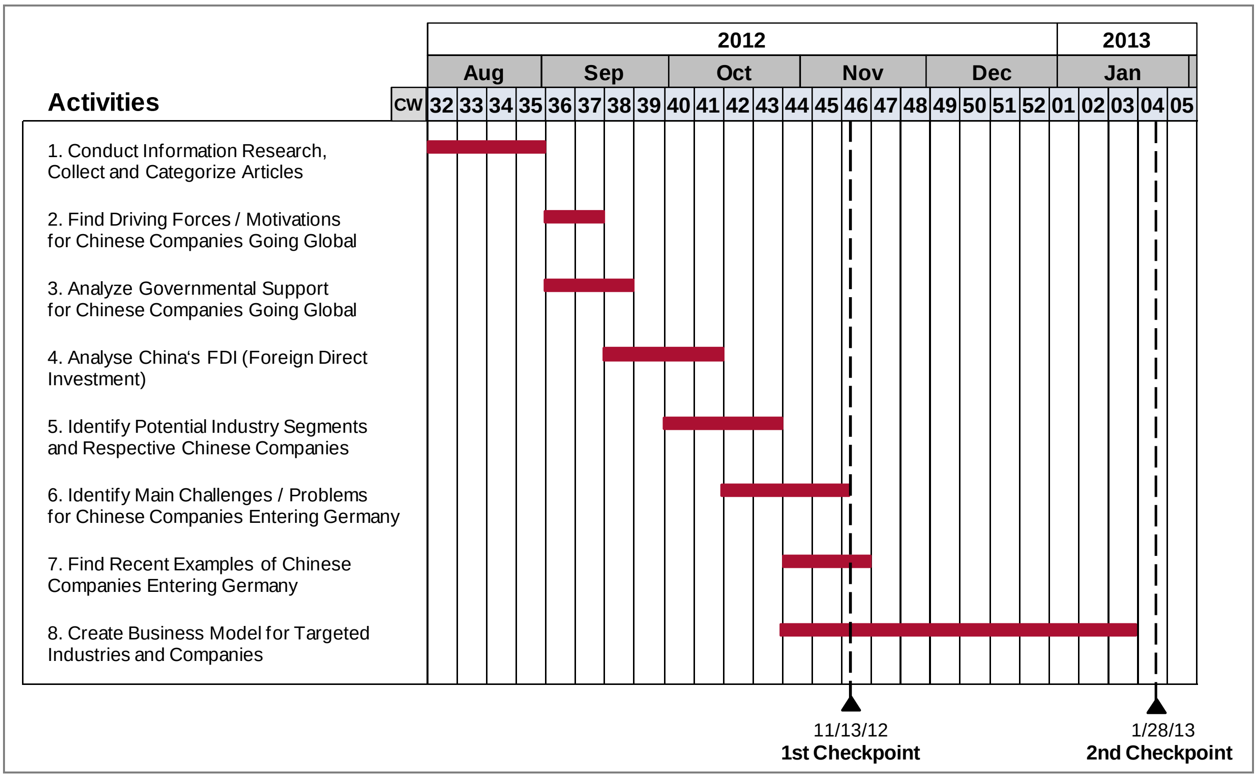

Figure 1-2: Timeline and procedure[27]

1.5 Approach and Methodology

Through my study, I had regular meetings, conference calls and E-Mail exchanges with my supervisors from DKSH to ensure that I develop the optimal business models for market entry scenarios in Germany.

My research findings and practical recommendations will be used internally for all DKSH offices in China and it is regarded as an invaluable resource to support the German market entry decision-making process.

[27] Own illustration

The thesis contains six chapters which are structured as follows:

Chapter 1 gives a background to the subject of this thesis. It introduces the problem definition and the company DKSH (China) Co. Ltd. with its main business services. Moreover, the main objective of the thesis and an outline of the research questions are given.

The second chapter presents the theoretical framework by reviewing the most relevant literature. It defines Foreign Direct Investment (FDI) and justifies why it is a key figure in this study. Fundamental theories of internationalization strategies and FDI will be presented and discussed. These theories will be employed to explain why Chinese companies are going global.

Chapter 3 provides the context of this specific topic and identifies the main international outbound activities of Chinese companies and surveys the trends and patterns of Chinese FDI as well as the role of the government. The emphasis is further placed on the motives and challenges behind the outward expansion of Chinese companies, with a particular focus on their investments into Europe. The contents of this chapter help better understand the specific cases in Chapter 5.

The fourth chapter aims to discuss the methodology behind and how the study is conducted in order to reach the objectives of this research. It illustrates all the relevant and alternative market entry strategies and explains the three main business models Joint Venture, Mergers and Acquisitions as well as Greenfield Investment.

Chapter 5 presents the development of the business models, which is based on "Business Model Generation" from Alexander Osterwalder and Yves Pigneur. It analyses the nine focus areas including Customer Segments, Value Propositions, Marketing Channel, Customer Relationships, Revenue Stream, Key Resources, Key Partners, Key Activities and the Cost Structure.

Chapter 6 summarizes the findings of the thesis and concludes.

2 Internationalization

The following literature review focuses on the process of internationalization, motives for internationalization, the choice of target market and international market entry modes.

2.1 The Process of Internationalization

Academic literature first addressed the internationalization of companies starting from the late 1950s, when U.S. companies penetrated into the Japanese and European markets. Later on, companies from advanced economies started internationalization to developing countries, whereas at the end of the 1990s the internationalization of companies from emerging economies became a common issue. As these companies go global, their expansion is not only focused in developing countries, but in advanced economies too.[28]

While the trend of internationalization of companies from emerging economies and their entry in advanced markets is not entirely new, it is only recently that the attention has drawn specifically to the activities of Chinese companies entering Europe.[29]

A number of studies have identified a new trend whereby Chinese companies increasingly seek to enter Europe and establish their presence there. In order to describe this emerging phenomenon, the term "Europeanisation" has been created, meaning *"sustained efforts to enter competitive European markets, to strengthen the presence in Europe with the goal of getting access to superior technologies, know-how and competence."* [30]

In this strategy of internationalization, Europe represents a particular case, mainly because of the European integration. By entering only one member state, Chinese companies get access to the entire European market.[31]

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[28] Cf. Duysters/Filippov/Zhang (2012), p.104
[29] Cf. Filippov/Zhang (2009), p.10
[30] Ibidem
[31] Cf. Duysters/Filippov/Zhang (2012), p.103

2.1.1 Definition of Foreign Direct Investment

Internationalization of companies has traditionally been understood through Foreign Direct Investment (FDI). FDI or also called Outbound Direct Investment (ODI) is a key element in the international economic integration, also referred to as globalization.[32]

Globalization is a process in which a company increasingly relies on overseas markets for its business. It acquires and upgrades its capabilities in global production, distribution, resource allocation and managerial expertise. A globalized company does not limit itself to the domestic market in its ways of thinking, strategy formulation, decision making and corporate culture. Instead, it uses the global market as the exclusive context for all of these matters.[33]

FDI is a category of cross-border investment made by a company in one economy (called as direct investor) with the objective of establishing a lasting interest in a company that is resident in an economy other than that of the direct investor (called as direct investment company). The motivation of the direct investor is a strategic long-term relationship with the direct investment company to guarantee a significant degree of influence by the direct investor in the management of the direct investment company. Furthermore, direct investment may also allow the direct investor to gain access to the economy of the direct investment company which it might otherwise not be able to do.[34]

The significant growth in FDI in recent years reflect both an increase in the size and number of individual FDI transactions, as well as the growing diversification of companies across economies and industrial sectors.[35]

Market liberalizations, technological innovations and cheaper communication tools are some reasons that have allowed investors to diversify their participation in overseas markets.[36]

FDI assists countries in domestic company development, promotes international trade through access to markets and contributes to the transfer of technology and know-how between economies. Large multinational enterprises (MNE) are traditionally the dominant players in cross-border FDI transactions, but it is believed that small and medium-size companies have also become increasingly involved in FDI in recent years.[37]

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[32] Cf. OECD et al. (2008a), p.16
[33] Cf. Accenture et al. (2011), p.3
[34] Cf. OECD et al. (2008a), p.19
[35] Cf. OECD et al. (2008a), p.16
[36] Cf. OECD et al. (2008a), p.22
[37] Cf. OECD et al. (2008a), p.16

Analysis of direct investment trends and developments are a fundamental part of most macro-economic and cross-border financial analysis. FDI series are very useful and informative for both short and long-term analysis. Analysis of direct investment activities on a short term basis allows monitoring recent economic developments, whereas long term evaluation provides information of the attractiveness of the economy within the global market.[38]

An increase in inward investments by foreign direct investors indicates additional capital injected into the economy and thus might have a positive impact on its economic performance. On the other hand, the size of outward investment transactions implies the extent of penetration of the direct investor in other markets.[39] China is a prime example for both attracting large flows of foreign capital and also being engaged in large scale outward direct investments.[40]

2.1.2 Definition of Internationalization

The term internationalization is used in many different ways. Generally speaking, internationalization is defined as the crossing of national boundaries in the process of growth.[41] A company becomes increasingly internationalized as it becomes more involved in and committed to serving markets outside from its home country.[42]

Internationalization is a process used by companies to integrate themselves into a non-native environment, in particular into foreign nations and cultures or global systems through the interaction of capital, technologies, products and employees. However, there are various opinions and definitions of internationalization made by different scholars.[43]

PIERCY, Professor of Marketing and Strategy and Associate Dean at Warwick Business School in the University of Warwick, defines internationalization as the commitment of resources and production factors by managers and executives for other non-native markets.[44]

ROBINSON, Emeritus Professor at MIT's Sloan School of Management, defines internationalization as a way of designing and producing products that can be easily

[38] Cf. OECD et al. (2008a), p.22f.
[39] Cf. OECD et al. (2008a), p.34
[40] Cf. Schüller/Turner (2005), p.3
[41] Cf. Akoorie/Ding/Pavlovich (2009), p.150
[42] Cf. Tran (2013), p.12
[43] Cf. Tang (2007), p.13f.
[44] Cf. Piercy (1978), p.26f.

adapted to different locations. In order to do this, it requires extracting all language, country and culturally dependent elements from a product or a service.[45]

WELCH, Professor of International Marketing and International Business at Melbourne Business School, and LUOSTARINEN, Professor of International Business at the Helsinki School of Economics, both specify internationalization as the phenomenon that companies move to foreign markets and gradually are involved in international operations. Moreover, WELCH and LUOSTARINEN suggest seven dimensions for measuring a company's internationalization: foreign operation methods, sales objectives, target markets, organizational capacity, organizational structure, personnel and finance.[46]

According to ROBOCK, Emeritus Professor of International Business at Columbia Business School, and SIMMONDS, Emeritus Professor of Marketing and International Business at London Business School, international business is the establishment of branch companies to effectively control overseas market with different scales of direct investment. For example, companies can select to establish overseas sales offices or establish factories with the functions of production and assembly.[47]

PHATAK, Emeritus Professor of International Business and Management at the Fox School of Business and Management from Temple University, refers activities from internationalized companies to business interaction processes between companies, including the flow of technology, capital, service as well as work from one country to another.[48]

DERESKY, a Professor of Strategic Management and International Management and Director of the International Business Program at the State University of New York, determines internationalization as the process of gradual change in accordance with international competition, domestic market saturation, market expansion, the exploration of new market and multi-annual operation.[49]

KANTER, a Professor at Harvard Business School, describes internationalization as a phenomenon in that companies take the globe as the management market due to mutual trade. Moreover, internationalization is the guidance of global business

[45] Cf. Zhang (2012), p.22
[46] Cf. Luostarinen/Welch (1988), p.34f.
[47] Cf. Robock/Simmonds (1989), p.14f.
[48] Cf. Tang (2007), p.14
[49] Cf. Deresky (1994), p.266f.

interaction and to motivate consumers and customers to have an opportunity of multiple choices of products that meet their needs all around the world.[50]

As it can be seen, the definition of internationalization differs from scholar to scholar. However, although there is no consensus, all these definitions have one thing in common: internationalization is a gradual process, during which companies gradually increase their investment abroad, followed by the increase in profit and an increase in management risks.[51]

In this thesis, I use the definition of internationalization as the process through which companies integrate themselves into the global business environment primarily through foreign outbound direct investment. Therefore, I exclude companies that join international competition through trade.

2.2 Motives for Internationalization

There are multiple reasons for a company to decide in going global and become internationalized. However, the most significant motive is to make profits and grow. Generally speaking, motives for internationalization can be split into reactive and proactive motives, which are summarized in Table 2-1.[52]

Proactive Motives	Reactive Motives
✓ Profit and growth goals	✓ Competitive pressures
✓ Managerial urge	✓ Small and saturated domestic market
✓ Technology competence or unique product	✓ Overproduction or excess capacity
✓ Foreign market opportunities	✓ Unsolicited foreign orders
✓ Economies of scale	✓ Extend sales of seasonal products
✓ Tax benefits	✓ Proximity to international customer

Table 2-1: Main motives for starting export[53]

Proactive motives stimulate the company to go abroad and create a change in the company's strategy, whereas reactive motives influence a company to respond and adapt changes which are imposed by the outside environment.[54]

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[50] Cf. Tang (2007), p.14f.
[51] Cf. Tang (2007), p.15
[52] Cf. Tran (2013), p.12
[53] Cf. Hollensen (2008), p.35, own illustration

Companies usually have many motives for their internationalization, however, one motive is usually the primary one and the rest are secondary and fundamental motives, as shown in Figure 2-1.[55]

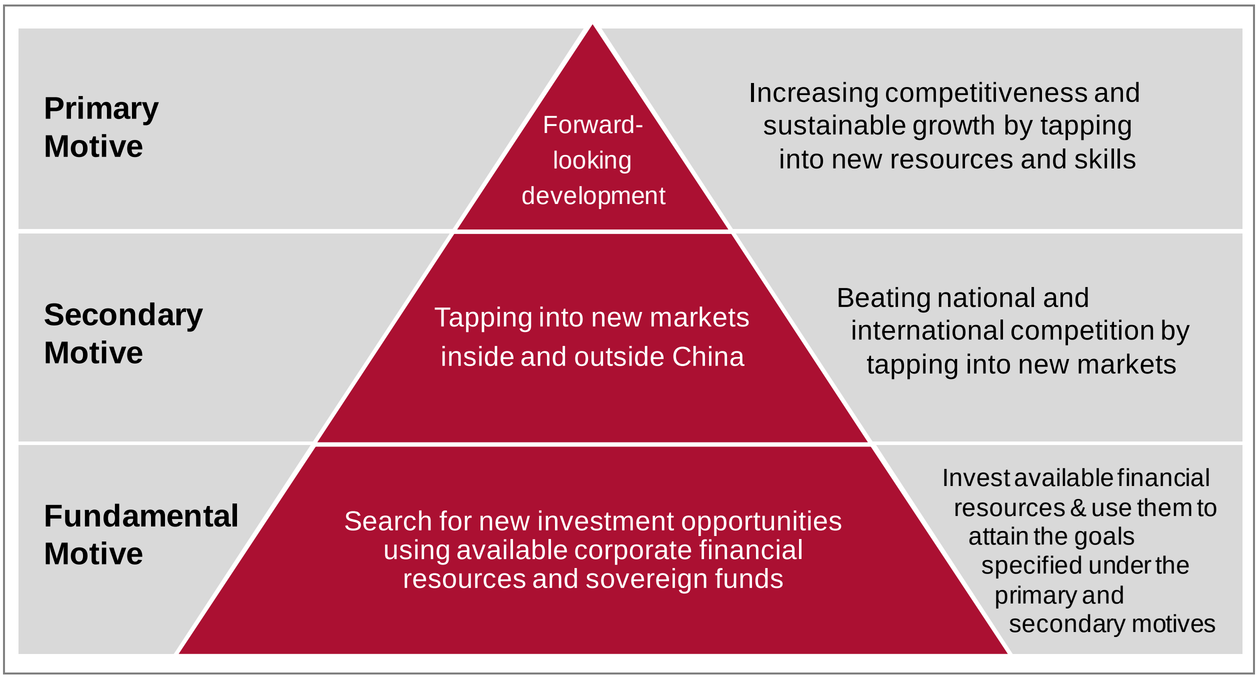


Figure 2-1: Structure of motives for market entry of Chinese companies[56]

2.2.1 Proactive Motives

Profit and growth goals

One of the main proactive reasons for a company when going international is to gain profits. The desire for short-term profit is especially important to companies which are at the initial stage of going global. Furthermore, the motivation for growth is also be of particular importance. The stronger the company's motivation and determination to grow is, the greater will be the activities it generates and implements in order to fulfill profit and growth ambition.[57]

Managerial urge

Managerial urge reflects the entrepreneurial motivation or enthusiasm of a company's management towards internationalization process, which simply means continuous

[54] Cf. Tran (2013), p.13
[55] Cf. Klossek/Linke/Sohm (2009), p.136
[56] Cf. Klossek/Linke/Sohm (2009), p.136, own illustration
[57] Cf. Tran (2013), p.13

growth and market expansion. Thus, managerial attitudes play a critical role in determining the exporting activities of a company.[58]

Technology competence or unique product

A company may produce goods or services which are not available from international competitors, e.g. a company is a sole supplier and thus makes high profits. However, this situation may not last long, because there is a frequent lack of international patent protection.[59]

Foreign market opportunities

Furthermore, market opportunities can also act as a driving force in going global. Before entering a foreign market, a company has to collect and analyze all available information about possible markets to enter. However, the company usually starts by analyzing markets that have similar characteristics like the domestic market, which are often neighbour state markets.[60]

Economies of scale

Being an international company may enable the firm to increase its output and therefore to reach large economies of scale by selling to more customers in other countries too. By increasing production for the international market, production costs for domestic sales can be reduced and thus makes the company more competitive in the domestic marketplace.[61]

Tax benefits

In foreign markets, companies might be able to offer its products at a lower price and accumulate a higher profit, which ties in closely with the profit motivation. Nevertheless, it is important to follow the anti-dumping laws.[62]

2.2.2 Reactive Motives

Competitive pressures

The major reactive motive is a reaction to competition. The company may fear of losing market share in its domestic market to other domestic rivals or to international companies doing business in its country. Additionally, the company may also fear of

[58] Ibidem
[59] Cf. Hollensen (2008), p.36f.
[60] Cf. Hollensen (2008), p.37
[61] Ibidem
[62] Cf. Hollensen (2008), p.38

losing foreign markets to domestic rivals if it does not act fast enough in deciding to internationalize.[63]

Small and saturated domestic market

Furthermore, some companies may be forced to enter foreign markets, because their own home market is not suitable for them. Reasons for that might be caused by small potential of the market, weak economy, saturated market, or the product is already in the end of its life cycle, etc.[64]

Overproduction or excess capacity

Overproduction or excess capacity might be caused when the sales of a certain product in the domestic market are low and the inventory is too big. In such cases the company may decide to export such products and sell them at low prices.[65]

Unsolicited foreign orders

Unsolicited foreign orders happen when the company takes part for example in exhibitions, or through advertising in trade journals, internet etc. and therefore receives orders which are unsolicited.[66]

Extend sales of seasonal products

The management should bear in mind that seasonal demand in the domestic market may differ from the demand condition in other markets abroad. This is important for companies to be able to sell also during no or low demand in the domestic market.[67]

Proximity to international customer

Companies may decide for going global or foreign trade without paying special attention to the reasons. This happens usually in situations when the nations are physically or psychologically close to each other, e.g. Germany and Austria, the United States and Canada, etc.[68]

2.3 Choice of Target Market

It is important to identify the right market to enter as it is a major determinant of success or failure for the company in the early stages of internationalization. There are several

[63] Ibidem
[64] Cf. Hollensen (2008), p.39
[65] Ibidem
[66] Cf. Hollensen (2008), p.40
[67] Ibidem
[68] Ibidem

potential determinants for a company's choice of foreign markets, which can be classified into two groups: environmental and firm characteristics. Figure 2-2 shows these characteristics.[69]

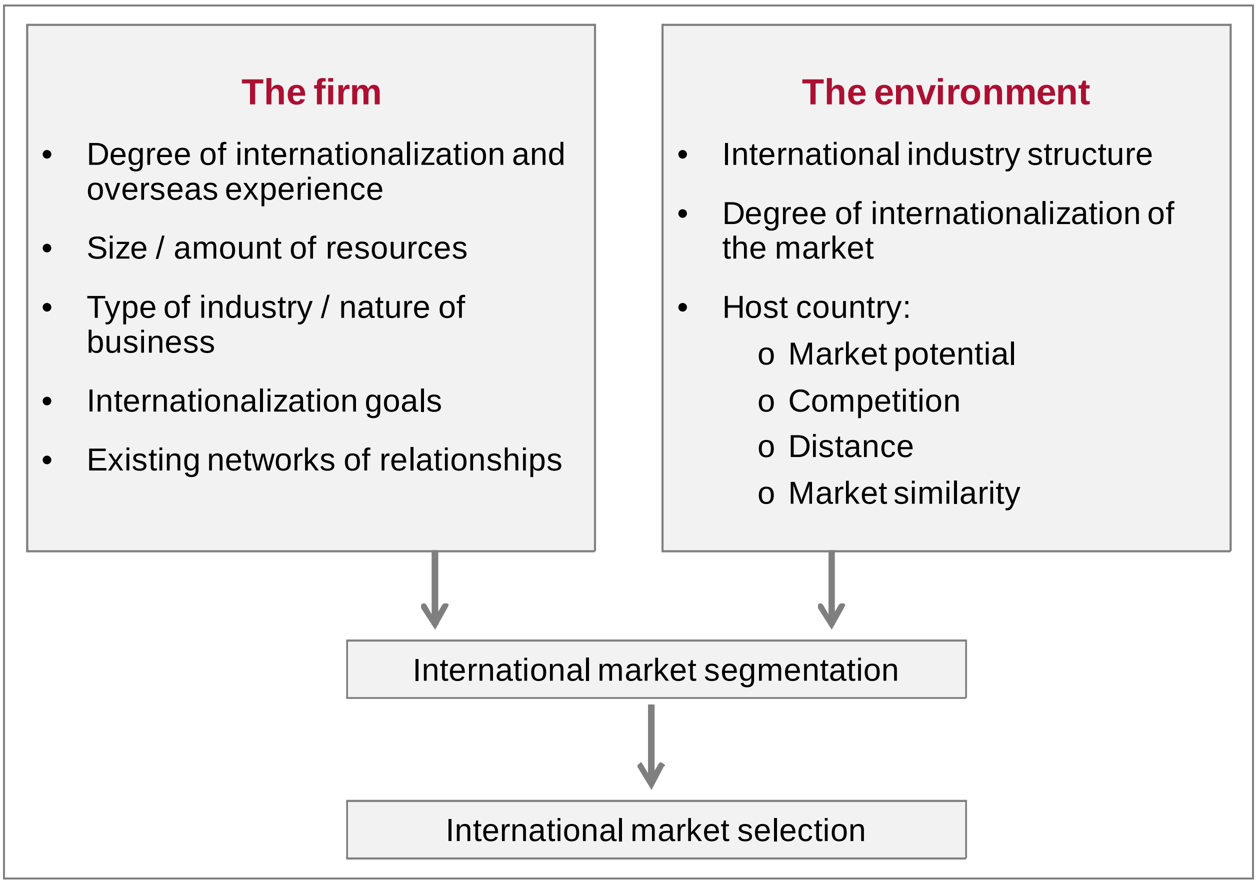


Figure 2-2: Potential determinants for a company's choice of foreign markets[70]

2.4 International Market Entry Modes

The market entry represents a critical first step for any company. However, for experienced and bigger companies, it is not about how to enter a new market, but how to use the opportunities more effectively by their existing network. Nevertheless, there is no ideal market entry strategy. Different market entry methods are adopted by different companies entering the same market because it all depends on the context and situation.[71]

[69] Cf. Tran (2013), p.14f.
[70] Cf. Hollensen (2004), p.220, own illustration
[71] Cf. http://sasa-kovacevic.dk/, accessed on 04.10.2012

Once the target market has been chosen, the question remaining is what the best way to enter this market is.[72]

"An international market entry mode is an institutional arrangement necessary for the entry of a company's products, technology and human capital into a foreign market." [73]

2.4.1 Classification of Market Entry Modes

In theory, the choices of entry modes for companies are the same for every market. However, there are some regulations, for example in emerging markets such as China and India, which have regulations regarding entry modes in order to ensure local involvement and protection of domestic companies. Assuming that there is no regulation regarding entry modes, companies can choose between non-equity (trade and contractual) and equity-based entry modes when going abroad, which is shown in Figure 2-3.[74]

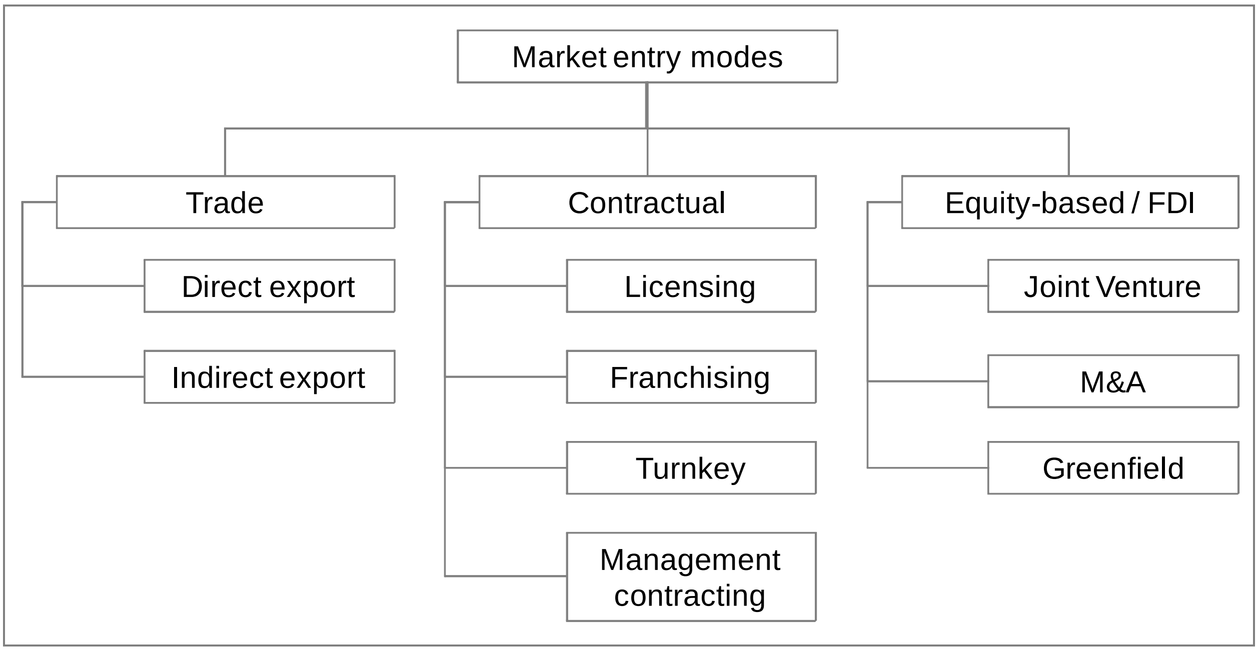


Figure 2-3: Modes of entry into international markets[75]

The advantages of choosing non-equity modes (exports and contractual agreements) is that a company is less committed to a certain market which reduces the risk while making the company more flexible. The disadvantage, however, is that the company

[72] Cf. Tran (2013), p.16
[73] Ibidem
[74] Cf. Ovcina (2010), p.12
[75] Cf. Johnson/Turner (2003), p.116, own illustration

has a low control of activities. Choosing equity modes (Joint Venture, Mergers and Acquisitions or Greenfield Investment) on the other hand shows a large commitment. If the company decides to focus solely on Greenfield Investment, the control of activities will be mainly done by the company, the risk will be increased and the company will be less flexible to changes in the external environment. In order to reduce the risks, a Joint Venture can be chosen, but the disadvantage of this entry mode is that the control and profit will have to be shared. Furthermore, it can be a challenging process to join two different organizations with different organizational cultures.[76]

Figure 2-4 shows export, contractual and equity-based entry modes in regards to the level of internationalization and development as well as control and risk.[77]

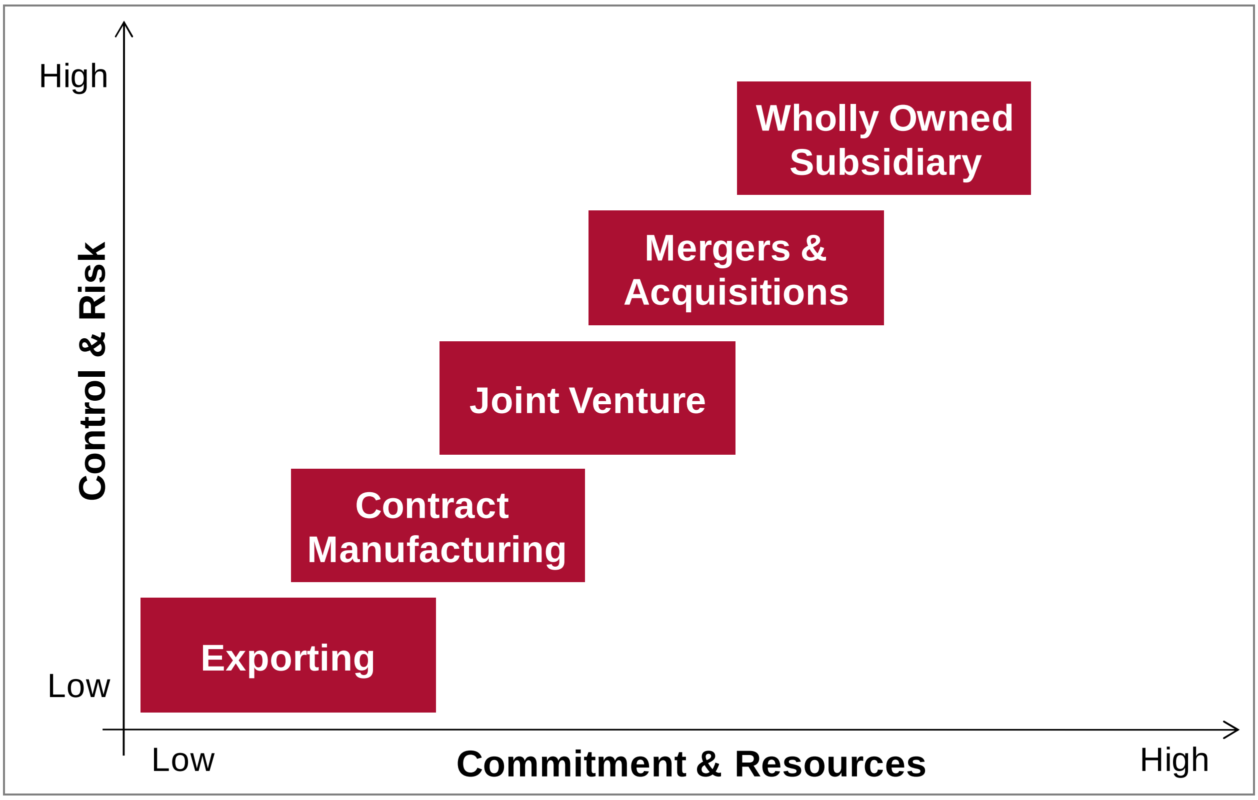


Figure 2-4: Hierarchized market entry modes[78]

A more detailed comparison of the different entry modes is shown in Table 2-2.[79]

[76] Cf. Ovcina (2010), p.14
[77] Cf. Ghane/Groll/Tirpitz (2011), p.11f.
[78] Cf. Ghane/Groll/Tirpitz (2011), p.11, own illustration
[79] Cf. Ovcina (2010), p.15

Criteria	Wholly Owned Subsidiary	Mergers & Acquisitions	Joint Venture	Contract Cooperation	Exporting
Investment (financial and managerial)	High	High	Medium	Low	Low
Speed of entry	Slow	Fast	Fast	Medium	Fast
Market penetration	Medium	High	Medium/High	Medium/Low	Medium/Low
Control of market (Customer knowledge)	High	High	Medium	None	Low
Political risk exposure	High	High	Medium	Low	Low
Technological leakage	Low	Low	High/Medium	High	Low
Managerial complexity	High	High	High	Low	Low
Return on Investment	High/Medium	High/Medium	High/Medium	High	None

Table 2-2: Comparison of different market entry modes[80]

Interestingly, scholars are talking about similar themes, but present market entry modes in different ways. According to HOLLENSEN, Associate Professor of International Marketing at University of Southern Denmark, there are three main groups of entry modes that are available to companies that want to internationalize. These modes differ in the degree of control, risk and flexibility associated with each of these three market entry modes. Figure 2-5 illustrates the classification of these three categories.[81]

[80] Ibidem, own illustration
[81] Cf. Tran (2013), p.16f.

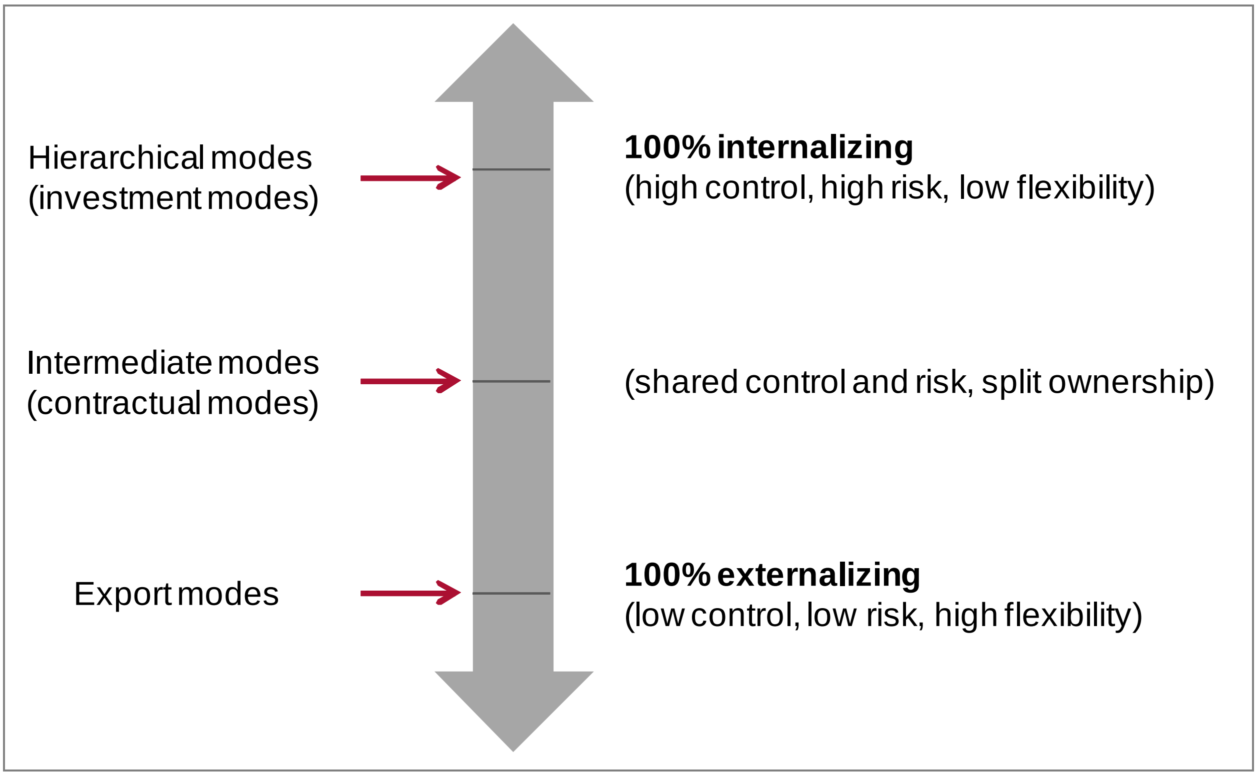


Figure 2-5: Classification of market entry modes[82]

Hierarchical modes or also called investment modes involve foreign direct investment in form of wholly owned subsidiary, high control, high risk and low flexibility. The use of hierarchical modes gives the company ownership and thereby high control. However, committing heavy resources to foreign markets also represents a higher potential of risks. At the same time, heavy resource commitment creates barriers to exit, which decreases the company's ability to change the chosen entry mode in an easy and fast way. Hence, the entry mode decision involves trade-offs, as the company cannot have both high flexibility and high control.[83]

Intermediate modes usually involve a contract and therefore are involved with shared control and risk. Within this category of entry modes partners such as a Joint Venture agree to share resources, technology, profits, jobs, etc. Other examples of this mode are licensing, franchising, contract manufacturing, technical agreement, co-production agreement, etc.[84]

Export modes have generally low control, low risk, but more flexibility. Export modes can be split into three types: indirect, direct and cooperative export. Indirect export indicates that domestic companies perform exporting activities without the

[82] Cf. Hollensen (2008), p.201, own illustration
[83] Cf. Hollensen (2008), p.201
[84] Ibidem

manufacturing company's involvement in the foreign sales of their products. Direct export implies that the producing company takes care of exporting activities. Cooperative export involves collaborative agreement with other companies when performing exporting activities.[85]

2.4.2 Factors Influencing the Choice of Market Entry Mode

The choice of entry mode is a very complex matter. A company's decision of an entry mode is the result of many often conflicting forces. When a company decides to enter a foreign market, the company has to decide which type of mode of entry it will choose and this decision is according to HOLLENSEN influenced by four groups of factors:[86]

- **Internal factors:** Firm size, international experience, product complexity and product differentiation advantage
- **External factors:** Socio-cultural distance between home and host country, country risk or demand uncertainty, market size, trade barriers, intensity of competition
- **Desired mode characteristics:** Risk averse, control, flexibility
- **Transaction-specific factors:** Tacit nature of know-how, opportunistic behaviour, transaction costs

[85] Cf. Tran (2013), p.16f.
[86] Cf. Hollensen (2004), p.298

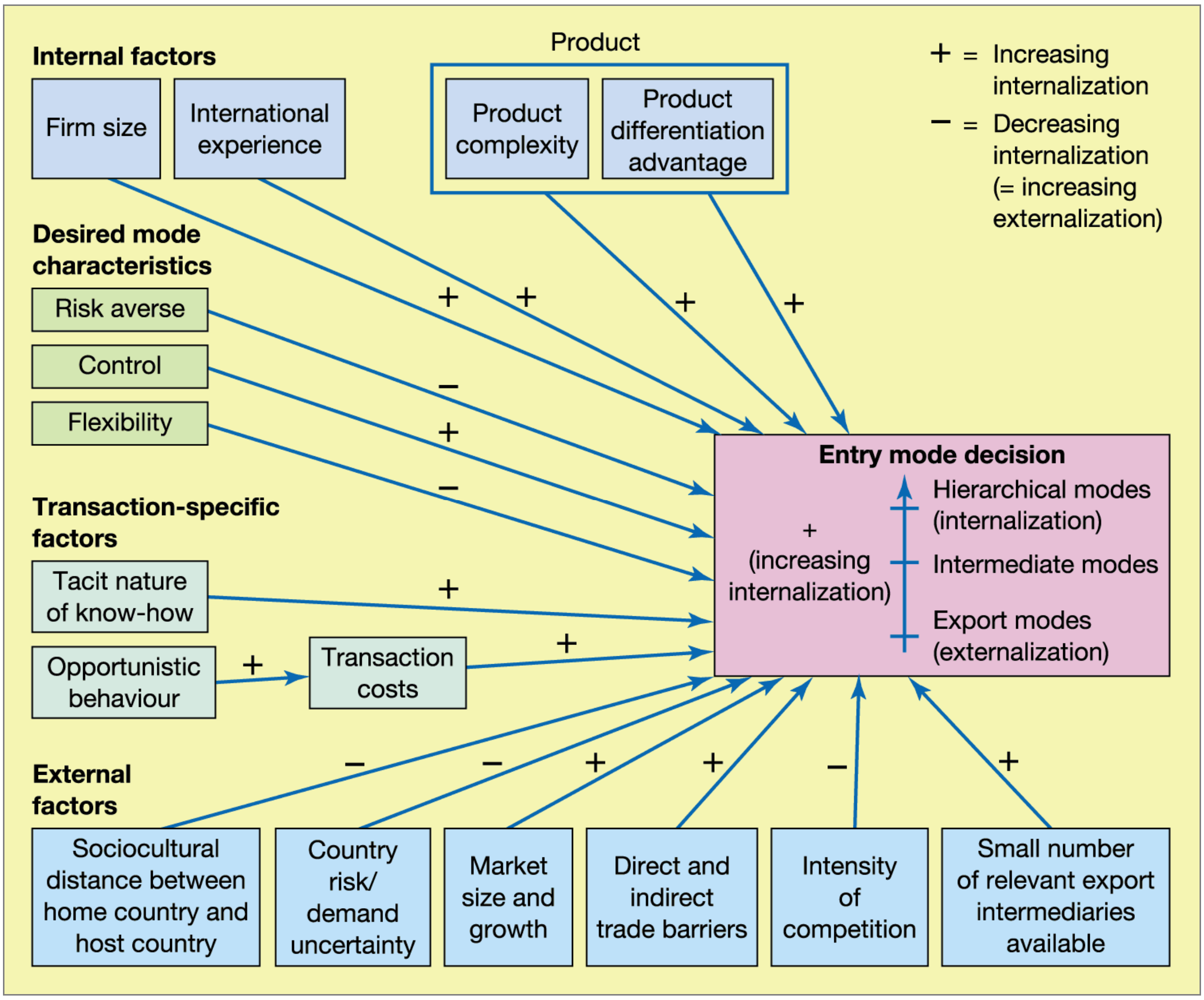


Figure 2-6: Factors affecting the foreign market entry mode decision[87]

Internal factors affecting the choice of entry mode are the size of the company, its international experience and the product offered. Whereas the size of a company determines the availability of resources, the international experience of managers can also act as a factor affecting the entry mode decision. International experience can decrease costs and uncertainty, which increases the internationalization process. Last but not least, the product itself also affects the choice of entry mode since products vary in their characteristics and usage.[88]

External factors affecting the choice of international entry mode are among others socio-cultural distance, country risks, market size, trade barriers and competition. Socio-cultural distance refers to similarity of countries meaning that doing business with countries that share a similar mindset and culture is always easier to do. Country risks include the assumption that foreign markets are more uncertain than domestic ones

[87] Cf. Hollensen (2008), p.206
[88] Cf. Tran (2013), p.18

are. Furthermore, market size affects the choice of entry mode in the following way: if the market is growing, it is more likely that managers continue to invest in it. However, if the market is already full of competition (which makes the market less profitable), there will be little for a company to gain in those markets, which thus affect the choice of entry mode.[89]

Another factor affecting the choice of entry mode is the desired mode characteristics, which include risk averse, control and flexibility. If the decision maker is risk averse he or she will prefer an export or intermediate mode because these modes typically involve low levels of financial and management resource commitment. However, modes of entry that entail minimal levels of resource commitment and hence minimal risks are unlikely to support the development of international operations and may result in significant loss of opportunity.[90]

2.5 Summary

The literature does not provide a single view on internationalization. The reasons for international expansion always differ for each company as well does their optimal entry mode, target market and motivation behind.

[89] Cf. Tran (2013), p.18f.
[90] Cf. Hollensen (2008), p.209f.

3 Chinese Companies Going Global

The focus of this chapter is to give a general introduction of Chinese companies going global. It provides an understanding of China's outward foreign direct investment (in terms of destination, region, industry, etc.), the role of governmental support and policies, and main motives and challenges that Chinese companies are facing in going global. In addition, the chapter analyses the situation of Chinese companies in Europe and gives examples of Chinese enterprises that have already invested in Germany.

3.1 China's Overseas Investment

The first section provides an overview of Chinese foreign direct investment worldwide. It also identifies the main international outbound activities of Chinese companies and surveys Chinese FDI in Europe as compared to Chinese FDI in other regions of the world.

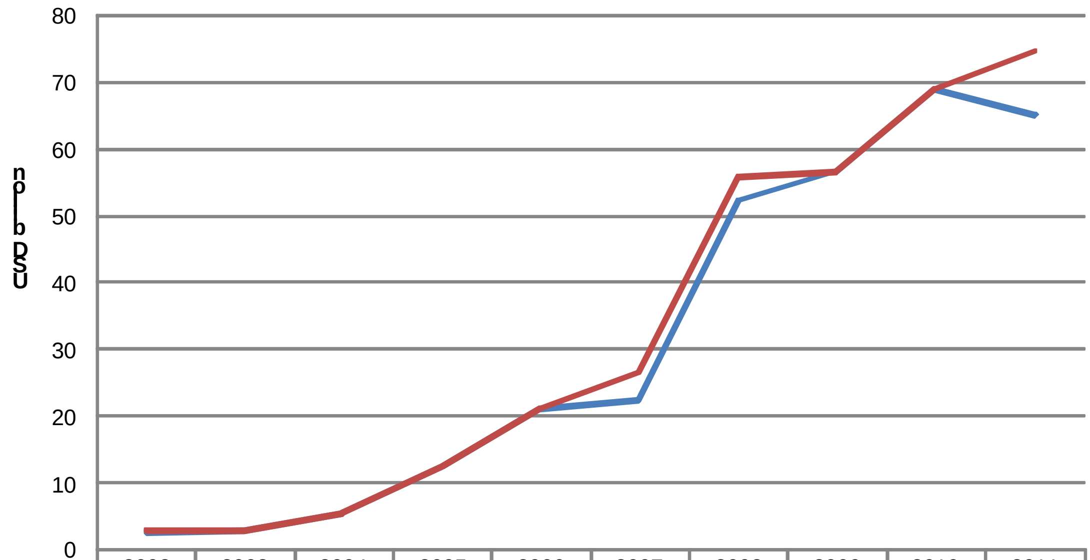
3.1.1 Discrepancies in Statistics

Internationally harmonized and reliable statistics are essential to assess the trends and developments of FDI activities. Several international organizations compile and publish FDI data, such as the OECD (Organisation for Economic Co-operation and Development), Eurostat (European Commission), the ECB (European Central Bank), IMF (International Monetary Fund) and UNCTAD (United Nations Conference on Trade and Development).[91]

The main official source for data on Chinese FDI is the "Annual Statistical Bulletin on China's Outward Direct Investment" from the Chinese Ministry of Commerce (MOFCOM).[92]

However, if one relies only on figures from China's official reports released annually by MOFCOM, it is difficult to make precise evaluation of China's foreign direct investment, because there are certain discrepancies in statistics. The Chinese official figures for FDI are quite different from the figures provided by UNCTAD, as Figure 3-1 below shows.[93]

[91] Cf. http://www.oecd.org/; http://epp.eurostat.ec.europa.eu/; http://www.ecb.europa.eu/; http://www.imf.org/; http://unctad.org/; accessed all on 15.08.2012
[92] Cf. http://images.mofcom.gov.cn/, accessed on 13.09.2012
[93] Cf. McKay/Song (2012), p.156



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
FDI flow by UNCTAD*	2,52	2,85	5,50	12,26	21,16	22,47	52,15	56,53	68,81	65,12
FDI flow by MOFCOM**	2,70	2,85	5,50	12,26	21,16	26,51	55,91	56,53	68,81	74,65

* **UNCTAD** = United Nations Conference on Trade and Development

** **MOFCOM** = Ministry of Commerce of China

Figure 3-1: China's outward FDI flows according to UNCTAD and MOFCOM[94]

Although authorities follow internationally recognized standards, reliability remains a serious concern. The data in the World Investment Report made by UNCTAD is based on a balance of payments accounting, including trade-related capital movement. It has a broader coverage than Chinese official data from MOFCOM, which bases foreign direct investment upon investment approvals. Moreover, Chinese official statistics only reflect part of the total FDI because some capital is invested through private channels and thus is not included in the officially reported statistics on approved FDI. That's why the two sources of information fail to correspond.[95]

Although statistics from MOFCOM provide an overview of Chinese FDI by destination region and country, it is based on information Chinese companies submit in the registration and approval process and not on survey data. Companies tend to report the first and not the final destination of their investments, weighting the numbers toward transit points such as Hong Kong and tax havens such as the Cayman Islands and the British Virgin Islands.[96]

94 Cf. http://unctadstat.unctad.org/, accessed on 13.09.2012; Cf. MOFCOM et al. (2012), p.75ff.; own illustration

95 Cf. Schüller/Turner (2005), p.3

96 Cf. Hanemann/Rosen (2009), p.4

A more accurate data set would help policymakers inside and outside of China to better understand the country's OFDI profile. In my thesis I used the UNCTAD database for analyzing China's FDI activities whenever it was possible to apply because reliance upon MOFCOM data does not greatly assist in the analysis of Chinese FDI activities.

3.1.2 Characteristics of Chinese Outward FDI

China's FDI is growing despite an overall decline globally in foreign direct investment. Although China's outward FDI is still small relative to its massive inward FDI (see Figure 3-2), China's overseas companies have been gaining momentum in moving international capital, investing across a broad spectrum of sectors, ranging from natural resources to manufacturing or telecommunications and many others.[97]

As China's economy continues to grow, it faces shortages in almost all raw materials, particularly in oil, iron ore, aluminum and uranium. Therefore, China builds trade linkages with Australia, Russia, Brazil and other resource-rich countries to secure supplies.[98]

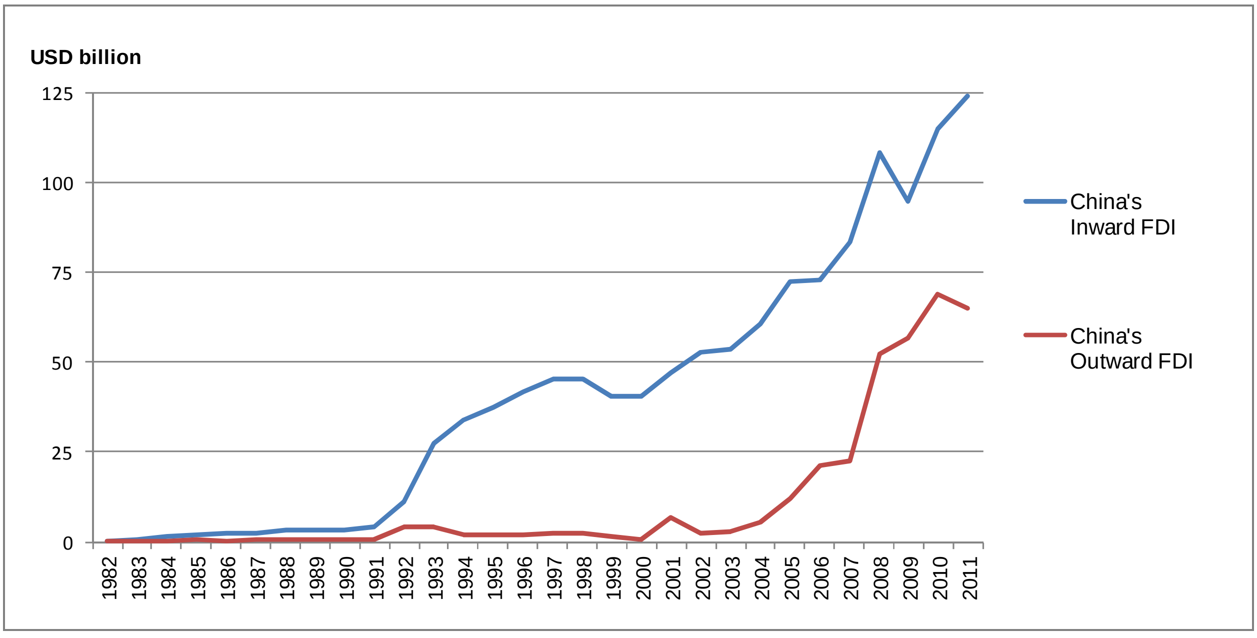


Figure 3-2: China's inward and outward FDI flows from 1982 to 2011[99]

A significant jump in outflows happened when China's FDI went from USD 22 billion in 2007 to USD 52 billion in 2008, an increase of over 140 percent. Growth in China's FDI

[97] Cf. Guo (2012), p.212
[98] Cf. Guo (2012), p.xxix, Introduction
[99] Cf. http://unctadstat.unctad.org/, accessed on 13.09.2012, own illustration

flows has become very significant in recent years, going from less than USD 100 million in the 1980s to USD 65 billion in 2011.[100]

Although China is starting from a very low base, the tremendous surge in outward FDI and a simultaneous drop in global FDI flows catapulted China into the top 10 of global direct investors. In 2011, China was the world's ninth biggest outward investor as shown in Figure 3-3. China has also become the leading outward investor among emerging economies. China was the only BRIC country, whose outward FDI flows did not drop notably during the global financial crisis in 2009. China overtook Russia as the top emerging market outbound investor.[101]

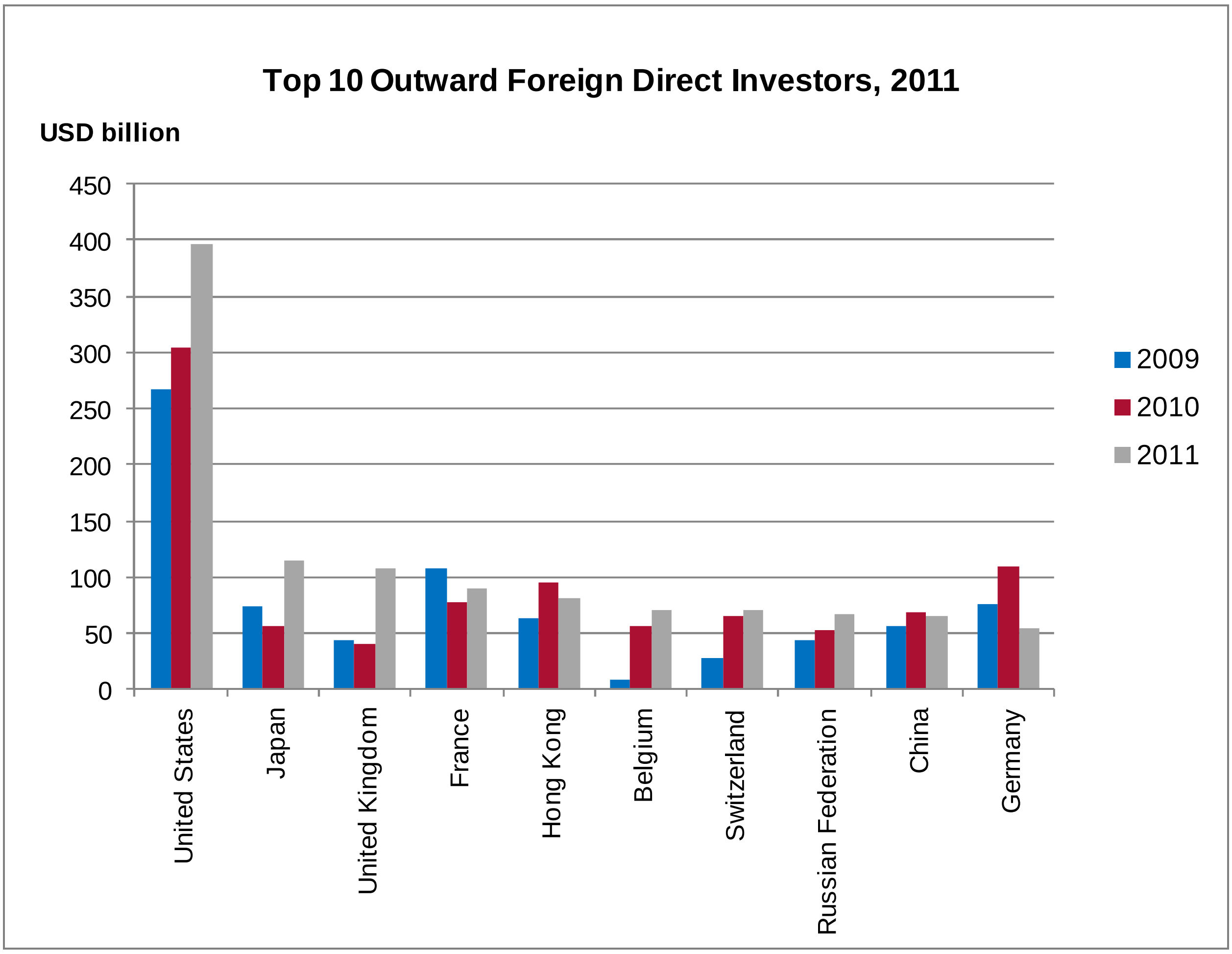


Figure 3-3: Top 10 outward foreign direct investors in 2011[102]

[100] Cf. http://www.chinadaily.com.cn/, accessed on 28.09.2012
[101] Cf. Hanemann/Rosen (2012), p.15
[102] Cf. http://unctadstat.unctad.org/, accessed on 13.09.2012, own illustration

3.1.3 Geographical Distribution of China's FDI

According to an article from the *Bertelsmann Stiftung*, the geographical distribution of China's FDI tends to channel the investments in the following order: countries and regions at the same level of economic development, neighbouring countries, other developing countries and finally developed countries.[103]

Figure 3-4 shows the geographical distribution of Chinese FDI by continent. The majority of Chinese FDI is concentrated to Asian countries. Investments to Latin America have increased until 2006, experiencing a decrease for some time and have started to grow again in 2008. Africa, Oceania and North America as destinations for Chinese FDI have received relatively few investments. However, since the financial crisis of 2008, Asia's share of Chinese FDI has decreased while FDI to Europe and Latin America has witnessed an increase. This phenomenon is also shown in Figure 3-7.[104]

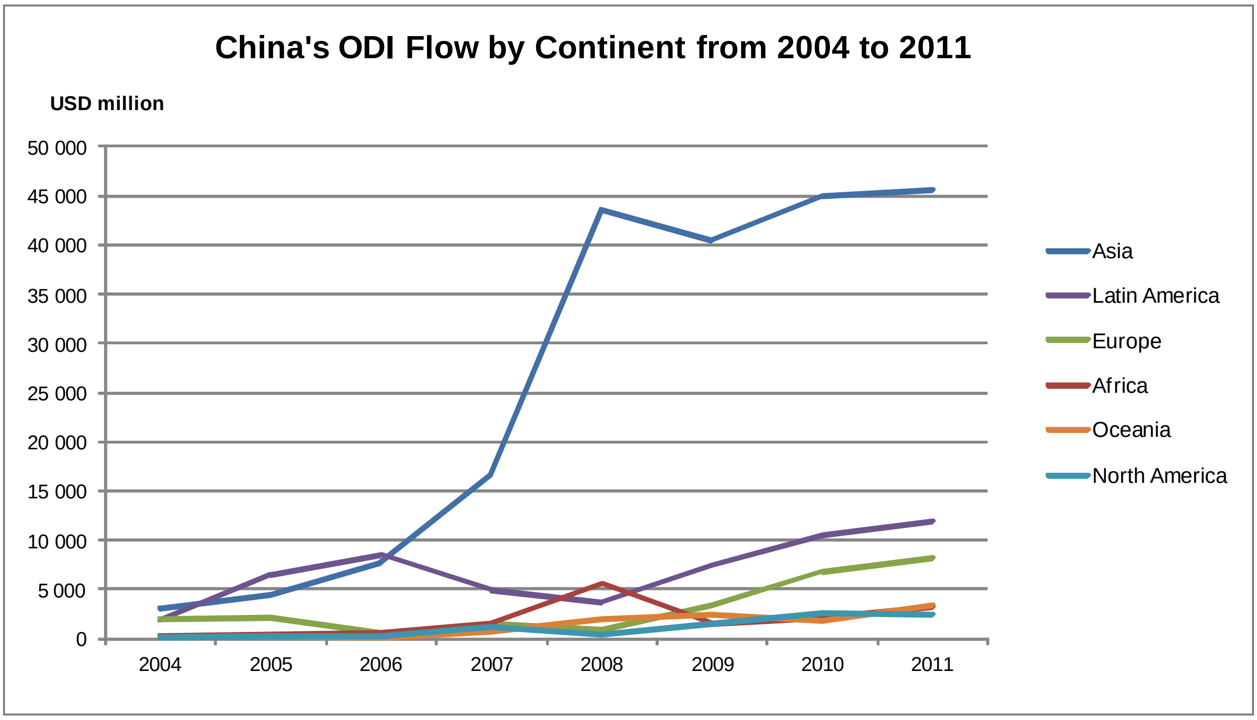


Figure 3-4: China's FDI flow by continent from 2004 to 2011[105]

Investing in developed countries help Chinese companies to access technological and managerial know-how, high reputation of goods and technologies and a large purchasing power of customers in the host countries. For instance, German technology

[103] Cf. Petersen/Wang/Xu (2012), p.13
[104] Cf. Andersson/Wang (2011), p.40
[105] Cf. http://unctadstat.unctad.org/, accessed on 13.09.2012, own illustration

and brands have a very high reputation in China and FDI is one main instrument to import these technologies to China.[106]

Moreover, Germany possesses a large volume of skilled labour and therefore investing in Germany enables China to profit from this labour force. In addition, German consumers have higher purchasing power and China could use its FDI in Germany to capture new shares of the German market.[107]

By the end of 2010, overseas investment mainly went to mining, manufacturing, retail, wholesale and commercial services. However, in his annual government report, Premier Wen Jiabao stated that China will guide enterprises to buy, invest and merge in key sectors overseas, including energy, raw materials, agriculture and manufacturing. This is the first time that specific sectors were mentioned in the government report. Figure 3-5 shows the distribution of China's FDI flows by industry in Europe in 2011.[108]

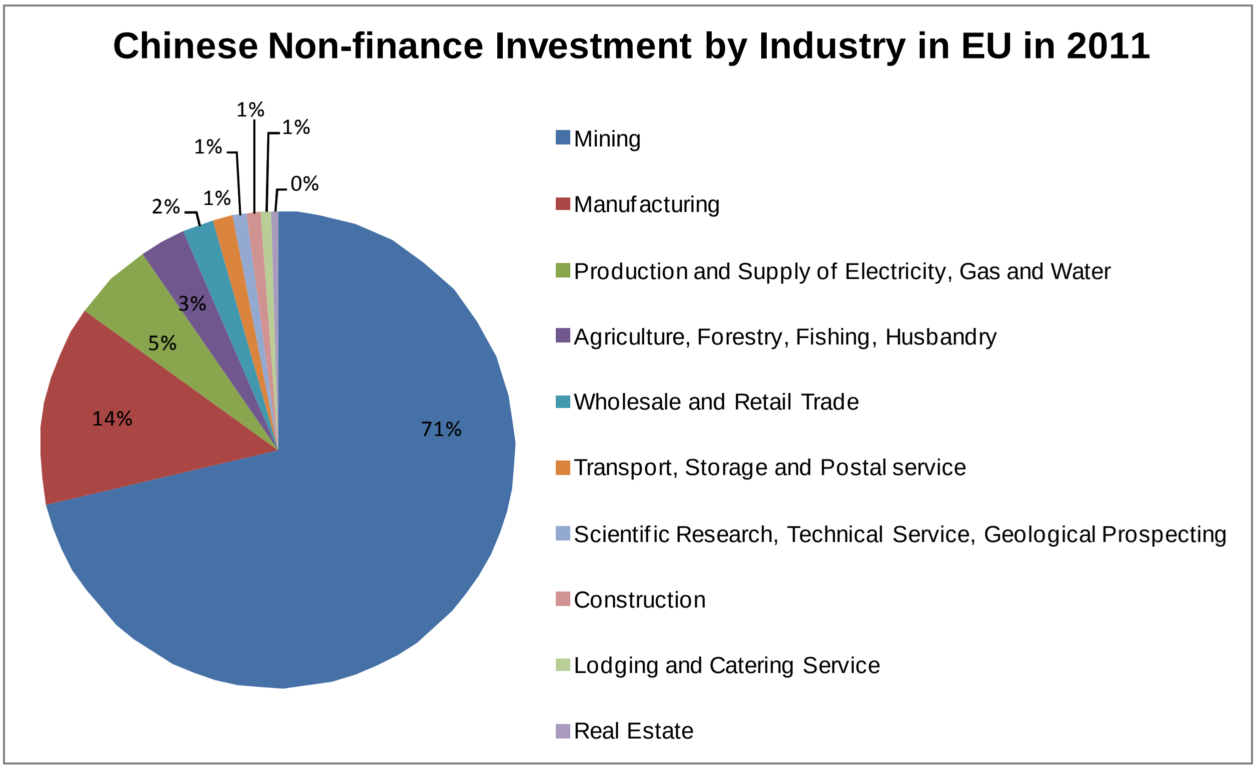


Figure 3-5: Chinese non-finance investment by industry in Europe in 2011[109]

China's government's favourable policies, the European sovereignty debt crisis and the appreciation of the Chinese currency have all helped Chinese firms to expand abroad.[110]

[106] Cf. Petersen/Wang/Xu (2012), p.14
[107] Ibidem
[108] Cf. http://www.chinadaily.com/, accessed on 12.09.2012
[109] Cf. MOFCOM et al. (2012), p. 84, own illustration
[110] Cf. http://usa.chinadaily.com.cn/, accessed on 11.10.2012

Figure 3-6 shows the regional distribution of China's FDI in 2011, which has been mainly concentrated in Asia and Latin America and to a lesser extent to Australia and Africa.[111]

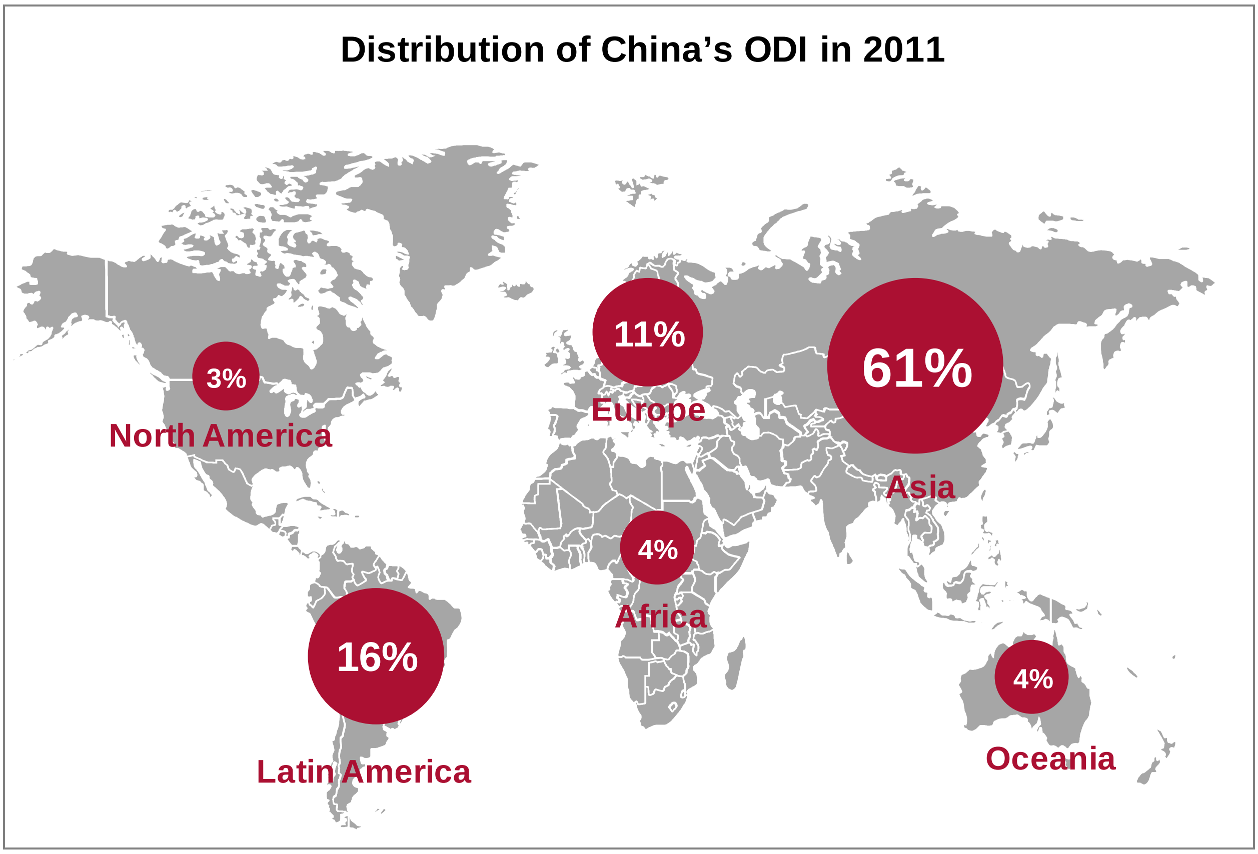


Figure 3-6: Distribution of China's FDI in 2011[112]

The investments going to Europe and Latin America have increased in recent years. Europe became the fastest growing destination for China's FDI in the world since 2008. In 2011, Chinese FDI flows in Europe reached eleven percent of the total Chinese global outward FDI flows and expanded almost twice as rapidly in 2010 as compared to the previous year. See Figure 3-7 for more detailed numbers.[113]

[111] Cf. Petersen/Wang/Xu (2012), p.11
[112] Cf. http://unctadstat.unctad.org/, accessed on 13.09.2012, own illustration
[113] Cf. Van Den Bulcke/Yang/Zhang (2012), p.2

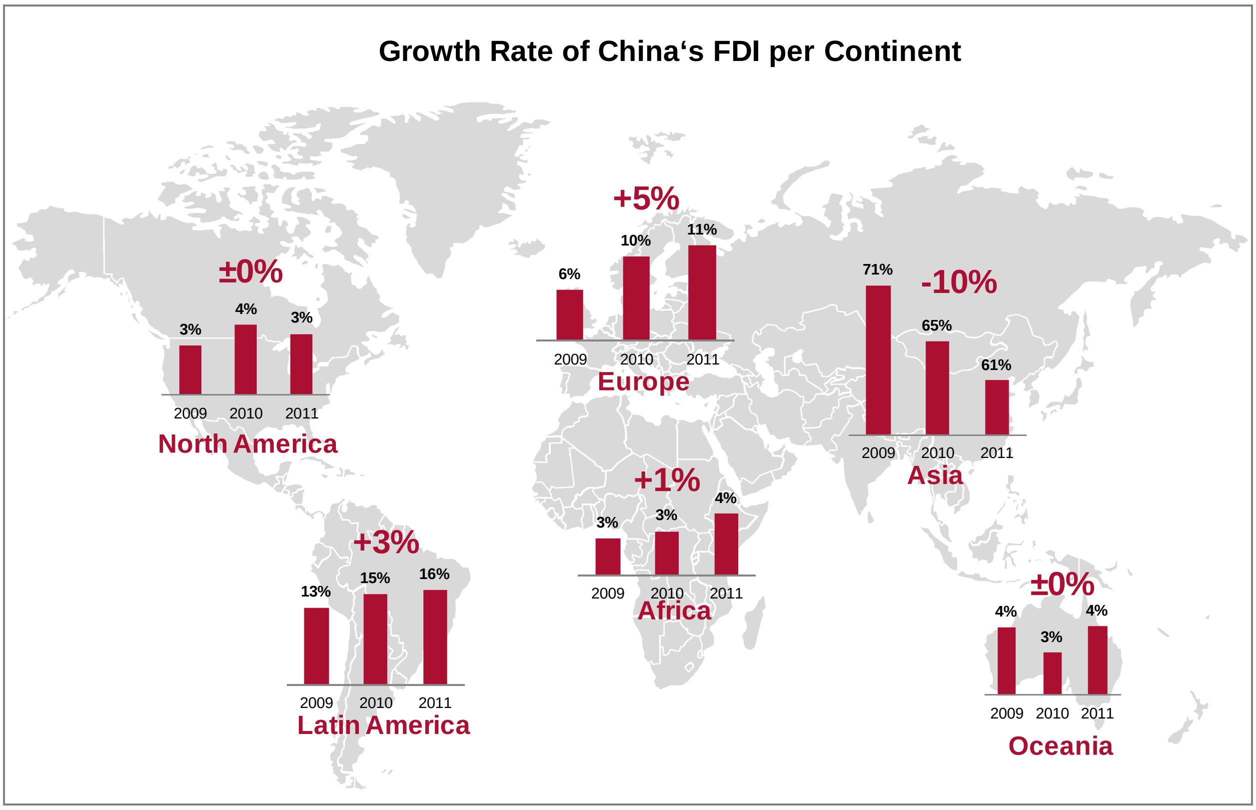


Figure 3-7: Growth rate of China‘s FDI per continent[114]

As shown in Table 3-1, Hong Kong, British Virgin Islands and the Cayman Islands are the biggest recipients of Chinese investment (according to figures from MOFCOM).[115]

No.	Countries	Flows in USD million	No.	Countries	Flows in USD million
1	Hong Kong	35,655	11	Russia	716
2	British Virgin Islands	6,208	12	Iran	616
3	Cayman Islands	4,936	13	Indonesia	592
4	France	3,482	14	Kazakhstan	582
5	Singapore	3,269	15	Cambodia	566
6	Australia	3,165	16	Canada	554
7	US	1,811	17	Germany	512
8	UK	1,420	18	Laos PDR	459
9	Luxembourg	1,265	19	Mongolia	451
10	Sudan	912	20	Zimbabwe	440

Table 3-1: Top 20 destinations of China's FDI in 2011[116]

[114] Cf. http://unctadstat.unctad.org/, accessed on 13.09.2012, own illustration
[115] Cf. http://images.mofcom.gov.cn/, accessed on 13.09.2012
[116] Cf. MOFCOM et al. (2012), p.70ff., own illustration

Hong Kong is the number one destination for China's FDI. Due to its proximity to the mainland, low tax rates and its status as a Chinese territory, China's investment interests in Hong Kong are not surprising.[117]

However, the data are not useful in evaluating where the money is going as most of that money is routed through Hong Kong on its way elsewhere.[118] Chinese outward direct investment in tax havens makes the ultimate destination of Chinese overseas investment difficult to track. Hong Kong, the British Virgin Islands and the Cayman Islands collectively received 70 percent of China's FDI outflows in 2011.[119]

What makes China's figures on inflowing and outflowing FDI problematic is the phenomenon of the so called round-tripping of investments. This refers to Chinese capital that first goes for instance to the tax haven Hong Kong and then re-enters China in the form of FDI so as to enjoy preferential tax treatment and other advantages.[120]

There are no official estimations for round-tripping money flows, but analysts think it could be more than one-third of all inward FDI. Therefore, it is hard to weight these distorting factors and to decide whether the aggregate number is understated or overstated.[121]

Looking at other destinations of Chinese investment, natural resources are the major attraction to invest in Australia. More than 80 percent of investment goes in the mining sector in Australia, the rest into real estate, finance and manufacturing, while agriculture and infrastructure have been gaining importance in recent years. Similarly, Canada, Russia and South Africa are attractive locations for their resources, such as oil and oil-sands in Canada, oil and forest resources in Russia and gold and platinum in South Africa. Other top destinations include the United States, Iran, Cambodia and Germany. The United States and Germany attract Chinese manufacturers for their advanced technology, prestigious brand names and large domestic markets.[122]

South Africa acts as a gateway for China's investments in Africa. China's government has funded and helped build infrastructure projects for African governments and in return gets access to mines and minerals.[123]

China has massively invested in Canada's oil sands. The province of Alberta, whose oil sands give it the title of the largest oil reserves outside Saudi Arabia, has been a big

[117] Cf. http://www.cnbc.com/, accessed on 14.08.2012
[118] Cf. http://www.forbes.com/, accessed on 14.10.2012
[119] Cf. Salidjanova (2011), p.9f.
[120] Cf. Li/Yu (2009), p.13
[121] Cf. Hanemann/Rosen (2009), p.3
[122] Cf. McKay/Song (2012), p.157
[123] Cf. http://www.cnbc.com/, accessed on 14.08.2012

draw for Chinese energy companies. On the other hand, China is the number one investor in Myanmar. With its massive oil and gas reserves as well as mineral deposits, it has seen a lot of interest from Chinese companies.[124]

3.1.4 Outlook of China’s FDI

Chinese companies are increasingly looking abroad for investment opportunities and are using their enhanced outbound investment powers to gain access to new markets, advanced technology, modern manufacturing know-how and brand development. The Chinese government has supported Chinese companies investing abroad by simplifying regulatory requirements, which will be further discussed in the next chapter. Under these conditions, China’s outbound investment has grown, even during the global financial crisis. While Chinese companies still face many problems when investing abroad, outbound investment from China will likely continue to grow and becoming a source of capital for the rest of the world.[125]

According to the China's Ministry of Commerce, the country's outward foreign direct investment will reach USD 150 billion by 2015, representing an annual increase of 17 percent each year. China's Ministry of Commerce plans to optimize outward FDI and promote industry modernization by, among other things, instructing leading processing manufacturers to explore international markets, expanding global cooperation in agriculture, enlarging the service sector and supporting Chinese companies investing in overseas R&D cooperation.[126]

[124] Ibidem
[125] Cf. Goldner/Shelton/Wang (2010), p.1
[126] Cf. www.china-invests.net/, accessed on 02.10.2012

3.2 Governmental Support for Chinese Companies Going Global

This section studies the role of the Chinese government and its "Go Global" policy and its related incentives, which has become a key strategy of China’s economic development.

China’s rapid increase of FDI is essentially policy driven and motivated by the government’s "Go Global" policy. The Chinese government has implemented this strategy to encourage and promote Chinese companies in outbound investment, overseas cooperation and international operation.[127]

The policy was initiated by former Premier Zhu Rongji in his annual Policy Address in 2000, officially encouraging Chinese firms to invest abroad with government approval. With China’s entry into the World Trade Organization (WTO) at the end of 2001, China began gradually to adjust its "Go Global" policy.[128]

Premier Zhu envisioned "Going Global" as being a platform for Chinese companies to become more competitive in the world economy. However, WTO integration was thus critical for China. On the one hand, it meant more foreign competition for Chinese companies in their own domestic market. On the other hand, it provided Chinese companies with access to foreign human capital, best management practices and top technologies from the foreign investors and competitors.[129]

In 2002, the strategy of encouraging Chinese companies to invest overseas was inscribed in the "Report of the Chinese Communist Party’s Sixteenth Congress", which marked a turning point for China’s policy on overseas investment.[130]

"China’s ODI policy has gone through strategic shifts, moving from the political objective-centered to the commercial interest-oriented; from central government-dominated to local government-led and then to enterprise-led; and from resource-seeking to the trinity of resource-, market- and technology seeking." [131]

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[127] Cf. Zhang (2005), p.26
[128] Cf. Zhang (2005), p.5
[129] Cf. Klinck (2012), p.5f.
[130] Cf. Zhang (2005), p.5f.
[131] Zhang (2005), p.26

3.2.1 Evolution of China's Overseas Investment Policy and Administration

Since its origin, Chinese FDI has always been initiated or approved by governmental institutions, which still retains a great measure of control. The government has selected certain strategic industries for overseas expansion and has also chosen the markets where this expansion should take place. This strong government involvement, mainly through state-owned or state-affiliated enterprises, ensured that foreign investments would align with the country's long-term development strategies. For instance, the government pushed massively in developing national industry champions and the supply of overseas natural resources that confirm an agenda of economic nationalism focused on energy security, competitiveness and geopolitics.[132]

The evolution of Chinese FDI policy over the last three decades is reflected in Figure 3-8.[133]

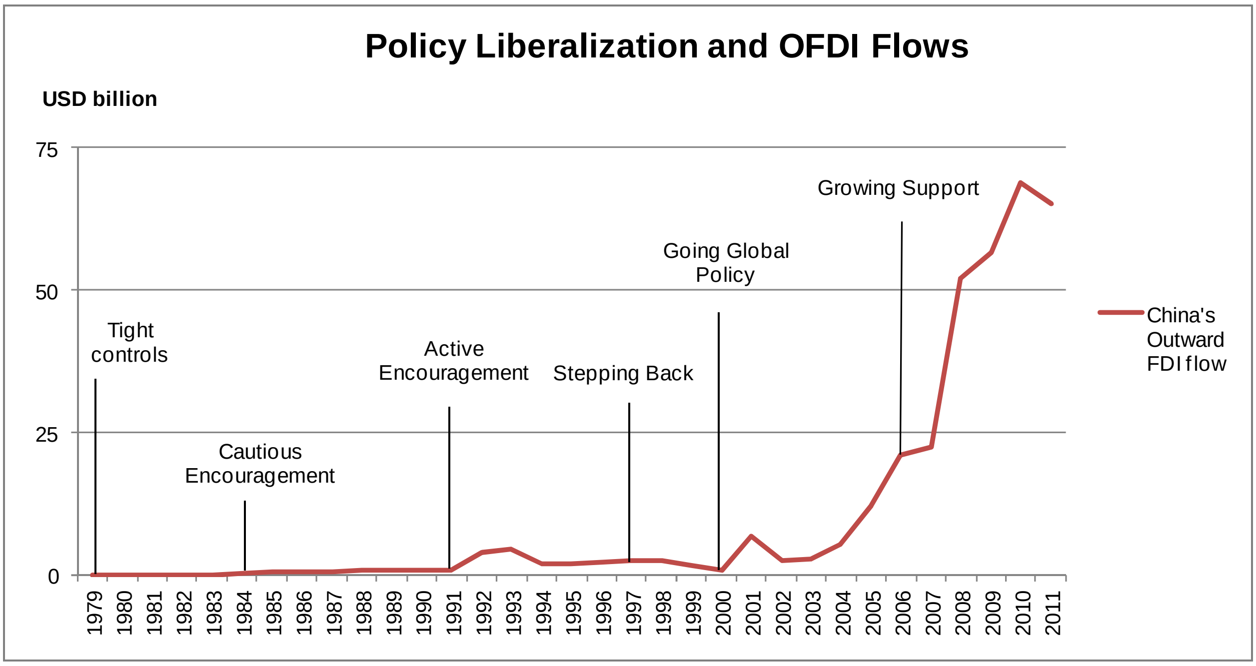

Figure 3-8: Policy liberalization and FDI flow from 1979 to 2011[134]

As shown in Figure 3-8, China's FDI has gone through six stages of development.

During the **first stage (1979-1983)**, China was just starting to open up to the world and foreign trade was still heavily handled by the government. Only state-owned trading companies, as well as provincial and municipal economic and technological cooperation

[132] Cf. Salidjanova (2011), p.4
[133] Cf. Hanemann/Rosen (2012), p.25
[134] Cf. Hanemann/Rosen (2012), p.25, own illustration

enterprises, could invest overseas.[135] The State Council was the only authority to examine and approve overseas investment, no matter which size of the investment. There were no regulations regarding FDI at this time.[136]

During the **second stage (1984-1991)**, the Chinese government liberalized restrictive policies to allow more enterprises, including non-state-owned firms, to apply for permission to establish subsidiaries in other countries, provided that they had sufficient capital and a suitable foreign partner.[137] Standardized regulations were established to cover the approval procedures. In May 1984, China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) enacted the "Notice about Principles and the Scope of Authority for Examination and Approval of Establishing Non-trading Enterprises in Foreign Countries, Hong Kong and Macao". In July 1985, the ministry also implemented the "Interim Regulations on the Administrative Measures and Procedures of Examination and Approval of Establishing Non-trading Enterprises Abroad".[138]

The **third stage (1992-1996)** was characterized by the decision to accelerate economic reforms and global integration that led to a policy of more active encouragement of FDI. The goal was to increase the competitiveness of Chinese companies with priority of "national champions", which are large state-owned firms with globally recognized brands and able to compete in the international marketplace. The FDI approval procedures were gradually eased and localized.[139]

The **fourth stage (1997-1999)** turned out to be one of great success and disappointment. As liberalization reforms progressed and companies began aggressively engaging in real estate and stock speculation mostly across Asia, the Asian financial crisis happened. Many companies suffered heavy losses due to institutional weakness, corruption and lack of management expertise.[140] Measures were taken to regularize investment outflows so as to ensure that Chinese capital was properly invested overseas. MOFTEC tightened approval procedures, setting up a stricter and more rigorous screening and monitoring processes for any overseas venture of over USD 1 million. MOFTEC drafted the "Regulations on the Administration of Overseas Enterprises" in 1993 and implemented "Measures for the Administration of Overseas Trading Companies and their Representative Offices" in 1997.[141]

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[135] Cf. Salidjanova (2011), p.4
[136] Cf. Woo/Zhang (2006), p.3
[137] Cf. Salidjanova (2011), p.4f.
[138] Cf. Zhang (2005), p.6
[139] Cf. Hanemann/Rosen (2009), p.20
[140] Cf. Salidjanova (2011), p.5
[141] Cf. Zhang (2005), p.6

Stage five (2000-2006) was the main starting point for Chinese companies going global. In 1999, "Some Suggestions on Encouraging Enterprises to Develop Overseas Business in Processing and Assembling the Supplied Materials" was issued to encourage Chinese companies to engage in processing trade overseas. Enterprises producing light industrial goods like textiles, machinery and electrical equipment were in particular encouraged to establish overseas manufacturing projects that would process Chinese raw materials or assemble Chinese made parts and therefore could help increase China's exports. The State Council started to grant tax incentives on export, foreign exchange assistance and financial support to Chinese companies operating overseas that used Chinese raw materials or Chinese made parts and machinery.[142]

In 2002, at the Chinese Communist Party's Sixteenth Congress, China's "Go Global" strategy was consolidated and important legislations were enacted to help and promote foreign investment. The essence of the "Go Global" strategy is to promote the international operations of capable Chinese companies with a view to improving resource allocation and enhancing their international competitiveness.[143]

The government determined to streamline the procedures for approving overseas investments, providing more efficient services and ease restrictions. The old management system of overseas investment, which was centered on approval procedures, no longer fitted the "Go Global" strategy. In 2004, the State Council issued the "Decision on Reforming the Investment System", indicating that the role which the government played in enterprises' overseas investment shifted gradually from approval to supervising and providing services.[144]

During **stage six (2007-present)**, political support for FDI further increased because of China's massive foreign exchange reserves and the need to create competitive transnational corporations to sustain a change in China's economic growth model. A new regulatory framework implemented in May 2009 further eased and decentralized the approval procedures.[145]

At the end of 2011, Beijing announced that it intends to get involved significantly in the European economy, by encouraging Chinese companies to take on direct ownership shares of European companies. In order to implement these plans, the People's Bank of China set up two funds with a total volume of USD 300 billion.[146] In particular, the government has made a considerable effort in areas such as creating incentives,

[142] Ibidem
[143] Cf. Salidjanova (2011), p.5
[144] Cf. Zhang (2005), p.7
[145] Cf. Hanemann/Rosen (2009), p.20
[146] Cf. Berners/Fritz (2012), p.4

reforming administrative procedures, easing capital controls, providing information and guidance and reducing investment risks.[147]

The last 30 years showed the dramatic change that has occurred in China's attitude towards outward investment. Since 1980, the emphasis on political objectives in determining Chinese FDI policy has gradually shifted to commercial interests. At the same time, the approval process for FDI has been significantly simplified. Decision making authority was first delegated from central government to local governments and more recently to the enterprise itself. The motivation for outward investment, on the other hand, has changed from one that was based on accessing natural resources to a more complex set of objectives related to securing access to markets, technology and brands, as well as the traditional interest in natural resources.[148]

3.2.2 Regulations Governing Outbound Investment

Overseas investment by Chinese companies is regulated by three governmental bodies: the Ministry of Commerce (MOFCOM), the State Administration of Foreign Exchange (SAFE) and the National Development and Reform Commission (NDRC).[149]

In recent years, these agencies have helped to make regulations easier for Chinese companies expanding abroad into foreign markets. In the following paragraphs the three different regulations are discussed.

MOFCOM Regulation

MOFCOM is the main regulatory body managing outbound investment. It is responsible for defining regulations regarding outbound investment and coordinates the activities of China's embassies in protecting and advancing the interests of Chinese companies.[150]

In March 2009, MOFCOM released the "Measures for the Administration of Outbound Investment", shortly called the Measures. The Measures ease and simplify procedures and requirements for foreign investment as well as delegate greater authority to provincial officials, which is expected to fasten the approval process. These changes show that MOFCOM is reducing the level of investigation applied to some outbound transactions in order to focus more on other issues such as higher profile overseas

[147] Cf. Zhang (2005), p.7
[148] Cf. Woo/Zhang (2006), p.4
[149] Cf. Goldner/Shelton/Wang (2010), p.2f.
[150] Ibidem

investments that could affect bilateral relations, national economic security, international obligations or fair competition.[151]

The Measures define the level of review that Chinese companies are subjected to in order to receive an Outbound Investment Approval Certificate, which Chinese companies must receive to complete foreign currency, banking and customs procedures with the relevant Chinese government agencies.[152]

According to the Measures, the following types of outbound investment transactions require MOFCOM review on central-level:[153]

1) Investing in a country that has not established diplomatic relationships with China,

2) investing in a specific country or region on a list to be determined by MOFCOM and the Ministry of Foreign Affairs as well as other relevant departments,

3) investing an amount greater than USD 100 million,

4) making an investment that involves the interests of multiple countries or regions or

5) setting up a special-purpose company overseas to enable a domestic company to gain the benefits of a foreign listing.

The following types of outbound investment transactions require MOFCOM review on provincial-level:[154]

1) Overseas investment level of between USD 10 million and USD 100 million,

2) overseas investment in the fields of energy or minerals or

3) overseas investments that require capital to be raised from within China.

As a general rule, central- and provincial-level authorities will refuse permission for an overseas investment under three circumstances:[155]

1) The transaction endangers the sovereignty, national security or public interests of China or violates a law or regulation of China,

2) the transaction will likely violate any international treaty concluded by China with a foreign party or

[151] Cf. Goldner/Shelton/Wang (2010), p.3
[152] Ibidem
[153] Goldner/Shelton/Wang (2010), p.3
[154] Ibidem
[155] Ibidem

3) the transaction involves exporting any technology or goods prohibited by China.

The Measures request central and provincial MOFCOM officials to consult the proper Chinese embassy or consulate where the investment will be made for the security status of the target country and the possible effect of the proposed investment on bilateral economic, political and trade relations.[156]

All other investment transactions by Chinese companies are not subject to central- or provincial-level MOFCOM approval, and the investor only needs to submit an "Application Form for Overseas Investment" and should receive approval within three days.[157]

The Measures mark an important change from the previous approval procedures, which subjected all investments to full review by central or provincial MOFCOM officials as well as state it clear that MOFCOM will not conduct or review any feasibility studies of proposed investments, saying that "economic and technical feasibility of an overseas investment shall be the sole responsibility of the enterprise."[158]

The Measures simplify the approval process for Chinese outbound investment and make the process much more predictable, which should enable potential foreign sellers or joint-venture participants to select their preferred investors based on accurate time predictions that are necessary for governmental review.[159]

SAFE Regulation

SAFE is mainly responsible for handling China's significant foreign exchange reserves. Therefore, SAFE drafts and implements the rules that determine the conditions under which Chinese companies can use foreign currency. In June 2009, SAFE issued the "Notice on Certain Issues Relating to Foreign Exchange Administration on Offshore Lending by Domestic Enterprises", shortly named as the Notice. The Notice makes it easier for Chinese companies to finance their operations abroad by reducing requirements for offshore lending, increasing the sources of funds for lending, and simplifying verification and remittance procedures for lending.[160]

The Notice allows Chinese companies to use their own foreign currency holdings and government foreign exchange reserves to make loans to their foreign subsidiaries. Capitalization rules limit the amount of any such loan to 30 percent of either the amount of the Chinese investor's equity in the subsidiary or the agreed investment amount of

[156] Cf. Goldner/Shelton/Wang (2010), p.3
[157] Ibidem
[158] Ibidem
[159] Ibidem
[160] Ibidem

the Chinese company. The global financial crisis made it more difficult for foreign subsidiaries of Chinese companies to obtain funding abroad. The Notice intends to help address this situation and support more Chinese companies investing in and through subsidiaries abroad.[161]

NDRC Regulation

The NDRC supervises outbound investments to ensure they align with China's overall economic development policy. The Commission plays an active role in the approval of outbound investment. Its review includes the commercial and technical feasibility of proposed projects abroad. It is particularly interested in investment transactions that relate to natural resource exploration and development as well as transactions that require a big amount of foreign currency reserves.[162]

The "Temporary Management Measure Regarding the Approval of Overseas Investment Project" was issued by the NDRC in 2004, in which Chinese companies are required to obtain NDRC approval under two conditions:[163]

> *1) When the investment transaction relates to natural resource exploitation and the investment amount is in excess of USD 30 million and*
>
> *2) when the company requires a large amount of foreign currency to make the investment and the investment is above USD 10 million.*

If investments meet both of the two following conditions they require NDRC and State Council approval:[164]

> *1) The investment relates to natural resource development and the investment amount is above USD 200 million or*
>
> *2) the Chinese company requires a large amount of foreign currency to make the investment and the investment amount is above USD 50 million.*

The NDRC released a notice in June 2009 requiring Chinese companies, which intend to acquire overseas companies in transactions that are subject to NDRC approval, to submit certain reports to the NDRC before they sign any legally binding contracts. The NDRC can then identify "apparent significant adverse factors" and inform the company accordingly. Companies informed in such a way may expect to have difficulty obtaining final NDRC approval for their investments.[165]

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[161] Cf. Goldner/Shelton/Wang (2010), p.3f.
[162] Cf. Goldner/Shelton/Wang (2010), p.4
[163] Goldner/Shelton/Wang (2010), p.4
[164] Ibidem
[165] Cf. Goldner/Shelton/Wang (2010), p.4

3.2.3 Banking Regulations

Another regulation supporting outbound investment by Chinese companies is the "Guidelines on Risk Management of Loans Extended by Commercial Banks for Mergers and Acquisitions", shortly called the Guidelines, released by the China Banking Regulatory Commission in December 2008. The Guidelines allow Chinese banks to lend money to companies for M&A purposes, a practice that was forbidden by a regulation from 1996.[166]

Under the Guidelines, banks that were founded in China, including locally founded subsidiaries of foreign banks, can lend to companies that were founded in China, including foreign invested companies, for a numerous of M&A purposes, including purchases of existing equity interests, asset acquisitions, mergers, subscriptions for new capital, debt restructuring and other similar transactions, but not including the purchase of non-controlling minority stakes.[167]

The Guidelines include capital and other requirements which banks must meet before lending for M&A transactions. In particular, banks must have the following conditions/qualifications:[168]

1) Comprehensive risk management systems and effective internal control systems,

2) a loan loss special reserve ratio of 100% or above,

3) a capital adequacy ratio of 10% or above,

4) a general reserve balance of at least 1% of the loan balance over the same period and

5) professional management capable of performing credit due diligence and risk assessment.

Furthermore, the Guidelines place the following restrictions on M&A loans:[169]

1) An M&A loan cannot exceed 50% of the total acquisition price,

2) a loan to a single borrower cannot exceed 5% of the bank's net core capital,

3) the term of an M&A loan cannot exceed five years and

4) the borrower must provide adequate security for the loan.

[166] Ibidem
[167] Ibidem
[168] Goldner/Shelton/Wang (2010), p.4
[169] Ibidem

On top of these financial restrictions, the Guidelines require banks to perform due diligence about compliance, operational and commercial risks relating to the parties and the transaction. Banks have to evaluate factors like potential synergies between the two companies.[170]

The Guidelines also give examples of synergies that highlight factors like acquiring intellectual property and advanced technology. In order to conform to these requirements, Chinese banks will have to devote resources to expertise not only in the financial aspects of M&A transactions, but in other aspects of M&A deals as well. This could be an obstacle to the fast growth in M&A lending because many Chinese banks currently lack experience dealing with M&A transactions.[171]

3.2.4 What These Regulations Mean to Foreign Companies

When a foreign company is selling its stock or assets to a Chinese buyer, very often the purchase agreement is drafted by foreign lawyers. If advisors of the foreign seller are not familiar with the requirements and procedures that a Chinese buyer needs to go through with its governmental authorities, the closing may not happen when the transaction documents are viewed. Generally speaking, the signing of the definitive agreement and the payment of the purchase price will not happen simultaneously, because the Chinese purchaser needs to show the government the signed agreement before communicating the purchase price to the foreign seller. Thus, being familiar with the Chinese outbound investment procedures and requirements will permit the parties to have more realistic expectations on how, when and even whether a transaction will close. Foreign sellers and their advisors need to thoroughly understand how China’s "Go Global" procedures and regulations operate to be able to negotiate and document the transaction in ways that will protect the seller.[172]

3.3 Driving Forces and Motives for Chinese Companies Going Global

The purpose of this chapter is to identify and analyze the motives and strategies behind the global expansion of Chinese companies.

[170] Cf. Goldner/Shelton/Wang (2010), p.4
[171] Ibidem
[172] Cf. Goldner/Shelton/Wang (2010), p.4f.

The motivation behind China's rapid growth in FDI has been of much speculation and concern around the world. The most likely reason, however, is simply based in China's domestic and international environment, its present stage of economic development and its economic status in the world. China's FDI strategy is driven mainly by access to natural resources, access to new technologies, patents, trademarks and skilled labor, access to new business markets abroad, reduction of the costs of production, diversification of assets and optimization of the return on investment.[173]

Academic research on outward direct investment defines various reasons why enterprises decide to go abroad. Chinese companies show similar reasons engaging in FDI and are generally driven by one, or mostly by a combination, of the following four motivations, which is also summarized in Figure 3-9:[174]

- **Market driven motives:** exploring new markets, avoiding intensified domestic competition, avoiding saturation in the domestic market, transfer excess production capacity, circumvent trade barriers
- **Resource driven motives:** securing natural resources, raw materials or energy
- **Efficiency driven motives:** improving the efficiency of operations across borders
- **Technology and strategic-asset driven motives:** buying strategic assets such as advanced technology or modern manufacturing know-how, obtaining internationally recognized brands, learning advanced management methods

However, there are two more forces, which are often not considered in research and noteworthy to mention:

- **Government driven motives:** support and incentives from the Chinese government
- **Personal driven:** idea of getting rich, recognized by name, adventurous attitude, contribution for China

[173] Cf. Petersen/Wang/Xu (2012), p.11
[174] Cf. McKay/Song (2012), p.159f.

Figure 3-9: What drives Chinese companies going global?[175]

These motives apply to Chinese companies in recent years and they will most likely intensify in the next years. Investments in the past were focused on trade facilitation and natural resources but macroeconomic adjustment in China is increasingly forcing Chinese companies to look abroad for deeper market penetration and assets that can give them a competitive edge at home and abroad.[176]

3.3.1 Government Driven Motives

The first main reason for Chinese companies investing abroad has to do with government incentives. China's overseas investment is an element of a wider process of restructuring and political activities in which the Chinese government plays an important role. Investments overseas initiated by the government are motivated by the pressures of globalization and regionalization. But most importantly, there are political and strategic considerations behind China's decisions to invest overseas.[177]

[175] Own illustration
[176] Cf. Hanemann/Rosen (2012), p.24
[177] Cf. http://business.highbeam.com/, accessed on 11.09.2012

In an attempt to focus Chinese economic development on more strategically important objectives, the government was taking steps to encourage both inbound and outbound investments toward high priority goals of China. As a consequence, foreign exchange controls for overseas investments got loosened, overseas investment approvals became streamlined and banks were encouraged to provide capital for such transactions.[178]

One of China's biggest automotive companies, "Geely Automotive", acquired Ford Motor's Volvo unit in 2010 in a USD 2 billion deal. The Chinese government played a big role in the Geely and Volvo merger as Chinese state investors provided nearly 40 percent of the financing for the deal. The underlying motivations for Geely were to further expand into foreign market with international branding and to raise car exports.[179]

3.3.2 Personal Driven Motives

Personal drivers are of much more importance than in Europe. Chinese businessmen have different ideas and approaches for investing abroad.[180]

Idea of getting rich, receive bonus for company's success

The people who "humbly" built up the country 20 years ago were not motivated by money, now they are. It is an animated and specific dream of a better life, often filled with material goods, including a home and a car, as well as great experiences through travel and leisure activities. Also access to modern health care and education spurs Chinese people nowadays. It is strongly linked to create a better life for themselves and their children.[181]

Idea of getting popular, recognized by name

What Chinese have in mind is to become successful and be acknowledged by people from their home cities.[182]

Adventurous attitude, wants to take risks, doing speculation

The Chinese are very enthusiastic and like to do unpredictable and surprising decisions. In contrary, European business people tend to do SWOT (a framework used

[178] Cf. Reinfeld (2007), p.2
[179] Cf. Salidjanova (2011), p.9
[180] Cf. Busch (2013), p.2ff.
[181] Cf. Silverstein et al. (2012), p.5ff.
[182] Interview with Kevin Zhang, Business Development Intern at DKSH, Student from Tongji University in Shanghai, 06.09.2012, Shanghai

to evaluate the Strengths, Weaknesses, Opportunities and Threats of an organization or project) and seriously look at advantages and disadvantages of a new business opportunity. Becoming global can seem exciting and adventurous but Chinese decision makers have to be conscious that there are many risks involved and should consider potential obstacles. Another threat in this context is that Chinese want to learn eagerly, but quickly lose interest when things get more difficult.[183] *"One should never underestimate the Chinese ambition and tenacity. However irrational, the Chinese are determined to make things happen and have the means. They can surprise or even hurt (…)"* [184]

Contribution for China, to help and make China better

Chinese people react in a nationalistic way and expect to be the beneficiary of China's growth and development. They are optimistic and believe in a bright future. Zhou Zhang Hong, a 33-year-old woman from Shanghai, says in "The 10 Trillion Dollar Prize: Captivating the Newly Affluent in China and India" that she is confident that her hard work will pay off.[185]

To win Chinese decision makers, it is necessary to win them over, to captivate them. To do so, it is necessary to help them fulfill their dreams, give them a moment of gratification and elevation. Also help them live big and understand that they "work hard, spend hard". Besides, understand that painful memories still haunt them and almost every Chinese has either firsthand or family memories of deprivation and personal risk. It is important to respect their history and provide them with an optimistic view of the future. Finally, listen hard, because the new Chinese leaders want to engage in a dialogue and are looking for respect and appreciation.[186]

3.3.3 Efficiency Driven Motives

One of the most critical challenges, that in particular Chinese manufacturers are facing today, is how to raise productivity, lower costs and improve quality and efficiency of their manufacturing facilities. Due to raising salaries, cost cutting measures depend more on technology, techniques and processes that increase overall productivity, improve efficiency and reduce costs. Other competitive factors such as quality, speed,

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[183] Discussion with Will Huang (Business Development Manager at DKSH) and Christine Luo (Senior Business Development Officer at DKSH), 07.09.2012, Shanghai
[184] Yan (2007), p.16
[185] Cf. Silverstein et al. (2012), p.29
[186] Cf. Silverstein et al. (2012), p.8

reliability or inventory control also depend on new manufacturing capabilities, which Chinese companies are looking to find in overseas investments.[187]

3.3.4 Resource Driven Motives

The need to secure access to raw materials and overseas energy resources in order to support China's high economic growth rate, continues to be a key strategic driving force. Explosive growth in demand of aluminum, copper, nickel, iron ore and other key commodity products has happened and therefore the Chinese government composed a national energy security agenda to secure overseas assets and supply agreements.[188]

As China's economy grows, it will continue to consume more energy and natural resources and therefore has to secure that there will be no shortage of these.[189]

"China is eager to secure energy resources that it considers essential for its future growth." [190]

No single country can rely entirely on its own energy resources to meet domestic industrial demands and national security. China's economy has rapidly become involved in regional and global production networks and has become a "world factory", producing all kinds of products for global consumption. However, compared to other global operating companies in other regions of the world, Chinese companies are more engaged in making products with resource intensive, highly polluting manufacturing techniques, which are low value-added and low in capital and technology requirements. China's own natural resources are not enough to satisfy its huge demand in energy resource as a "world factory", so it needs to use global energy resources to maintain the stability of the global supply chain.[191]

3.3.5 Technology and Strategic-Asset Driven Motives

With the acquisition of European companies with well-known brands and technological capabilities, Chinese companies are able to upgrade their products and processes to higher added value activities in their domestic market. Chinese companies are under enormous pressure to move away from low-cost leadership position and focus more on

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[187] Cf. Reinfeld (2007), p.6
[188] Cf. Salidjanova (2011), p.7
[189] Cf. Goldner/Shelton/Wang (2010), p.1f.
[190] http://www.economist.com/, accessed on 14.08.2012
[191] Cf. Petersen/Wang/Xu (2012), p.13

branding and innovation to ensure future success in both the domestic and global market. In particular, many Chinese manufacturers compete on low-cost labor and aggressive pricing, rather than on innovative, well-known products and services with higher profit margins.[192]

Acquiring International Brands

One of the main reasons why Chinese companies go global and invest abroad is to secure the prestige that comes with acquiring an internationally known brand. Chinese companies want internationally well-established brands because its own brands failed to break through in foreign markets. And they want a ready-made distribution channel to help getting its own branded goods on to the shelves of big global retailers. Chinese companies with established Chinese brands expand into foreign markets due to the marketing appeal of an international brand. Moreover, the allure of creating the Chinese equivalent to Samsung or Sony for instance, appeals as a national accomplishment among Chinese companies. As a result, Chinese companies are increasingly moving away from manufacturing and intermediate products acquiring other companies' brands in favor of expanding with their own products. Furthermore, a Chinese brand that becomes famous and well-known abroad has increased allure in the Chinese domestic market. Being able to say that a particular brand is well-known in a foreign market, for example famous in the United States or Germany, can be very beneficial for doing business in China.[193]

The European debt crisis has lowered the costs of acquiring companies and assets and Chinese companies are taking advantage of these opportunities. For example, Chinese companies such as Tengzhong Heavy Industrial Machinery and Geely Holding Group Co. have acquired famous brands such as Hummer and Volvo from General Motors and Ford as the two American companies struggled in the economic downturn. The Chinese government identified the global financial crisis and the European debt crisis as an opportunity for Chinese companies and promoted outbound investment by simplifying regulatory procedures. Some officials, like the Chinese Premier Wen Jiabao, recommended using China's massive foreign exchange reserves, which have risen to over USD 2 trillion, to help Chinese companies invest overseas.[194]

Besides, China does not have to spend decades building up brand names because it can simply acquire existing well-known brands. For instance, Nanjing Automobile acquired the brand from the British car manufacturer MG Rover in 2005. According to

[192] Cf. Van Den Bulcke/Yang/Zhang (2012), p.8
[193] Cf. Goldner/Shelton/Wang (2010), p.1
[194] Cf. Goldner/Shelton/Wang (2010), p.2

the purchase agreement, Nanjing Automobile bought MG, Austin and some other dormant British car brands as well as the production technology and equipment for the MG ZT and MG TF models.[195]

Probably one of the first examples of Chinese companies buying an international well-recognized brand is Lenovo's purchase of IBM's personal computer division in 2005. This business deal made Lenovo the world's biggest maker of personal computers in 2012.[196] The deal included brand licensing agreement for five years and the acquisition of globally-recognized trademarks such as the ThinkPad. Moreover, a long-term strategic alliance, whereby IBM sells Lenovo products to corporate customers worldwide, was decided. The deal immediately provided Lenovo managerial and commercial expertise in international marketing and advertising, including access to global channels and customers, a well-established global management and operation system as well as a world-class brand.[197]

Acquiring Advanced Technology

Another reason why Chinese companies look to invest overseas is to acquire advanced technology know-how and enhance their R&D capability. For example, in its bid for GM's Opel unit, the Chinese car producer Beijing Automotive Industry Holding Co. stated GM's engine technology as a key-driver of its interest in acquiring the company. Establishing R&D centers in developed countries allows Chinese enterprises to take advantage of those countries' research and innovation capabilities. Nowadays, Chinese companies are increasingly interested in designing and owning their own intellectual property. This interest motivates these businesses to expand into innovation-friendly developed markets like Germany.[198]

3.3.6 Market Driven Motives

One main motivation of Chinese companies for investing overseas is the search for new sales markets. This effort has grown in importance as many domestic Chinese companies have become more competitive as well as to avoid intensified domestic competition, avoid saturation in the domestic market and transfer excess production capacity or circumvent trade barriers.[199]

[195] Cf. Salidjanova (2011), p.9
[196] Cf. http://www.bbc.co.uk/, accessed on 31.10.2012
[197] Cf. Beebe et al. (2006), p.10
[198] Cf. Goldner/Shelton/Wang (2010), p.1
[199] Cf. Akoorie/Ding/Pavlovich (2009), p.149

Exploring New Markets

Exploring new markets for growth is one reason why Chinese companies decide to go abroad. In total, the majority of profits in China are disproportionately made in highly regulated and concentrated industries such as oil and gas, mining and telecommunications services that are largely controlled by state-owned enterprises (SOEs). In contrast, many manufacturing sectors are deregulated, affected by overcapacity and facing intense profit pressures. As a result, Chinese manufacturers are looking abroad for new markets with higher potential for profit and less competition.[200]

Avoiding Intensified Domestic Competition

Small margins and overcapacity within many industries in China has spurred companies to invest abroad in order to create an overseas-based platform, from which to gain access to local markets as well as competitive advantages through production cost efficiencies. This trend is in particular common within the white goods and consumer electronics sector. According to analysis by McKinsey and Co., estimated overcapacity runs at 30 to 40 percent for washing machines, refrigerators and microwave ovens and at almost 90 percent for televisions.[201]

Transfer Excess Production Capacity

For some Chinese companies, investing abroad can also provide relief from competition in the domestic market. Many Chinese companies see opportunities, especially in emerging markets, where they can effectively compete using existing technology to produce "good enough" products but less expensive.[202]

For instance, Russia, the Middle East and Southeast Asia have become important markets for inexpensive, small vehicles made in China, as Chinese auto companies face increasingly stiff competition from multinational car companies in their domestic market. Chinese companies, such as Chery Automobile Co., have established themselves in these markets and might further expand into other emerging markets like Brazil or Mexico. Expanding into international markets can also help Chinese companies to avoid other problems in their home market, such as overcapacity. Both home appliance manufacturer Haier and consumer electronics manufacturer Lenovo

[200] Cf. Beebe et al. (2006), p.4f
[201] Cf. Lunding (2006), p.4
[202] Cf. Goldner/Shelton/Wang (2010), p.2

started their expansion overseas due to domestic overcapacity in their respective industries.[203]

Circumvent International Barriers to Trade

Another motivation for Chinese investment abroad is the desire to avoid foreign quotas, tariffs and other barriers for Chinese-made goods. However, this was of more interest before China became a member of the World Trade Organization (WTO). Before China's entry to the WTO, its textiles, clothing and footwear products had limited access to the United States market. Hence, these kinds of firms invested in Australia and then exported "Made in Australia" products to the United States in order to avoid American textiles quotas for non-WTO producers. Moreover, Chinese television manufacturer TCL bought German television brand Schneider to avoid European quotas on Chinese television imports and thus keep production in Europe.[204]

3.4 Main Challenges for Chinese Companies Going Global

"Some companies are too intimidated to take the steps necessary to succeed. Others take too large of a step without adequate preparation or the necessary resources, and still others step forward without following through." (Shunee Yee, president and CEO of CSOFT) [205]

Despite the favorable economic and regulatory conditions for Chinese outbound investment, Chinese companies still face several problems and often struggle to make their investments profitable.[206]

Chinese companies have to overcome several major challenges, especially facing in the Western world, such as negative perceptions of Chinese companies, inefficient conflict management style, human resource related topics and their low proficiency in understanding local cultures worldwide.[207]

"Going global is not an easy task and investing overseas is a challenging job." [208] Especially cultural differences make cross-border expansion difficult. In addition, Chinese companies often lack in management expertise which is needed to run an international business.[209] For example in 2003, the Chinese television manufacturer

[203] Cf. Goldner/Shelton/Wang (2010), p.2
[204] Cf. Salidjanova (2011), p.10f.
[205] http://www.chinadaily.com.cn/, accessed on 05.10.2012
[206] Cf. Goldner/Shelton/Wang (2010), p.2
[207] Cf. http://www.chinacenter.net/, accessed on 01.08.2012
[208] Akoorie/Ding/Pavlovich (2009), p.151
[209] Cf. Hirt/Orr (2006), p.1

TCL, which formed a joint venture with the French television manufacturer Thomson Electronics, has failed to integrate and turn around Thomson's unprofitable European and American business. As a result, net profits dropped by half in 2004, followed by losses in 2005 an 2006.[210]

Chinese companies often face difficulties, because they don't understand the subtleties and regulatory environments of foreign markets. In some cases, Chinese companies refuse to hire consultants and legal advisors, leaving themselves excessively reliant on domestic partners such as distributors or customers for advice on how to adjust to local regulatory and business conditions.[211]

However, Chinese enterprises face many challenges such as cultural differences in terms of business practices and consumer preferences in foreign markets. According to Mr. Benjamin Ye, an expert of PricewaterhouseCoopers, understanding foreign labor laws is one big challenge. For instance, a labor union in China is more like a staff club, whereas the implications of unions in developed countries are quite different. In addition, China doesn't have enough talent with international experience. This makes managing any acquired foreign enterprise a challenge too. Although many Chinese companies send their own people to manage overseas operations, there are challenges to be dealt with, which they are confronted along the way and often not prepared.[212]

Although many Chinese companies have signed deals to acquire Western enterprises, the success of their post-merger integration and operation remains in doubt. Over 60 percent of Chinese cross-border M&A fails after four years according to a Rotterdam School of Management case study. An adverse political and economic environment, improper management, cultural differences, lack of talent, underdeveloped marketing and PR all are reasons for failure.[213]

The Stuttgart based Berners Consulting GmbH published its Chinese Outbound Investment Study 2012, where it says that the main challenges for Chinese companies investing in Europe are market access, general prejudices towards Chinese products, human resource related and intercultural issues. Furthermore, Chinese companies see themselves lacking of experience in external communications, business relationship management with Europeans and in the localization of their products and marketing

[210] Cf. Goldner/Shelton/Wang (2010), p.2
[211] Ibidem
[212] Cf. Su/Ye (2008), p.56
[213] Cf. http://www.erim.eur.nl/, accessed on 08.08.2012

strategies. As a consequence, the Berners Consulting COI Study confirms the rising demand of Chinese companies for adequate advisory and other services.[214]

The biggest weaknesses for Chinese companies are in dealing with Chinese products bad reputation, in their lack of experience in building customer relations in Europe, and in their insufficient understanding of buying and consuming habits in the target market.[215]

Generally speaking, there are three main challenges that Chinese companies are facing while going global are:[216]

- Limited knowledge of international markets
- Limited availability of managers who can operate in international context
- Lack of systematic process

Figure 3-10 explains and summarizes the impacts of these three challenges.[217]

Figure 3-10: Key challenges of Chinese companies and its implications[218]

[214] Cf. Tirpitz et al. (2012), p.13
[215] Cf. Berners/Fritz (2012), p.9
[216] Cf. Value Partners et al. (2008), p.18
[217] Ibidem
[218] Value Partners et al. (2008), p.18, own illustration

Chinese companies are often hesitant to pursue outbound opportunities because of their lack of international experience and therefore have much to learn about overseas investment. Most of the time, they are unprepared to deal with the competitive global business environment. When they go global, they often have misconceptions about the host countries. A survey from the Asia Pacific Foundation of Canada shows that the majority of companies (56 percent) are unsure of the business model they will employ in future investments.[219]

An IBM survey of Chinese companies going global showed that companies are facing challenges like the lack of human resources, especially qualified management that can work well with the Chinese parent company, difficulty of building global brands, difficulties in designing and managing a global business model, and business process challenges.[220]

For most Chinese companies, building a qualified management team and overcoming basic global business process challenges are likely the most common ones. Moreover, maintaining a technology and cost edge by continuous improvement is an additional challenge. Nevertheless, companies need additional investments to ensure training and adjustment to global operations.[221]

3.5 Chinese Companies in Europe

For better understanding Chinese companies that are already present in Europe, and to be able to give further suggestions as well as considering important aspects for the later development of business models, Chinese companies doing business in Europe and Germany are being analyzed and identified in this chapter.

Chinese companies are steadily expanding their presence in international markets. This raises the question of why Chinese companies want to invest in Europe. There are numerous reasons for going into other regions which is in fact what Chinese companies are doing. Cultural and geographical proximity lead them to do business in East and Southeast Asia.[222]

The sheer size of the U.S. market is one reason why Chinese companies are motivated to enter America. On the other hand, the need to secure supplies of raw materials is the main motivation for going into countries that possess the required natural resources.

[219] Cf. Zhang (2005), p.26
[220] Cf. Beebe et al. (2006), p.7
[221] Ibidem
[222] Cf. Klossek/Linke/Sohm (2009), p.13

Germany, for example, is attractive on account of its high technological level, the quality of the workforce, its legal security, its market clout and its central location in Europe. The largely positive and indeed respectful image of Germany plays also a part in decisions to choose Germany as a country for investment.[223]

A recent study conducted by Ernst & Young, a global leader in assurance, tax, transaction and advisory services, investigated in its 2012 European attractiveness survey Europe's attractiveness for foreign investors.[224] The study outlines that China is by far the most attractive location for investment worldwide, with Germany on sixth position after India, United States, Russia and Brazil. From investor's point of view, Germany is Europe's most attractive country for investment in the next upcoming years. France, United Kingdom and Poland follow after (see Figure 3-11).[225]

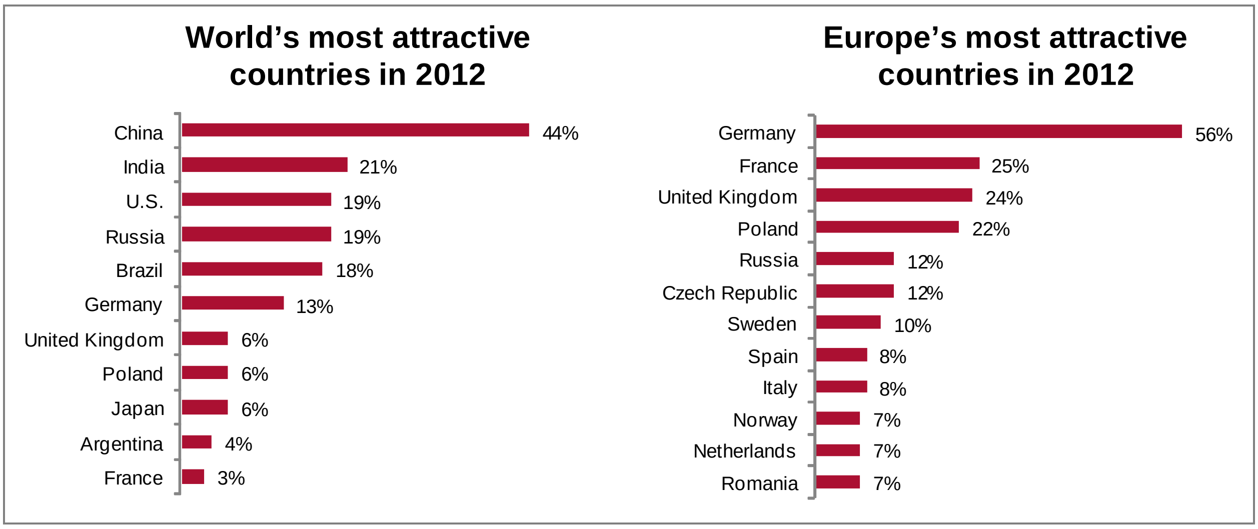

Figure 3-11: World's most attractive countries in 2012 (left side), Europe's most attractive countries in 2012 (right side)[226]

[223] Ibidem
[224] Cf. Lhermitte/Östberg/Tanna (2012), p.1ff.
[225] Cf. Englisch (2012), p.2f.
[226] Cf. Englisch (2012), p.2f., own illustration

The study also analyzed which countries invested in Germany in 2011. Table 3-2 shows the top investment countries in Germany. It highlights that investment from the United States declined by 12 percent in 2011. However, a large number of investment projects by Chinese companies had been conducted.[227]

Rank	Investment Country	Number of foreign direct investment projects 2010	Market share 2010	Number of foreign direct investment projects 2011	Market share 2011	Development 2010-11
1	United States	141	25%	124	21%	-12%
2	Switzerland	40	7%	64	11%	60%
3	United Kingdom	45	8%	54	9%	20%
4	China	33	6%	45	8%	36%
5	France	32	6%	38	6%	19%
6	Netherlands	31	6%	38	6%	23%
7	Japan	25	4%	25	4%	0%
8	Austria	17	3%	24	4%	41%
9	Sweden	9	2%	19	3%	111%
10	India	11	2%	16	3%	45%

Table 3-2: Who invested in Germany in 2011[228]

[227] Cf. Englisch (2012), p.12
[228] Cf. Englisch (2012), p.12, own illustration

To get a more detailed look, Table 3-3 exemplifies Chinese investments in Europe. With 45 projects by Chinese investors recorded in Germany in 2011, this is more than in any other European country and 36 percent more than in the previous year. In other words, one in three investment projects run by Chinese companies in Europe were implemented in Germany.[229]

Rank	Investment Country	Number of foreign direct investment projects 2010	Market share 2010	Number of foreign direct investment projects 2011	Market share 2011	Development 2010-11
1	Germany	33	29%	45	32%	36%
2	United Kingdom	30	26%	22	16%	-27%
3	France	18	16%	14	10%	-22%
4	Belgium	6	5%	8	6%	33%
5	Spain	4	3%	8	6%	100%
6	Italy	7	6%	3	2%	-57%
7	Sweden	3	3%	6	4%	100%
8	Netherlands	3	3%	5	4%	67%
9	Switzerland	3	3%	3	2%	0%
10	Russia	3	3%	3	2%	0%

Table 3-3: Chinese investment in Europe[230]

Looking at the top three investment destinations in Table 3-3, Chinese investment in Europe has been concentrated in countries like Germany, United Kingdom and France. Important to notice is the fact that Chinese investment in Germany raised with 36 percent from the previous year whereas investments in the United Kingdom and France declined notably with 27 percent and 22 percent.[231]

Another study, conducted by the Antwerp Management School, analyzed the presence of Chinese companies in Europe using the Amadeus pan European database, which provides information about the ownership, corporate governance, business operations and financial situation of 4,676 Chinese companies located in Europe. Some of the key findings of this study are discussed in the following sectors.[232]

[229] Ibidem
[230] Cf. Englisch (2012), p.12, own illustration
[231] Ibidem
[232] Cf. Van Den Bulcke/ Yang/Zhang (2012), p.1ff.

3.5.1 Profile

The study conducted by the Antwerp Management School, specifies two major groups of Chinese companies based in Europe. The first group consists of the so called Chinese corporate subsidiaries. They are set up by Chinese industrial or service companies and financial institutions which are often state-owned enterprises (SOEs) with a relatively strong competitive position in their domestic market (in terms of technology and financial resources). The second category, which represents the majority of Chinese companies based in Europe, contains of Chinese individual or family enterprises or entrepreneurial companies. They are commonly established by Chinese individual persons or families, looking for business opportunities abroad. However, it has to be noted that these companies have a strong business and industrial background in China and some of them can be considered as global niche market players. Despite their low profile as individual owned companies abroad, they are strong private companies in China.[233]

3.5.2 Geographical Location

According to the study, the top five host countries of Chinese companies in Europe are Russia, Germany, Hungary, Romania and the United Kingdom. The study also indicates that Chinese companies are more likely to agglomerate around capital cities in Eastern Europe, while in Western Europe they are concentrated in regional hubs either with intensive industrial activities or logistic capabilities.[234]

3.5.3 Sector Distribution

Chinese companies in Europe are highly concentrated in service activities, especially in less knowledge-intensive sectors, such as wholesale or retail trade, which reflects that most of these companies are still at the very beginning of their international expansion. Only a small proportion of Chinese companies in Europe can be considered as knowledge-intensive services, carrying out banking, insurance and high-tech services.[235]

[233] Cf. Van Den Bulcke/Yang/Zhang (2012), p.2f.
[234] Cf. Van Den Bulcke/Yang/Zhang (2012), p.3
[235] Cf. Van Den Bulcke/Yang/Zhang (2012), p.3f.

Only five percent of Chinese companies in Europe are operating in manufacturing, of which about half are active in high and medium technology manufacturing, such as computers, electronics and optical products, basic pharmaceutical products, machinery and equipment, electrical equipment, motor vehicles, trailers and semi-trailers, and chemicals. The other half is engaged in low and medium technology manufacturing, such as fabricated metals, rubber and plastics, and non-metallic mineral products.[236]

The countries with the largest number of Chinese middle and high-technology manufacturing companies are Germany, Russia and the United Kingdom. Chinese investment in manufacturing facilities in Western Europe illustrates the strong motivation in acquiring technology and brands.[237]

Trading activities also differ between Eastern and Western Europe. In Western Europe, Chinese companies are involved in trade with advanced products, e.g. distribution of machinery and equipment, electrical household appliances, pharmaceuticals, etc. whereas in Eastern Europe trading activities involve wholesale of clothing and footwear, textiles, footwear and leather goods.[238]

3.6 Chinese Foreign Direct Investment Activities in Germany

According to a recent survey of 400 Chinese companies conducted by Ernst & Young, every fourth Chinese manager considers Germany as one of the most attractive destinations to invest.[239] In this survey, one in three managers named the automotive industry (21%) and IT sector (18%) as one of the main potential industries in Germany. Energy (13%) and environmental technology industries (12%) rank considerably lower than these top two fields in managers' opinions. The pharmaceutical industry, financial industry, consumer goods manufacturing and the construction sector were named comparatively lower.[240]

[236] Cf. Van Den Bulcke/Yang/Zhang (2012), p.4
[237] Ibidem
[238] Ibidem
[239] Cf. http://news.xinhuanet.com/, accessed on 30.10.2012
[240] Cf. Englisch (2012), p.7

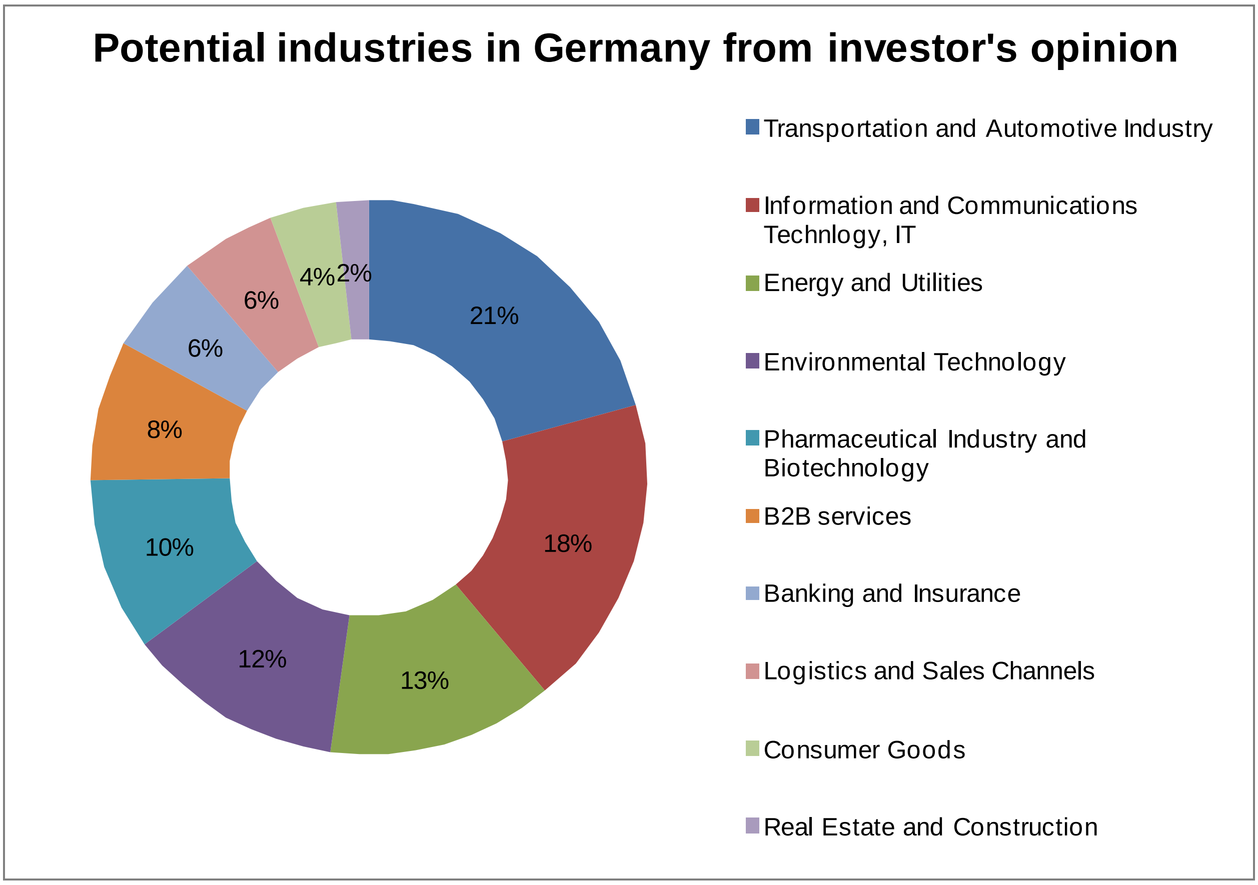

Table 3-4: Potential industries in Germany from investor's opinion[241]

Germany attracts foreign investment mainly due to its good investment environment, which is characterized in its technological leadership position, a reasonable industrial structure, its high labor productivity, its economic and political stability, its solid infrastructure and its strategic geographical location and therefore access to the European market.[242]

In addition, Germany provides Chinese companies with a testing ground to enter the European markets. If Chinese firms can succeed in Germany, they have a good chance of success elsewhere in Europe.[243]

Mr. Wen Jiabao, former Premier of the State Council of the People's Republic of China, said in April 2012 while visiting Germany, "China remains devoted to its intent to building a nation that is based on innovation with the aim of energetically supporting the transformation from 'made in China' to 'created in China'." As a matter of fact, "Made in China" still stands for lower-quality goods in the international market. In contrast, "Made

[241] Cf. Englisch (2012), p.7, own illustration
[242] Event organised from Germany Trade & Invest, Intelligente Geschäftslösungen für chinesische Unternehmen, 18.09.2012, Fairmont Peace Hotel, Shanghai
[243] Cf. Bozoyan/Hüssen/Lehnfeld (2012), p.3

in Germany" is associated with high quality and highly technological products, which Chinese companies increasingly seek to imitate.[244]

Chinese companies were the number one investor in Germany in 2011. For the first time, China has surpassed the United States to become the largest foreign direct investor in Germany.[245]

According to MOFCOM, the distribution of Chinese companies with respect of their field of industry, are in the following four areas in Germany:[246]

- Chinese companies dealing with transportation, trading and carrier industries locate their business activities in the North of Germany, close to Hamburg.
- In the middle part of Germany, close to Ruhr City, which is densely populated, Chinese companies mainly choose Dusseldorf and Cologne as base.
- Chinese banks and aviation enterprises are most likely to locate in Frankfurt which is the center of finance and airline businesses.
- Small Chinese private enterprises in high-tech industry prefer Munich and Stuttgart as their base of manufacturing business.

According to an article in the *Bloomberg Businessweek,* German "Mittelstand" companies, or also called as nation's "hidden champions", have become popular investment targets for Chinese investors.[247]

The German "Mittelstand", which are midsize companies and typically family-owned, often operate in niche markets and are leaders in specific market segments, such as dye or engine making, machine tools or special construction machinery.[248]

In total, Germany has around 1,200 hidden champions according to the Wall Street Journal that are not well-known, but have top positions worldwide in their special, small markets. They have focused on extremely specialized products, especially in machinery and engineering, which are almost custom-made for the client.[249]

However, in the next coming years, these champions are facing a period of change, as the business executives of these companies reach retirement age and will have to find new leaders. According to an article from the Wall Street Journal, in the next five years, 110,000 companies will be transferred to the next generation. Around 95 percent of

[244] Cf. http://www.nytimes.com/, accessed on 05.11.2012
[245] Cf. http://www.chinadaily.com.cn/, accessed on 31.10.2012
[246] Cf. MOFCOM et al. (2012), p.75ff.
[247] Cf. http://www.businessweek.com/, accessed on 22.10.2012
[248] Cf. http://blogs.wsj.com/, accessed on 31.10.2012
[249] Cf. http://online.wsj.com/, accessed on 31.10.2012

German companies are family owned. First, these companies will have to look within their family for a son or daughter willing and able to take over the business. If no one is suitable, they look to their employees and to outside investors.[250]

For instance, the aging founder of the German cement-pump manufacturer Putzmeister Group, 79 year old Karl Schlecht, agreed to sell the company to the Chinese competitor Sany Heavy Industry Co. in January 2012, to some extent because no one in his family wanted to run the company.[251]

What is more, the takeover of DyStar Colours Distribution GmbH by Chinese Zhejiang Longsheng Group and the Indian Kiri Dyes and Chemicals Limited in November 2010 reflects the interest of Chinese companies in firms that have strong positions in niche markets as well as reputations for reliability, quality and innovation.[252]

DyStar, which is the world's largest manufacturer of dyes for clothing and other goods, went bankrupt in 2009 due to the global financial crisis. With this cross-border deal, Longsheng executives secured control of DyStar's 14 production bases worldwide, more than 1,800 patents, a sales network of 50 nations and more than 7,000 customers including Nike, Adidas and Levi's.[253]

One of the challenges for Longsheng was the restructuring and integration process of foreign operations. Longsheng solved these problems by closing all of DyStar's manufacturing plants in Germany, dismissing workers with compensation of EUR 100,000 per person and setting up a new headquarter in Singapore according to Zhang Hong from Caixin.[254]

"There are only two types of acquired companies – terminally ill and healthy." (Florian Fautz, head of investment banking for HSBC) [255]

Struggling companies in niche markets are attracting Chinese companies to invest in Germany. According to a recent study of Chinese Outbound Investment 2012 conducted by Berner Consulting, however, there is a fundamental shift of Chinese companies' preferences regarding German takeover targets. While in the past, Chinese takeover favorites included so-called "distressed assets or bargains" (but still popular due to the European debt crisis), Chinese investors are now looking for acquisition targets that fit their strategy and that remains operations without major changes.[256]

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[250] Ibidem
[251] Cf. http://www.marketwatch.com/, accessed on 05.11.2012
[252] Cf. http://english.caixin.com/, accessed on 31.10.2012
[253] Cf. http://www.marketwatch.com/, accessed on 05.11.2012
[254] Cf. http://english.caixin.com/, accessed on 31.10.2012
[255] http://english.caixin.com/, accessed on 31.10.2012
[256] Cf. Berners/Fritz (2012), p.9

The global financial crisis shattered a significant number of midsize companies in Germany. Due to the global financial crisis, many small- and medium sized companies had troubles in cash flow. Many reacted by running into the arms of Chinese competitors, not only for financial support but also because many German executives see future business potential in China.[257]

Not long time ago, German business owners feared that Chinese buyers would dismantle their companies and cut or transfer jobs to China.[258]

Nowadays, business leaders of such companies think the future of the industry is in China. They are most likely lacking in the scale and skills to develop operations in China and are therefore willing to look for a Chinese investor.[259]

Besides, their privately held structure makes them attractive to Chinese investors, who can deal directly with family owners rather than corporate boards and shareholders.[260]

In January 2012, LDK Solar, China's second-largest solar panel maker, agreed to buy Germans Sunways, one of the domestic panel makers struggling to cope with competition from Asia, for around EUR 44 million.[261]

This was followed by Sany Heavy Industry Co. Ltd., a China-based manufacturer of concrete pumps and other heavy equipment, which acquired German concrete pumps manufacturer Putzmeister Holding GmbH for EUR 360 million. Putzmeister is Europe's biggest cement-pump manufacturer and employs more than 3000 people.[262]

It is believed to be the largest deal between China and Germany. "With this merger, Putzmeister and Sany will create a new and global market leader for concrete pumps. Putzmeister will remain as an independent brand with its own management within the Sany group. We are looking forward to work with the Putzmeister management, which made this business so successful" said Mr. Liang Wengen, chairman and founder of Sany. Both German engineering and a new distribution network could help the company overcome a perception that Chinese equipment is of substandard quality.[263]

Sany plans to make Aichtal, the southwestern town in Germany where Putzmeister is based, its global headquarters for concrete machinery outside of China. Sany also agreed to keep open all German production sites until 2015 and to avoid layoffs

[257] Cf. http://www.marketwatch.com/, accessed on 05.11.2012
[258] Cf. http://www.businessweek.com/, accessed on 22.10.2012
[259] Cf. http://www.marketwatch.com/, accessed on 05.11.2012
[260] Cf. http://www.nytimes.com/, accessed on 05.11.2012
[261] Cf. http://www.businessweek.com/, accessed on 22.10.2012
[262] Cf. http://blogs.wsj.com/, accessed on 31.10.2012
[263] Cf. http://www.putzmeisteramerica.com/, accessed on 01.11.2012

coupled to the acquisition through 2020. It will use the German brand in all countries with exception of China, taking advantage of the "Made in Germany" cachet.[264]

After the Sany transaction, in July 2012, China's Xuzhou Construction Machinery Group (XCMG), a leading construction machinery manufacturer, acquired a majority of the shares of Putzmeister's main domestic competitor, Schwing, an internationally leading system supplier for concrete machinery in the premium sector.[265]

Mr. Wang Min, the Chairman of XCMG, said "We will win important market shares in global construction machinery." Mr. Gerhard Schwing, the CEO of Schwing, pointed out that "Schwing will gain access to the Chinese growth market and XCMG will benefit from improved market coverage outside of China and extend its product range in the premium segment." [266]

Table 3-5 gives an overview of some acquisitions of German technology firms by Chinese companies between 2010 and 2012.

[264] Cf. http://www.businessweek.com/, accessed on 22.10.2012
[265] Cf. http://german.china.org.cn/, accessed on 31.10.2012
[266] Cf. http://schwing.com/, accessed on 31.10.2012

Date	Target Company	Target Sector	Bidder Company	Deal Value Mio. EUR
2012	Schwing Group	Industrial Machinery & Equipment & Tools	Xuzhou Construction and Machinery Group (XCMG)	un-disclosed
2012	Kiekert AG	Automotive Supplier	Hebei Lingyun Industrial Group Co. Ltd.	un-disclosed
2012	Putzmeister Holding GmbH	Industrial Machinery & Equipment & Tools	Sany Heavy Industry Co. Ltd.	360
2012	Saunalux GmbH Products & Co KG	Infrared Cabin and Sauna	Anhui Saunaking Co. Ltd.	6
2012	Kromberg & Schubert Group	Automotive Supplier	Shenzhen Deren Electronic Co Ltd	2
2012	Sunways AG	Photovoltaics	LDK Solar Co. Ltd.	44
2011	ATB Austria Antriebstechnik AG	Drive Technology	Wolong Holding Group Co. Ltd.	100
2011	Vits Print GmbH	Printing Industry	Shanghai Electric Group Corporation	un-disclosed
2011	Sellner GmbH und IPG Industriepalast GmbH	Automotive Supplier	Ningbo Huaxiang Electronic Co. Ltd.	19
2011	Format Tresorbau Beteiligungs GmbH	Security Industry	Dutech Holdings Ltd.	un-disclosed
2011	Solar Power Station	Photovoltaics	Zhejiang Sunflower Light Energy Science & Technology	2
2011	KSM Castings GmbH	Automotive Supplier	Citic Dicastal Wheel Manufacturing Co. Ltd.	un-disclosed
2011	Medion AG	Comsumer Electronics	Lenovo Group Ltd.	630
2011	SaarGummi International GmbH	Automotive Supplier	Chongqing Light Industry and Textile Holdings Group	45
2011	Vivanco Gruppe AG	Consumer Electronics	Ship Group	un-disclosed
2011	Gustrower Wärmepumpen GmbH	Industrial Machinery & Equipment & Tools	SmartHeat Inc.	un-disclosed
2010	KHD Humboldt Wedag International AG	Cement Industry	Aviation Industry Corporation of China	75
2010	Multiple Targerts	Industrial Machinery & Equipment & Tools	Chongqing Machinery & Electric Co. Ltd.	22
2010	Odersum AG	Renewable Energy	Advanced Technology & Materials Co. Ltd.	un-disclosed
2010	Siemens Electronics Assembly Systems Management GmbH KG	Electronics	ASM Pacific Technology Ltd.	un-disclosed
2010	DyStar Textilfarben GmbH	Chemical Industry, Pharma	Zhejiang Longsheng Group Co. Ltd.	un-disclosed

Table 3-5: Chinese companies acquire German and Austrian technology firms from 2010 to 2012[267]

[267] Cf. Maack/Wahl (2012), p.20; Chen/Krug (2012), p.115; Petersen/Wang/Xu (2012), p.53; own illustration

3.7 Key Success Factors for Chinese Companies Going Global

According to Mr. Alan Beebe, head of IBM's Institute for Business Value in China, there are four key success factors for Chinese business executives in order to succeed in overseas expansion.[268]

First, Chinese companies need to have a clear globalization strategy where they think through very carefully how they are going to differentiate themselves against global competition. Definition of objectives, an understanding of internal strengths and weakness as well as a definition of priorities are essential issues that need to be considered and decided (see Figure 3-12).[269]

Step 1 - Develop a clear international strategy

Activities	Key Success Factors
Define objectives	▪ Objectives need to be clear, both qualitatively and quantitatively ▪ Develop specific goals for different timelines (short term, mid term and long term)
Understand internal strengths & weaknesses	▪ Tailor international strategy to internal capability of company
Analyze global competitive scenarios	▪ Proactively collect and analyze competitors' moves to understand the full picture of global competition ▪ Focus on most similar competitors to gain further understanding
Define priorities	▪ Priorities should reflect above considerations / analysis, such as - consistent with objectives - matched with internal capabilities and help to strengthen competitiveness
Ensure alignment of top management	▪ Make sure all top management are on board to discuss the strategy and express opinions ▪ Keep timely sharing of opinions among top management

Figure 3-12: Step 1 - Develop a clear strategy[270]

[268] Cf. Beebe/Englisch (2007), p.1
[269] Cf. Beebe/Englisch (2007), p.5
[270] Value Partners et al. (2008), p.22, own illustration

Secondly, Chinese executives need to consider what sort of business models they would use in order to pursue global expansion, whether it is Mergers & Acquisitions, Strategic Alliances like Joint Ventures or organic growth through Greenfield Investment. Definition of required resources and processes as well as the recruitment and training of people are key activities in Step 2 as shown in Figure 3-13.[271]

Step 2 - Prepare the organization	
Activities	**Key Success Factors**
Define need for resources	▪ Identify suitable talents / experts to focus on international expansion ▪ Allocate sufficient funding to support possible expansion
Prepare organization responsible for international expansion	▪ Dedicate specific departments / teams to focus on international expansion ▪ Clearly define the roles of all related departments as well as work process
Recruit/train people	▪ Target both Chinese and foreign talents who have solid overseas business experiences ▪ Provide practical training, e.g. on site training in foreign markets
Define process	▪ Standardize target market screening criteria ▪ Clarify decision making process to speed up possible initiatives

Figure 3-13: Step 2 - Prepare the organization[272]

[271] Cf. Beebe/Englisch (2007), p.5
[272] Value Partners et al. (2008), p.24, own illustration

Thirdly, Chinese companies need to be very selective and prioritize which foreign markets they choose to enter into, at what time and in which locations. Therefore, they should create a database of the target market as well as networks. Moreover, identification of suitable targets and negotiations has to be carefully managed (see Figure 3-14).[273]

Step 3 - Build strong understanding of target markets

Activities	Key Success Factors
Build market database	▪ Build comprehensive fact books of player in target market ▪ Collect key data about most interesting players ▪ Update information frequently
Create networks in target country	▪ Identify insiders who can effectively help to facilitate the process ▪ Start contacts with local regulators and keep timely communications ▪ Leverage local professional firms and business partners to reach important contacts
Identify suitable targets	▪ Cleary define the target screening criteria ▪ Leverage local networks and professional firms to identify target pool ▪ Shortlist targets based on quick verification on their business soundness and interests to discuss investments
Understand valuation and value drivers	▪ Conduct in-depth due diligence to understand target's financials and business potential ▪ Referring to industry experiences, find out key value drivers and quantify the impact to valuation
Manage negotiations	▪ Approach targets in co-operative manner ▪ Pay attention to the undisclosed message of stake holders of the targets and correctly address their real motivations when proposing deal solutions

Figure 3-14: Step 3 - Build strong understanding of target markets[274]

[273] Cf. Beebe/Englisch (2007), p.5
[274] Value Partners et al. (2008), p.26, own illustration

In addition to those key success factors, it is important that Chinese companies focus on successful executions which are shown in Figure 3-15. Therefore, key areas that they need to be particularly aware of include creating a global management team, developing a global branding strategy and putting in place the right operational capabilities whether it is about processes, global product development and their own global operating model to ensure success.[275]

Step 4 - Carefully manage the post merger integration phase

Activities	Key Success Factors
Quickly take key strategic decisions	▪ Definition of milestones and main objectives to achieve ▪ Clear leadership to orchestrate the entire process
Identify key resources	▪ Selection of a joint (contribution from both involved parties) integration team in charge of defining guidelines to follow ▪ Appointment of a skilled integration manager, responsible for the end-to-end process
Define initiatives & priorities	▪ Detailed function / area analysis with following prioritization of the initiatives to activate (trade-off impact vs. ease of implementation) ▪ Clear timing and deadline ▪ Frequent progress reviews and interactions
Understand cultural & communication issues	▪ Open communication among team members ▪ Take into account cultural differences ▪ No conflicting environment between the entities (“we” vs. “they”)

Figure 3-15: Step 4 - Carefully manage the post-merger integration phase[276]

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[275] Cf. Beebe/Englisch (2007), p.5
[276] Value Partners et al. (2008), p.28, own illustration

4 Identification of Business Models

Many Chinese companies are making their first international investments in developing markets. Developing markets generally give Chinese companies an opportunity to compete without investing in new technology or changing their business to meet stricter regulatory standards. However, many Chinese enterprises see success in developed markets such as Europe and the United States as their ultimate goal.[277]

Analyzing current business deals of Chinese companies, several business models can be identified that are adopted in their global expansion strategy. It shows that Chinese companies moving into international markets have emphasized on Mergers & Acquisitions (M&A) as a way to gain faster an international foothold than through organic growth.[278] Although M&A's are usually expensive, risky and require lots of resources to effectively pull off, however, in some cases, an acquisition can achieve strategic objectives faster or more effectively than through organic growth.[279] Many Chinese companies see acquiring Western enterprises as a shortcut to brand building and access to technology and managerial expertise and to a certain extent solves the problem of penetrating an alien business culture.[280]

Corporations with other foreign firms through Joint Ventures also take place in the internationalization process of Chinese companies. They are favored by China's authorities and firms as the fastest way to gain access to R&D and to transfer technology and expertise to Chinese firms. These firms are familiar with the terrain, and thus can help Chinese companies navigate the cultural, political and commercial obstacles of the foreign market.[281]

However, the interest of the partners tends to develop in different and often competitive directions. Chinese companies are beginning to realize that their true goals may be better realized through acquisitions and, therefore, more Chinese companies are beginning to consider acquiring the desired capabilities from abroad. Indeed, Chinese M&A activity is booming and Western Europe is a key investment destination for Chinese companies, accounting for almost a third of all outbound Chinese deals since

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[277] Cf. Goldner/Shelton/Wang (2010), p.2
[278] Ibidem
[279] Cf. Eberle/Talatala/Tsao (2012), p.39
[280] Cf. http://www.erim.eur.nl/, accessed on 08.08.2012
[281] Cf. Reinfeld (2007), p.1

2011. Between 2005 and mid-2012, Chinese M&A into the region totaled USD 75 billion.[282]

Based on several discussions with the Top Management of DKSH as well as analyzing recent business deals of Chinese companies and their preferences, DKSH has decided to focus and offer consulting services in the field of Joint Venture, Mergers & Acquisitions and Greenfield Investments. Contract Cooperation is the current business model that DKSH is using for its German and European customers to bring them successfully into the Asian market. Therefore, DKSH has proper knowledge and expertise in this field. Figure 4-1 shows five main market entry strategies depending on control and risk as well as internationalization and development stage and highlights which areas are relevant for DKSH.[283]

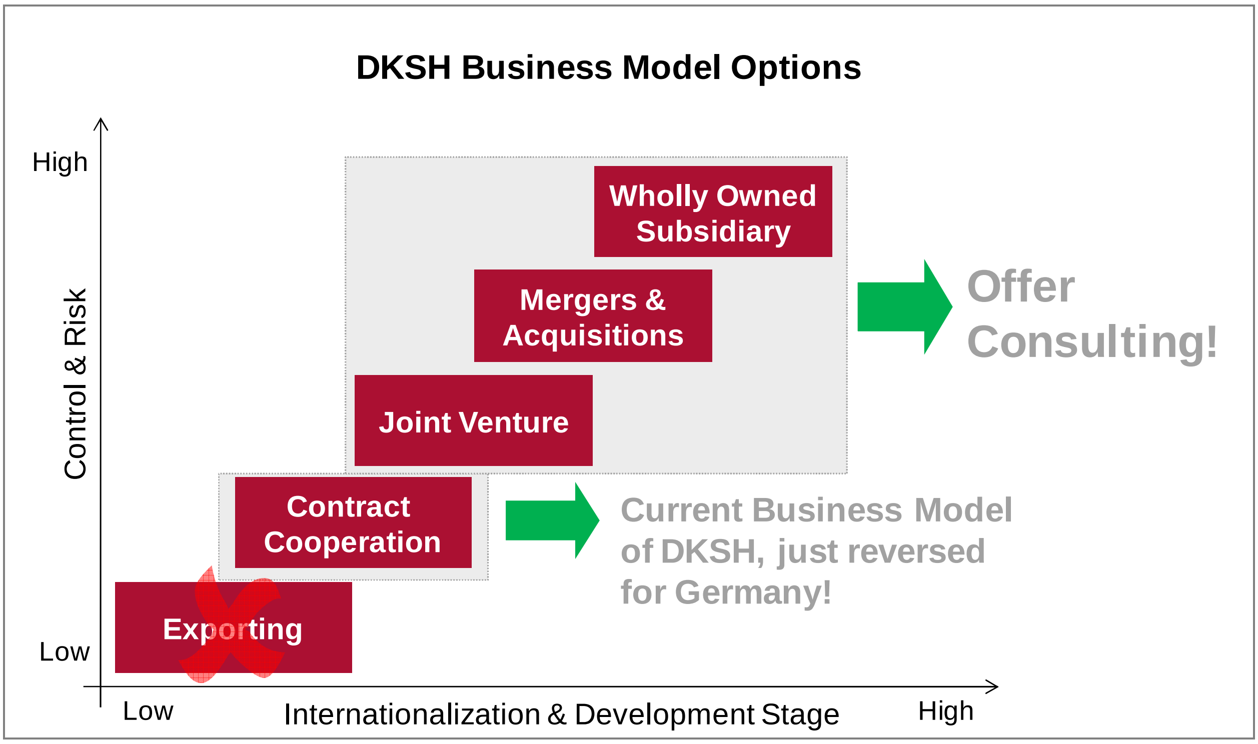

Figure 4-1: Consulting services that DKSH could provide Chinese companies[284]

The following three main business models will be created and developed in this thesis:[285]

- **Joint Venture (JV)** can help the company enter an overseas market, but relations between partners are often vulnerable and uncontrollable.

[282] Cf. Downs et al. (2012), p.3ff.
[283] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz
[284] Cf. Ghane/Groll/Tirpitz (2011), p.11, own illustration
[285] Cf. Xin/Yeung (2007), p.5

- **Mergers and Acquisitions (M&A)** - are fast and effective, but integration is often a problem and the failure rate is high.
- **Greenfield Investment** (e.g. wholly-owned subsidiary) - is slow, but the company can control the rhythm and risks.

In the following sections, further information of the three main business models is given and shown accordingly in figures.

4.1 Joint Venture

A Joint Venture (JV) is a temporary business arrangement between two or more firms to form a new company and to achieve specific objectives of a partnership.[286]

Joint Ventures are advantageous as a risk reducing mechanism in new-market penetration (e.g. utilizing local partner's relations with local supplier, customer, bank and government) and in pooling of resources. However, JV's present unique problems in equity ownership, operational control and distribution of profits (or losses). Figure 4-2 illustrates how a Joint Venture between a Chinese and German company in Germany would look like. DKSH as a business partner and consultant is located in the middle between those two firms in order to help them achieve their goals.[287]

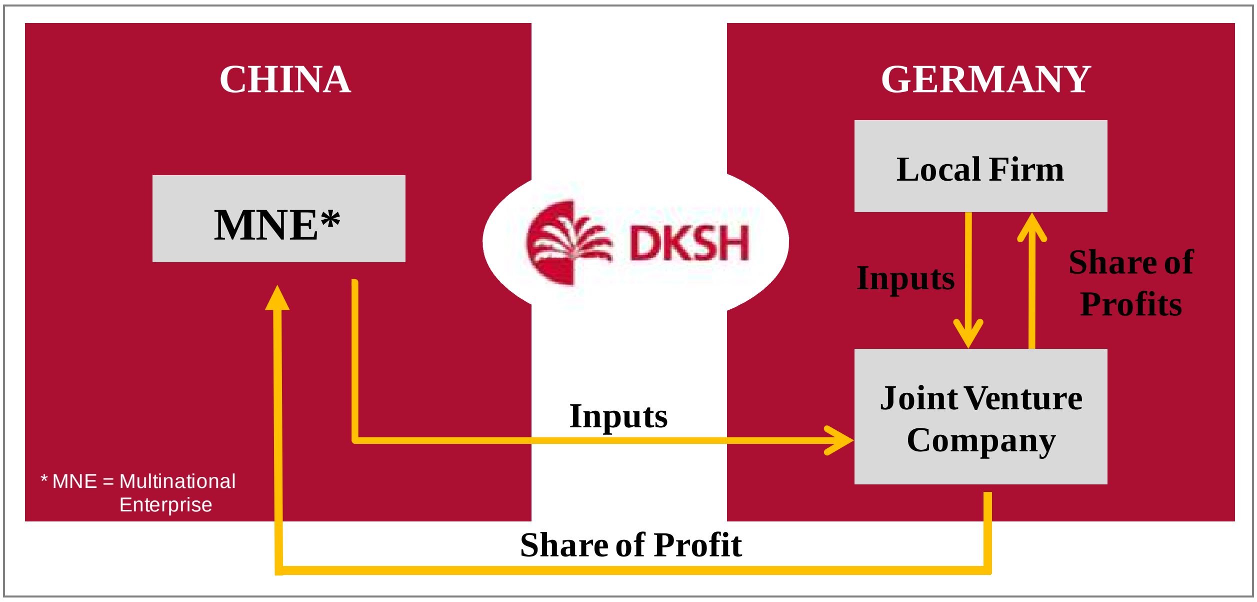

Figure 4-2: Illustration of a JV between a Chinese MNE and a German company[288]

[286] Cf. http://www.investopedia.com/, accessed on 09.10.2012
[287] Cf. http://www.businessdictionary.com/, accessed on 09.10.2012
[288] Cf. Aguilera (2012), slide 21, own illustration

Table 4-1 lists some pros and cons that result of a Joint Venture.

Advantages of JVs	Disadvantages of JVs
✓ Access to partner's local knowledge, capacity and relations with local supplier, etc.	✓ Potential conflicts between partners due to different cultures and management styles
✓ Both parties have some performance incentives	✓ Neither partner has full performance incentive
✓ Sharing of investment risks	✓ Neither partner has full control

Table 4-1: Advantages and disadvantages of a Joint Venture[289]

4.2 Mergers & Acquisitions

Mergers are the combining of two or more companies into a new one, whereas acquisitions are when one company purchases the majority of shares from another company. However, the two are not mutually exclusive and usually one company purchases the other and integrates it.[290]

Typical strategic drivers for instance are to offer a new business model or service. Mergers & Acquisitions (M&A) give instant access to technical and management expertise. Building these organically usually takes too much time. Another driver is to gain a critical mass, if the current organization is too small to be effective and will take too much time to build up. M&A can provide new customer base to channel existing products into new markets. Figure 4-3 exemplifies an acquisition or takeover of a Chinese company in Germany with DKSH as a consultant positioned between them.[291]

[289] Cf. Aguilera (2012), slide 22, own illustration
[290] Cf. Eberle/Talatala/Tsao (2012), p.36; http://www.inc.com/, accessed on 09.10.2012
[291] Cf. Eberle/Talatala/Tsao (2012), p.41

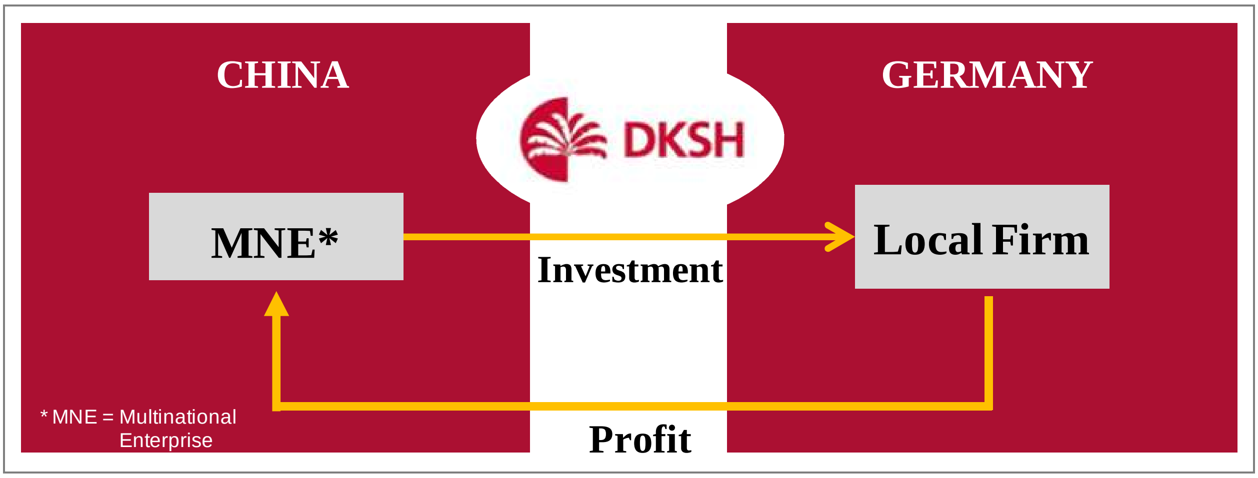

Figure 4-3: Illustration of an acquisition of a Chinese MNE in Germany[292]

Table 4-2 lists the main pros and cons of a Mergers & Acquisition deal.

Advantages of M&A	Disadvantages of M&A
✓ Access to local expertise and capacity	✓ Uncertainty about target's value
✓ Control over foreign operations	✓ Cultural mismatches and difficulty in "absorbing" acquired assets

Table 4-2: Advantages and disadvantages of a M&A[293]

4.3 Greenfield Investment

A parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. Besides building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. It is advantageous as it avoids problem of integration and overpayment as well as the company still retains full control. However, it requires strong knowledge of foreign management and involves high risk and high commitment. Figure 4-4 shows the illustration of a Greenfield Investment in Germany done by a Chinese company.[294]

[292] Cf. Aguilera (2012), slide 15, own illustration
[293] Cf. Aguilera (2012), slide 16, own illustration
[294] Cf. http://www.investopedia.com/, accessed on 09.10.2012

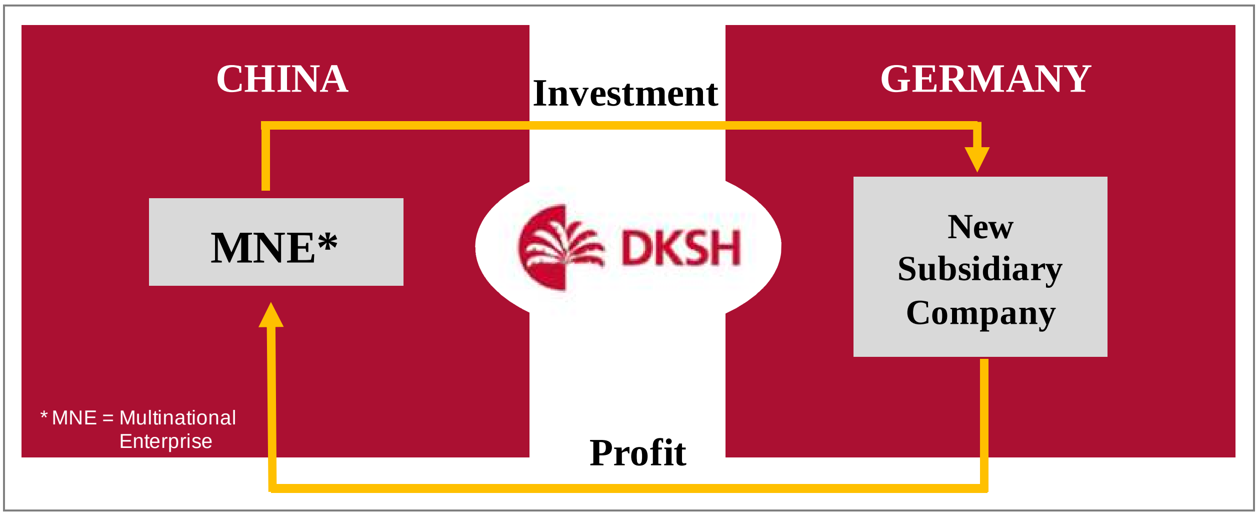

Figure 4-4: Illustration of a Greenfield Investment by a Chinese MNE in Germany[295]

Table 4-3 lists the main pros and cons of a Greenfield Investment.

Advantages Greenfield Investment	Disadvantages Greenfield Investment
✓ Avoids problem of integration	✓ Slower start-up
✓ Avoids risk of overpayment	✓ Requires knowledge of foreign management
✓ Still retains full control	✓ High risk and high commitment

Table 4-3: Advantages and disadvantages of a Greenfield Investment[296]

4.4 Demand for Consulting Services by External Service Providers

In China, compared to Europe or the United States, using external service providers or consultancies is not a well-established concept. According to a recent survey conducted by Berner Consulting (Chinese Outbound Investment 2012, An in-depth analysis of Chinese private medium-sized companies), Chinese companies going abroad increasingly develop demand for consulting services by external service providers.[297]

It is said that requirements for a successful partnership are that the consultants have good market knowledge, access to an effective local network in the target market, a

[295] Cf. Aguilera (2012), slide 17, own illustration
[296] Aguilera (2012), slide 18, own illustration
[297] Cf. Berners/Fritz (2012), p.7ff.

successful track record, are able to gain the Chinese clients‘ trust and are willing to share risks, for example through success fees.[298]

In general, Chinese companies tend to take "soft" services not serious. They are used to investing in tangible things like real estate, infrastructure and hardware, but are unwilling to pay for the intangible services that lawyers, consultants and trainers provide. Only when problems occur Chinese entrepreneurs start thinking about seeking help, but by that time it is often too late.[299]

Only few professional service organizations are able to help Chinese companies overcome the difficulties encountered in interactions between two cultures and help bridge the cultural and social gap. Although many of such organizations exist, most of them lack the necessary experience. The few that are experienced are Western businesses, which themselves have troubles with their Chinese clients. With DKSH’s long history in Asia and being a Swiss headquartered company, DKSH’s strengths lie in profound knowledge and expertise of the European and Asian culture.[300]

[298] Cf. Berners/Fritz (2012), p.9
[299] Cf. http://www.erim.eur.nl/, accessed on 08.08.2012
[300] Cf. http://www.erim.eur.nl/, accessed on 08.08.2012

5 Development of Business Models

The main goal of this thesis is to develop distinct business models that help DKSH China Business Unit Technology to assist and consult Chinese companies in going global and entering the German market. In the previous chapter, three main business models have been identified and will be further developed in this chapter.

In order to create business models, the book "Business Model Generation" written by Alexander Osterwalder and Yves Pigneur is used as a reference. It provides the "Business Model Canvas", which is a tool for describing, analyzing and designing business models (Figure 5-1).[301]

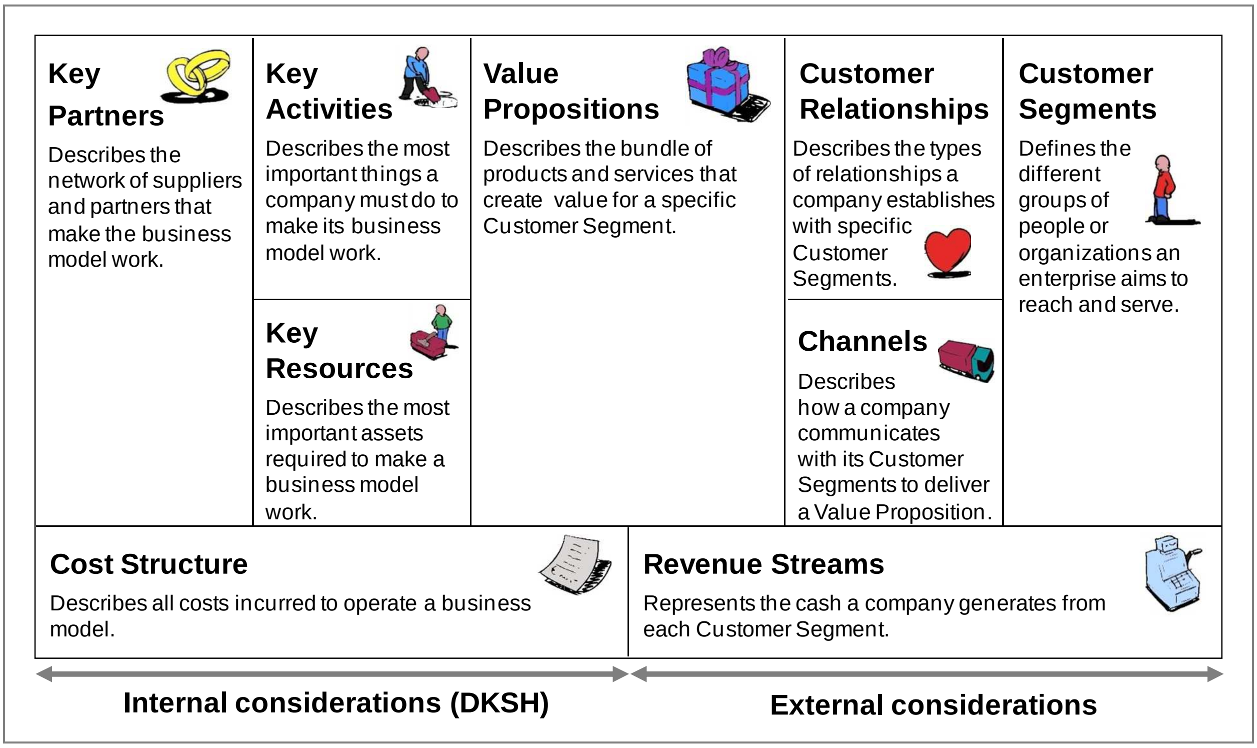

Figure 5-1: The Business Model Canvas with internal and external consideration for DKSH[302]

In the following sections, each of the nine focus areas will be analyzed and evaluated.

[301] Cf. Osterwalder/Pigneur (2010), p.8
[302] Cf. Osterwalder/Pigneur (2010), p.44, adapted from

5.1 Customer Segments

Customer Segments define the different groups of people or organizations a company aims to reach and serve. Customers comprise the heart of any business model, because without (profitable) customers, no company can survive for long.[303]

In order to satisfy its customers, a company might group them into different segments with common needs, common behaviors or other features. A business model can consist of one or several small or large Customer Segments. It is important for any organization to have a strong understanding of specific customer needs and therefore has to decide which segments to serve and which one to ignore.[304]

Below, four distinct segments for DKSH are listed, which are grouped based on common characteristics. It should help DKSH to classify and segregate their customers and make sure that these criteria are fulfilled by Chinese companies.[305]

Company Profile

Ownership of a Chinese company has to be either private-owned or partly state-owned. State-owned companies usually get supported by the Chinese State. In addition, providing support in going global, DKSH is only at its initial stage and therefore can't provide any references of former investment projects in Germany. The average size of a Chinese company should be small- to medium sized, meaning in numbers up to 3,000 employees.

Market Position and Products

The Chinese enterprise should be a market leader (high market share in their industries) with high industry reputation and strong branding capabilities. It should supply medium-end, complex, non-conventional, innovative and sophisticated products. Optional would be, if the Chinese firm is a niche market leader (leader in specific market segment).

Industry Focus

Chinese company needs to operate in an industry that plays a leading role in the German economy (industry with growth potential for next 5 to 10 years). The company should also operate in DKSH Technology relevant industries regarding products, know-how and customer base.

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[303] Cf. Osterwalder/Pigneur (2010), p.20
[304] Ibidem
[305] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz

Competition

Important is the fact that the Chinese company must not be a competitor of DKSH's suppliers from Germany.

Figure 5-2 summarizes the Customer Segments of DKSH for Chinese enterprises.

Customer Segments of DKSH

Company Profile	**Competition**
✓ Ownership: private-owned or partly state-owned ✓ Average size of company: small- to medium sized company	✓ Company must not be a competitor of DKSH's suppliers from Germany
Market Position & Products	**Industry Focus**
✓ Market leader with high industry reputation and strong branding ✓ Medium-end (stand-alone), complex, non-conventional, innovative, sophisticated products ✓ Optional: Niche market leader	✓ Company operates in industry that plays a leading role in the German economy (industry with growth potential for next 5 to 10 years) ✓ Company operates in DKSH Technology relevant industries (regarding products, know how, etc.)

Figure 5-2: Customer Segments of DKSH consulting Chinese companies in going global[306]

The main strategy of DKSH is to approach potential Chinese companies. In order to identify which companies have potential in going abroad and entering the German market, a screening process needs to be applied. The screening process is divided into two parts, internally and externally, and as a result allows filtering out unnecessary targets.[307]

Screening internally means that the process is based on existing and confidential data from DKSH. First of all, the current customer base will be investigated and the Top 100 customers based on sales figures, revenues and other criteria are identified. Moreover, it will be analyzed if those customers are state or private-owned and in which industries they are operating. On the other hand, screening externally is based on data which is collected through market research. The process is shown in Figure 5-3 and consists of

[306] Own illustration
[307] Cf. Beebe et al. (2006), p.3

four main steps. Finally, both results from the screening process internally and externally are joined and compared.[308]

Internal Screening Process	External Screening Process
1. Look at DKSH Technology Customer Base of **MAI** (Manufacturing & Industry), **INS** (Instrumentation), **REE** (Renewable Energy & Electronics) 2. Identify Top 100 Customers in each Business Line 3. Identify if SOE (State-owned enterprise) or POE (Private-owned enterprise) 4. Select only POE or Family-owned companies 5. Filter out in which industries POEs are operating	1. Create comprehensive list of industries in Germany 2. Consider Chinese FDI project share in Germany of the past 5 years 3. Identify potential industries from foreign investor's point of view 4. Identify key drivers which likely affect the market within the next 5 to 10 years

Figure 5-3: Methodology of identifying Chinese companies that have potential to enter Germany[309]

Potential industries for Chinese companies in Germany are shown in Figure 5-4 below. This cluster was created after an extensive market research and is aligned with the internal expertise and know-how of DKSH. Three industries have been identified: Renewable energy and resources, chemicals and healthcare as well as mechanical and electronic technologies.[310]

[308] Discussion with Mr. Geithner (Business Development Manager), 16.10.2012, Shanghai
[309] Own illustration
[310] Cf. Hermann (2011), p.4

Potential Industries for Chinese Companies in Germany

Renewable Energy & Resources	Chemicals & Healthcare	Mechanical & Electronic Technologies
▪ Photovoltaic ▪ Wind Energy ▪ Solar Thermal Energy ▪ Bioenergy and Renewable Resources (Pellets, Bioethanol, Biomass combustion & gasification) ▪ Energy Storage and Fuel Cells (Battery, etc.)	▪ Chemical Industry ▪ Chemical related Process Industry ▪ New Materials and Composite Materials ▪ Pharmaceutical Industry ▪ Analytical Instruments and Medical Devices Industry	▪ Electronics and Microtechnology ▪ Semiconductors ▪ Machinery and Equipment ▪ Mechanical related Process Industry ▪ Automobile and Motorcycle Industry ▪ Packaging Machinery and Printing Industry

Figure 5-4: Potential industries for Chinese companies in Germany[311]

5.2 Value Propositions

Value Propositions describes the bundle of products and services that create value for a specific Customer Segment. Each Value Proposition consists of a selected bundle of products or services that serves the requirements of a specific Customer Segment.[312]

The Value Proposition is the reason why customers decide to buy a certain product or use a particular service. Generally speaking, it satisfies a customer need and convinces the customer that it will add more value or better solve a customer problem.[313]

DKSH will offer its Value Propositions based on three columns. The first one is to provide the best solutions for a successful market entry and market growth in Germany. Chinese clients often lack in a proper business network and experience with the German business culture. With DKSH's profound knowledge and expertise of the German market, it is able to offer direct access to key decisions makers, which is column number two. The third column reflects the strong knowledge of an experienced management team of DKSH. In Figure 5-5, the three columns are explained further.[314]

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[311] Own illustration
[312] Cf. Osterwalder/Pigneur (2010), p.22
[313] Ibidem
[314] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz

Providing best solutions for market entry and growth in Germany

✓ DKSH analyses business opportunities in Germany for Chinese clients.

✓ DKSH supports in developing a business model and market entry strategy (e.g. market analysis, strategy development, market entry and strategy implementation, business growth).

✓ DKSH offers transaction process management, negotiation and corporate strategy, synergy evaluation and integration issues.

✓ DKSH supports with business registration, project-related financing and incentives consultancy as well as in dealing with administrative affairs and local authorities.

Direct access to key decision makers in Germany

✓ DKSH provides introduction to potential business partners, suppliers, service providers, etc.

✓ DKSH is able to help Chinese clients build cross cultural business relationships.

Strong knowledge and experienced management team

✓ A key strength of DKSH is in having an extensive market knowledge and expertise of the German market and technology sector.

✓ DKSH offers an interdisciplinary management team with extensive industry experience and local language skills both in Chinese and German.

Figure 5-5: Value Propositions of market entry consulting for Chinese companies[315]

In the following, three Value Propositions for the different market entry modes (Joint Venture, Mergers & Acquisitions and Greenfield Investment) are further explained. However, the Value Propositions for Joint Venture and Mergers & Acquisitions are quite similar, as many aspects are corresponding and show no great difference. Though, the Value Proposition for Greenfield Investment is slightly different.[316]

Value Propositions for Joint Venture

- ✓ Working closely with both parties (Chinese and German enterprise) during the whole JV forming process.
- ✓ Taking full project management responsibility in the process of finding a suitable partner and executing the JV formation for a Chinese client.

    1) Determining objectives and designing a process strategy.

[315] Own illustration
[316] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz

2) Research and screening of partner candidates for Chinese client.
3) Establishing contact with partner candidates and obtaining relevant information.
4) Performing valuation analysis and due diligence.
5) Creating transaction proposals.
6) Negotiations result to signing and closing of the transaction.

- ✓ Providing post-merger integration support.
- ✓ Services are not limited to specific industries or technologies.

Value Propositions for Mergers & Acquisitions

- ✓ Working closely with both buy-side and sell-side parties during the whole process.
- ✓ Taking full project management responsibility in the process of finding suitable targets and executing the acquisition for the Chinese client.
  1) Determining objectives and designing a process strategy.
  2) Research and screening of acquisition candidates in Germany.
  3) Establishing contact with acquisition candidates and obtaining relevant information.
  4) Performing valuation analysis and due diligence.
  5) Creating transaction proposals.
  6) Negotiations result to signing and closing of the transaction.
- ✓ Providing post-merger integration support.
- ✓ Services are not limited to specific industries or technologies.

Value Propositions for Greenfield Investment

- ✓ Taking full project management responsibility in the process of finding a suitable greenfield and executing the company set up for a Chinese client.
  1) Determining objectives and designing a process strategy.
  2) Research and screening of suitable business locations in Germany.
  3) Recommendation and coordination of a legal company set up (e.g. GmbH).
  4) Advice and assistance in all necessary approvals and administrative activities.

5) Providing further necessary services (recruiting suitable staff, etc.).

✓ Services are not limited to specific industries or technologies.

5.3 Marketing Channel

The Marketing Channel describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.[317]

The term Channel is often used interchangeably with communication, marketing, distribution and sales Channels. Channels play an important role in the customer experience as they are a company's interface with them. As agreed with Mr. Geithner, the focus of this thesis will be in particular about marketing Channels, which serve in raising awareness among customers about company’s new products or services and in delivering a Value Proposition to customers.[318]

For DKSH, it is necessary at the beginning to promote its new strategy of market entry consulting service for Chinese companies at fairs, exhibitions and trade shows. This is a very good opportunity to share experience and expertise, to show DKSH capabilities and to meet potential clients. COIFAIR, M&A and China Outbound Investment Conference, China Global Outbound Investment Summit, China International Fair For Investment and Trade are some of the most important trade shows and fairs in China.[319]

Another way to make Chinese companies aware of the new service offered by DKSH is to print flyers or publish online relevant articles about market entry consulting for Chinese companies. In addition, it is advisable to publish articles on various German-related topics such as market entry and market growth strategies for Germany, market trends in key industries or regulatory updates relevant to Chinese investments. Not necessary but an option could be to host Chinese delegations visiting Germany for the purpose of market investigation, network development or institutional exchange.[320]

A further marketing Channel is to design a program of lectures and workshops about German-related topics for Chinese investors, for example how to do business in

[317] Cf. Osterwalder/Pigneur (2010), p.26
[318] Ibidem
[319] Discussion with Mr. Geithner (Business Development Manager), 10.10.2012, Shanghai
[320] JLJ Group Consulting et al. (2012), p.20

Germany, promotion of specific key regions and their advantages, success stories of Chinese companies entering the German market, etc.[321]

Appendix A provides further information about Marketing Channels. A collection of data is given such as a list of events, conferences, exhibitions and trade fairs or links to websites where ongoing news about Chinese companies going global can be read.

5.4 Customer Relationships

The Customer Relationships Building Block describes the ways in which a company deals and communicates with specific Customer Segments. A company should clarify the type of relationship it wants to establish with each Customer Segment as relationships can vary from personal to automated.[322]

DKSH has to be in constant communication with its Chinese clients. It needs to provide updates, keep everyone informed and provide a forum for questions, e.g. through meetings, e-mails, telephone, web-conferences, newsletters, etc. Nevertheless, face-to-face contact should not be underestimated.[323]

One of the most important key ingredients to success is customer satisfaction. Therefore, it is inevitable to ask questions and request feedback of management, customers, suppliers or business partners.[324]

Monitoring and tracking of the client is another aspect. DKSH has to review the performance of the new entity in order to ensure that a successful integration has been completed and objectives have been achieved, for example growth in market share, performance in sales and profitability, reduction in operating and overhead costs, etc.[325]

Many cross-border investments fail due to the lack of cross cultural management. Hence, DKSH needs to provide conflict management and intercultural coaching to its Chinese clients.[326]

[321] Discussion with Mr. Geithner (Business Development Manager), 10.10.2012, Shanghai
[322] Cf. Osterwalder/Pigneur (2010), p.28
[323] Cf. http://www.lma-consultinggroup.com/, accessed on 12.10.2012
[324] Ibidem
[325] Discussion with Mr. Geithner (Business Development Manager), 10.10.2012, Shanghai
[326] Ibidem

5.5 Revenue Stream

A Revenue Stream is a method that a company uses to generate money from each Customer Segment. If customers represent the heart of a business model, Revenue Streams are its arteries. A company must ask itself, for what value a customer is truly willing to pay. Answering this question allows a company to generate one or more Revenue Streams from each Customer Segment.[327]

To cover the efforts for screening the market for attractive investment opportunities and making available DKSH's entire business network to the client, a fixed fee or commission will be applied.[328]

For the support of a corporate acquisition, structuring a JV or a company set up, an advisory service fee will be charged. Thus, DKSH works on the basis of billable hours. In case a company is identified and acquired (directly through a M&A), a success fee will be absorbed, depending on the size of the transaction value, but usually between 20 percent to 30 percent. Optional, shares of the newly formed enterprise (e.g. get a board seat) or shares of profits for the next 10 years can be asked. In case a company is identified and acquired (indirectly through a JV), a success fee or shares of profits for the next 10 years will be applied. However, in case a Greenfield Investment is identified and acquired, a success fee (depending on value) or shares of the company or profits for the next 10 years could also be used as a Revenue Stream.[329]

In addition, all three business models have in common that all itemized costs (e.g. travel costs) will be reimbursed separately. Moreover, DKSH can use client's name as a reference and publish success stories.[330]

5.6 Key Resources

The Key Resources describe the most important assets required to make a business model work. Key Resources can be physical, financial, intellectual or human as well as be owned or leased by the company or acquired from Key Partners.[331]

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327 Cf. Osterwalder/Pigneur (2010), p.30
328 Telephone conference with Mr. Geithner (Business Development Manager), 08.11.2012, Shanghai and Graz
329 Cf. Enter Germany et al. (2012), p.3
330 Telephone conference with Mr. Geithner (Business Development Manager), 08.11.2012, Shanghai and Graz
331 Cf. Osterwalder/Pigneur (2010), p.34

Every business model requires Key Resources that allow a company to create and offer a Value Proposition, maintain relationships with Customer Segments, reach markets and earn revenues. Different Key Resources are required depending on the type of business model that is used. For instance, a designer focuses more on human resources, whereas a manufacturer requires capital-intensive production facilities.[332]

DKSH needs to use its internal expertise and know-how and create a senior team of experts. However, it will be necessary to hire additional employees in China and Germany who will be supportive on-site and who provide support to help guide a deal toward a successful conclusion. Such additional staff needs to be qualified as lawyers, risk management and banking professionals, accountants or legal and tax advisors. Necessary qualifications of such workforce are strong proficiency in accounting, finance, law, strategy and business, as well as strong negotiation and leadership skills, high intercultural management competence and experience. Furthermore, to be bilingual in German and Chinese and to have medium to high know-how and expertise of the German market is an advantage.[333]

Physical resources include offices in China and Germany and necessary equipment (desk, chair, laptop, internet connection, telephone, printer, etc.) for staff. Intellectual resources however indicate for instance a database system that provides necessary information of M&A offers in Germany. Financial resources contain the salary of extra hired staff and if necessary to borrow loans from the bank.[334]

5.7 Key Partners

Key Partners describe the network of suppliers and partners that make the business model work. Key Partners are becoming a cornerstone of many business models. Companies contract partnerships for several reasons, such as to optimize their business models, acquire resources or reduce risks.[335]

Because DKSH has not yet the necessary resources available and in order to assure reliable supplies of certain services, DKSH has to cooperate with certain Key Partners. DKSH needs to cooperate with embassies and consulates that provide consular services, e.g. for visa questions. Furthermore, DKSH should cooperate with

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[332] Ibidem
[333] Telephone conference with Mr. Geithner (Business Development Manager), 08.11.2012, Shanghai and Graz; http://www.investopedia.com/, accessed on 10.10.2012
[334] Telephone conference with Mr. Geithner (Business Development Manager), 08.11.2012, Shanghai and Graz
[335] Cf. Osterwalder/Pigneur (2010), p.38

German government agencies, e.g. Germany Trade and Invest, IXPOS - German Business Portal or German Center for Market Entry, which support and consult Chinese investors with investment projects in Germany. Besides, cooperation with industry associations or chambers of commerce, e.g. German Engineering Federation (VDMA), Association of German Engineers (VDI) or German Machine Tool Builders' Association (VDW), provide information about business opportunities in Germany. Additionally, DKSH needs to cooperate with experienced and qualified partners that offer services in sectors which are shown in Figure 5-6.[336]

Key Patners of DKSH

Tax & Finance Consulting

- ✓ Corporate Tax Planning
- ✓ Ensuring Tax Compliance
- ✓ Tax Registration
- ✓ Accounting System Setup
- ✓ Tax Filing & Payments
- ✓ Assistance in Capital Verification
- ✓ Assistance in Government Tax Inspections
- ✓ Assistance in Annual Audits
- ✓ Book-Keeping & Financial Statement Generation

Legal Counsel

- ✓ Legal Setup Options Advisory
- ✓ Location Search & Selection
- ✓ Business Setup Registration
- ✓ German Company Naming
- ✓ Special License Application
- ✓ Trademark Registration
- ✓ Regulatory Compliance
- ✓ Government Relations Building
- ✓ Preferential Policies Negotiation

HR Consulting & Recruiting

- ✓ Payroll Solutions
- ✓ Talent Dispatching & Staffing
- ✓ HR Agency Services
- ✓ HR Management Advisory
- ✓ Employee Handbook Drafting
- ✓ Labor Law & Regulatory Compliance Advisory
- ✓ Visa / Permit Application & Renewal

Figure 5-6: Key Partners and their functions[337]

Relationship Management and partnership with regional economic development corporations of the federal states of Germany is also advisable. A list of all 16 regional

[336] Telephone conference with Mr. Geithner (Business Development Manager), 08.11.2012, Shanghai and Graz
[337] htp://www.jljgroup.com/, accessed on 10.10.2012, own illustration

economic development corporations with their names and links to their website is given in the Appendix B.[338]

5.8 Key Activities

The Key Activities describe the most important things a company must do to make its business model work. Every business model requires a certain number of Key Activities. They are the most important actions a company must take to operate successfully and are necessary to create and offer a Value Proposition, maintain Customer Relationships, reach markets and earn revenues.[339]

Figure 5-7 shows the Key Activities and value-added services along a market entry in Germany for Chinese firms. This step-by-step approach will be utilized by DKSH.[340]

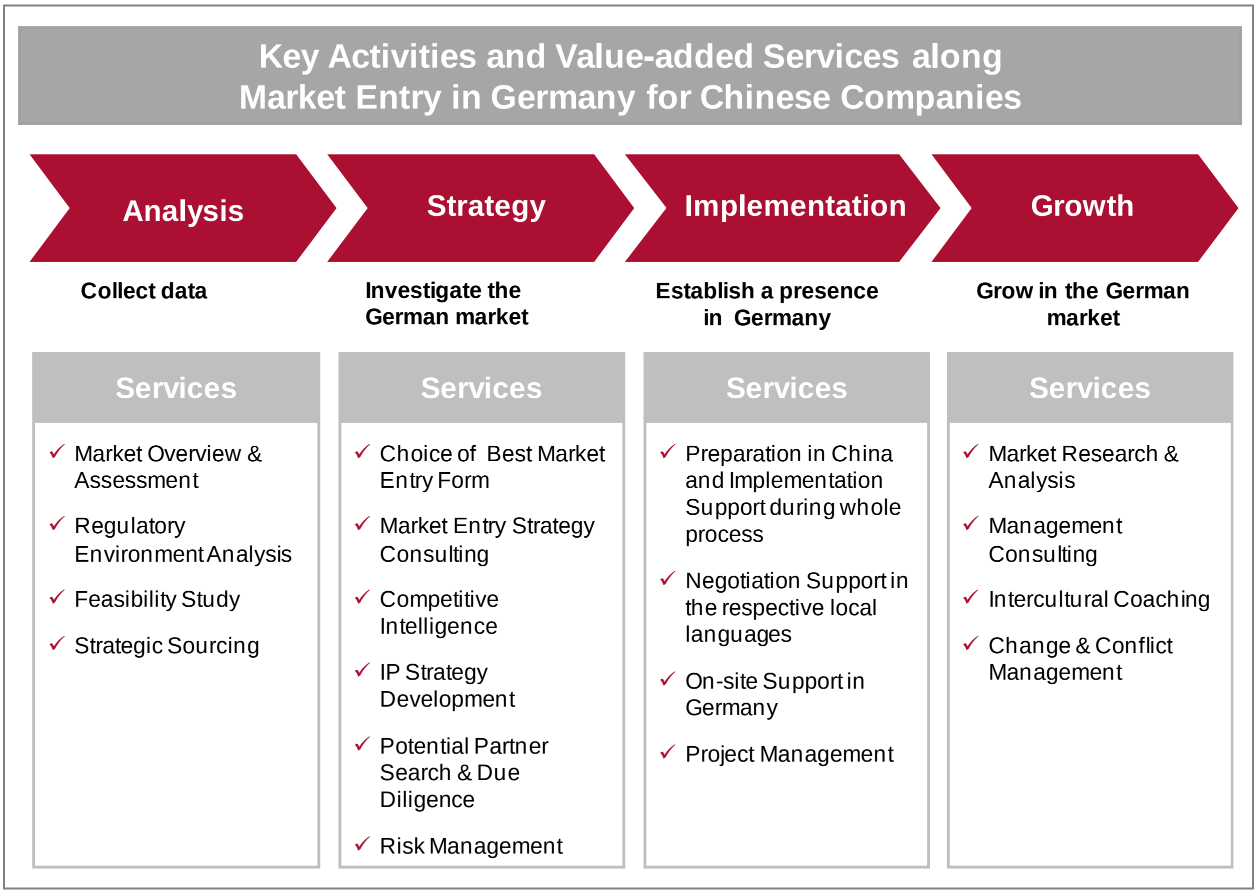

Figure 5-7: Key Activities and value-added services along a market entry in Germany[341]

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[338] Cf. http://www.ixpos.de/, accessed on 19.10.2012
[339] Cf. Osterwalder/Pigneur (2010), p.36
[340] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz
[341] Own illustration

Key Activities for the business model of a Joint Venture are shown in Figure 5-8. Color red indicates that DKSH is performing these tasks whereas color blue means that a partner is performing these tasks. Overall, it depends if resources are available on the part of DKSH or if it has to be outsourced to a partner.[342]

JV Key Activities

1. **Client identification & qualification:** Identify and contact client proactively and communicate business opportunities in Germany.
2. **JV partner identification:** Screen the German market and identify prospective partners for client.
3. **JV partner list & ranking:** Short listing of prospective partners and some sort of ranking as well as confirm with client.
4. **JV contact:** Initiate contact with the partner.
5. **Coordinate & support of negotiation:** Support client with initial introductory discussions and provide negotiation support on behalf of the client in respective local language.
6. **Perform a comprehensive Due Diligence:** Evaluate and confirm financial & operational information, conduct legal risk assessments of partner company.
7. **Provide JV and corporate finance advice:** Obtain required regulatory approvals and handle confidentiality contracts on behalf of the client.
8. **Resolve transaction issues** throughout the process.
9. **Support in setting up** necessary infrastructure in Germany (if required).
10. **Provide post-merger integration support:** Address rumors and questions that may arise within post-merger integration.

Figure 5-8: Key Activities for Joint Venture[343]

[342] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz
[343] Cf. Enter Germany et al. (2012), p.3, own illustration

Key Activities for the business model of a Merger & Acquisition are shown in Figure 5-9 below. They are similar to the Key Activities of a Joint Venture and differ only slightly.

M&A Key Activities

1. **Client identification & qualification:** Identify and contact client proactively and communicate business opportunities in Germany.
2. **M&A identification:** Screen the German market and identify most suitable / attractive investment opportunity for client.
3. **M&A contact:** Initiate contact with the seller / target.
4. **Coordinate & support of negotiation:** Support client with initial introductory discussions and provide negotiation support on behalf of the client in respective local language.
5. **Perform a comprehensive Due Diligence:** Evaluate and confirm financial & operational information, conduct legal risk assessments of target company.
6. **Provide M&A and corporate finance advice:** Obtain required regulatory approvals and handle confidentiality contracts on behalf of the client.
7. **Resolve transaction issues** throughout the process.
8. **Support in setting up** necessary infrastructure in Germany (if required).
9. **Take a board seat** on the acquired company to represent interest of the client (if desired).
10. **Provide post-merger integration support:** Address rumors and questions that may arise within post-merger integration.

Figure 5-9: Key Activities for M&A[344]

[344] Cf. Enter Germany et al. (2012), p.3, own illustration

Key Activities for a Greenfield Investment are illustrated in Figure 5-10.

Greenfield Investment Key Activities

1. Advice on the choice of business location.
2. Support in administrative actions (e. g. opening a bank account, wholesale license).
3. Formation of a German Limited Liability Company (GmbH) (to be carried out by a partner law firm): GmbH is the most popular and suitable legal form – more flexibly structured and adapted to specific purposes.
4. Coordination of the activities of partner law firm during the legal company set up: Services provided of a partner law firm would comprise the following:
   - ✓ Preparation of the articles of the GmbH
   - ✓ Preparation of the list of the initial shareholders
   - ✓ Legal support during the notarization of the articles of GmbH
   - ✓ Appointment of the managing director(s)
   - ✓ Payment of the minimum share capital and opening of bank account
   - ✓ Examination of the compatibility of the name of the GmbH
   - ✓ Preparation of the application for registration in the commercial register
5. Recommendation and coordination of further required service providers like tax accountants.
6. Support in finding suitable staff.
7. Support in further necessary services

Figure 5-10: Key Activities for Greenfield Investment[345]

5.9 Cost Structure

The Cost Structure describes the most important costs incurred while operating a business model. For instance, creating and delivering a Value Proposition or maintaining Customer Relationships all incur costs. However, such costs can be easily calculated after defining Key Resources, Key Activities and Key Partnerships.[346]

It was decided with the Top Management from DKSH, that it is rather difficult to define at this early stage of development of business models. Therefore, it was agreed that the

[345] Cf. Enter Germany et al. (2012), p.3, own illustration
[346] Cf. Osterwalder/Pigneur (2010), p.40

Cost Structure hasn't be defined yet from my side but for sure has to be developed at some later stage.[347]

[347] Video conference with Dr. Langenberg (Vice President and General Manager of DKSH Business Unit Technology China) and Mr. Geithner (Business Development Manager), 18.12.2012, Shanghai and Graz

6 Summary

The thesis provides a profound understanding of the most important aspects of starting business activities in Germany for Chinese companies. Moreover, the thesis suggests DKSH Business Unit Technology China main strategies for assisting and consulting Chinese companies in going global, either through Joint Venture, Mergers & Acquisitions or Greenfield Investment.

Three business models have been created for the different entry modes. The focus of these business models have been in Customer Segments, Value Propositions, Marketing Channel, Customer Relationships, Revenue Stream, Key Resources, Key Partners, Key Activities and the Cost Structure. Several areas show similarity between the three entry modes. However, the areas of Value Propositions, Revenue Stream and Key Activities have to be further defined for each kind of business model.

Until now, the impact of Chinese investment in the European economy and industry is still limited. The surge in Chinese takeovers of European, in particular German enterprises, mostly small and family owned companies, should not affect the core competitiveness of the European industry.

Hostile takeovers by Chinese firms are also extremely rare and European owners are usually happy to relinquish control of under-performing assets. Therefore, Chinese investment should be treated in such a way that it contributes to a restructuring process. With the participation of Chinese investors, struggling companies get the opportunity to succeed in carrying out a restructuring process that might avoid or limit employment losses.

However, Chinese investors are often not in a position to handle the difficulties associated with cultural differences as well as with the challenge of turning around ailing European and German companies (such as the differences in corporate governance structure, the role of labor unions or views toward intellectual property rights). The lack of organizational and management skills remains the biggest problem for Chinese investors.

Moreover, Chinese Foreign Direct Investment is a sign of weakness, not strength. Due to the poor record of innovation in China, although improving, Chinese FDI is driven partly by the need to find new markets given the rising competitive pressure within the home market and the related need to acquire strategic assets abroad.

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10 List of Figures

11 List of Tables

12 List of Abbreviations

BRIC	Brazil, Russia, India, China
CEO	Chief Executive Officer
COI	China Outbound Investment
COIFAIR	Chinese Overseas Investment Fair
DKSH	DiethelmKellerSiberHegner
ECB	European Central Bank
FDI	Foreign Direct Investment
GM	General Motors
HR	Human Resource
IMF	International Monetary Fund
JV	Joint Venture
M&A	Mergers and Acquisitions
MIT	Massachusetts Institute of Technology
MNE	Multinational Enterprise
MOFCOM	Ministry of Commerce of China
MOFTEC	Ministry of Foreign Trade and Economic Cooperation of China
NDRC	National Development and Reform Commission of China
ODI	Outward/Outbound Direct Investment
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturing
OFDI	Outward/Outbound Foreign Direct Investment
PC	Personal Computer
R&D	Research and Development
SAFE	State Administration of Foreign Exchange of China
SOE	State-owned Enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
UNCTAD	United Nations Conference on Trade and Development

USD	United States Dollar
VDI	Association of German Engineers (Verein Deutscher Ingenieure)
VDMA	German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau)
VDW	German Machine Tool Builders Association (Verein Deutscher Werkzeugmaschinen)
WTO	World Trade Organization
XCMG	Xuzhou Construction Machinery Group

Appendix A – Market Channels

DCW - Deutsch Chinesische Wirtschaftsvereinigung
http://www.dcw-ev.de/de/veranstaltungen.html Shows upcoming events regarding investment in Germany and China.
5th CEOIC, Chinese Enterprises Outbound Investment Conference, Beijing, April 27-28 2011
http://en.ce.cn/subject/5thceoic/index.shtml
2012 China Global Outbound Investment Summit
http://www.china-enterprise-forum.com
17th China International Fair For Investment and Trade
http://www.chinafair.org.cn/english/index/index.aspx
M&A and China Outbound Investment Conference
http://www.goldenfinance.com.cn/fenghui_summit-2012815_en.html

Appendix A-1: List of events, conferences, exhibitions and trade fairs

China Invests Overseas	http://china-invests.net/index.aspx Offers investment news, gives recommendation for investment destinations and projects.
China Economic Net	http://en.ce.cn/ Provides accurate news stories and reliable information services.
Deutschland-Telegramm	http://www.dcw-ev.de/de/china-infos/deutschland-telegramm.html The Germany-Telegram is published by the German-Chinese Business Association and contains the latest information for Chinese companies with planned or existing investment or trade projects in Germany and Europe. The pdf version of the current issue can be downloaded on www.dcw-ev.de or www.germany-telegramm.de

Appendix A-2: Ongoing news about Chinese companies going global

Ministry of Commerce	http://english.mofcom.gov.cn/
Ministry of Foreign Affairs	http://www.fmprc.gov.cn/
Ministry of Commerce	http://www.mofcom.gov.cn/
National Bureau of Statistics (NBS)	www.stats.gov.cn/english/
National Development Reform Commission	http://www.sdpc.gov.cn/
People's Bank of China	http://www.pbc.gov.cn/
China Council for the Promotion of International Trade	http://www.ccpit.org/
China Trade Directory	http://www.bizchinanow.com/Contents/Channel_1839/2007/0905/61997/content_61997.htm

Appendix A-3: Chinese government agencies

Appendix B – Key Partners

Federal State	Regional Economic Development Corporation	Link
Baden-Württemberg	Baden-Württemberg International	www.bw-i.de
Bavaria	Business Promotion Agency of the State of Bavaria	www.invest-in-bavaria.com
Berlin	Berlin Partner GmbH	www.berlin-partner.de
Brandenburg	ZukunftsAgentur Brandenburg GmbH (ZAB)	www.zab-brandenburg.de
Bremen	Wirtschaftsförderung Bremen GmbH (WFB)	www.wfb-bremen.de
Hamburg	Hamburg Business Development Corporation (HWF)	www.hamburg-economy.de
Hessen	HA Hessen Agentur GmbH	www.invest-in-hessen.de
Mecklenburg-Vorpommern	Invest in Mecklenburg-Vorpommern GmbH (MV !NVEST)	ww.gfw-mv.de
Niedersachsen	Innovatives Niedersachsen GmbH	www.nds.de
Nordrhein-Westfalen	NRW.INVEST GmbH	www.nrwinvest.com
Rheinland-Pfalz	Investitions- und Strukturbank Rheinland-Pfalz GmbH (ISB)	www.isb.rlp.de
Saarland	Gesellschaft für Wirtschaftsförderung Saar mbH (GWSAAR)	www.invest-in-saarland.com
Saxony	Wirtschaftsförderung Sachsen GmbH (WFS)	www.wfs.sachsen.de
Saxony-Anhalt	Investitions- und Marketinggesellschaft Sachsen-Anhalt mbH (IMG)	www.investieren-in-sachsen-anhalt.de
Schleswig Holstein	Wirtschaftsförderung und Technologietransfer Schleswig-Holstein GmbH (WTSH)	www.wtsh.de
Thuringia	Landesentwicklungsgesellschaft Thüringen mbH (LEG)	www.leg-thueringen.de

Appendix B-1: Regional economic development corporations of all 16 federal states of Germany[348]

Name	Details
BDO	http://www.bdo.de/en/industries/ Leading company for audit and audit related services, tax consulting and business law consulting as well as advisory services.
German Trade and Invest	http://www.gtai.de/GTAI/Navigation/EN/invest.html The country's foreign trade and investment promotion agency, based in Berlin and Cologne. For information about visa regulations, business setup, incentive programs, employees and social security, tax system, legal framework and much more.

[348] http://www.ixpos.de/, accessed on 10.12.2012

Name	Details
IXPOS - German Business Portal	https://www.ixpos.de/IXPOS/Navigation/EN/community.html IXPOS is a service from German Trade and Invest and initiated by the Federal Ministry of Economics and Technology. Provides relevant industry links in Germany and practical information in the following areas: Marketplace Germany, Market Entry, Business Sectors, Contacts and Networks, EU Service Market.
German Center for Market Entry	http://www.entergermany.com/ "Enter Germany" is the market entry service for foreign companies provided by the German Center for Market Entry. They offer advisory and project management services for foreign companies planning to enter the German or European market.
Industrial Initiative for Central Germany	http://www.mitteldeutschland.com/index.php?id=1&L=1 The Industrial Initiative for Central Germany brings together key corporations, business chambers and local authorities from Saxony, Saxony-Anhalt and Thuringia with the common aim of promoting the successful development and marketing of the traditional economic region of Central Germany.
CHINA GO ABROAD - Where China meets the world	http://www.chinagoabroad.com/#axzz26yhGI9CM Regardless of industry or country, a successful investment requires proper, professional, experienced and reliable advice at each stage. CGA provides its members with access to leading service providers in areas such as Legal, Tax, Management Consulting, Dispute Resolution, Investigations & Due Diligence, Public Relations, Employment & Human Resources.
CCG - Center for China and Globalization	http://www.ccg.org.cn/ccg/ccgen/index.html CCG is a non-profit and independent think tank. It is a pool of first-class scholars, business leaders and public policy experts from both China and abroad, addressing issues of challenges and opportunities on how China is developing in the process of globalization.
Chinese Enterprises Association NRW e. V.	http://www.cea-nrw.com/de/ An association founded due to the increase of Chinese companies in North Rhine-Westphalia. The task is to create a positive, international image of Chinese enterprises in North Rhine-Westphalia, to provide assistance of any kind to its members and to act as a bridge and interface between Chinese companies, government and other social institutions.
China Industry Overseas Development & Planning Association	http://www.ciodpa.org.cn/En_intro.asp The Association promotes expanding of overseas investment to certain domestic industries. See III - Scope of Services.
China Investment Corporation (CIC)	http://www.china-inv.cn/cicen/about_cic/aboutcic_overview.html China Investment Corporation (CIC) is an investment institution. As a commercial investment institution, CIC has full operational independence and makes its investment decisions based on its assessment of economic and financial objectives. CIC selects investments based on established investment principles and values. CIC usually does not take a controlling role - or seek to influence operations - in the companies in which it invests. CIC's investments are not limited to any particular sector, geography, or asset class and include equity, fixed income, and alternative assets.
ICBC	http://www.icbc.com.cn/icbc/newsupdates/icbc%20news/ICBC%20Launches%20Innovative%20Financial%20Services%20to%20Support%20Companies%20Going%20Global.htm Launches innovative financial services to support companies "Going Global".
HSBC	http://www.hsbc.com.cn/1/2/commercial-banking/international-banking/cmbintl?WT.ac=CNQ_h2id81h1152827# China Desk supports Chinese companies "Going-out" by providing international solutions.

Name	Details
Simmons & Simmons	www.simmons-simmons.com Is a leading international law firm with offices in Europe, the Middle East and Asia. With experience of over 30 years in China, they advise both German companies, which are active in China, as well as Chinese investors seeking a foothold in Germany and Europe. Specialized in asset management and investment funds, energy and infrastructure, financial institutions, life sciences and technology, media and telecommunications. This means that clients benefit from a law firm fully focused on their sector and wholly understanding of the challenges that they face.

Appendix B-2: Key Partners

Name	Details
Standortinformations-system Hessen	http://www.standorte-in-hessen.de/ http://www.invest-in-hessen.de http://www.hessen-agentur.de/dynasite.cfm?dssid=3470 "Location Information Hesse" provides information for investors on issues of location choice for individual selection criteria and an overview of available land and site conditions in Hesse.
CHINA GO ABROAD - Where China meets the world	http://www.chinagoabroad.com/investment#axzz2Bb4A9QlT Shows an overview of investment projects worldwide (buy and sell).
Euro-Asia Corporate Consultancy	http://www.euro-asia-business.net/merger-search.aspx Shows an overview of acquisitions available. http://www.euro-asia-business.net/search-property.aspx Shows property offers / sellers and property seekers / buyers.

Appendix B-3: Search for properties in Germany and elsewhere

Appendix C – Competitors of DKSH

Name	Details
BDO	http://www.bdo.de/en/services/china-desk/chinese-companies-in-germany/ BDO offers a program called "Chinese Companies doing business in Germany". It advises Chinese companies on the following issues: Start-ups, Acquisition of companies, IPOs of Chinese companies at the German stock exchange.
Berners Consulting	http://www.berners-consulting.net/site/ Berners Consulting is a management consulting firm with a mission of adding value to its customers by providing entry market strategies, partner search and management, M&A support, PMO & operations installation and optimization in Germany, Brazil and China. It supports Chinese companies, especially private medium-sized companies, with their investments in Germany. Also, it supports German location marketing agencies in creating concepts for attracting investors and in managing investor relations.
Euro-Asia Corporate Consultancy	http://www.euro-asia-business.net/about-us.aspx The EURO-ASIA corporate advisory offers individual solutions to business requirements spanning the Europe and Asia regions. Their strength is in the commercial and technical competence compounded with the cross cultural expertise. They focus on the Indo-German, China-German, German-Arabic and Indo-Euro consultancy as a whole. Euro-Asia offers solutions in new business start or a manufacturing plant establishment, a land purchase or a building / office deal, legal ongoing disputes or restructuring, mergers or JV starts, engineering developments or the cross cultural management.
China Overseas Investment Network - Ernst & Young	http://www.ey.com/GL/en/Services/Specialty-Services/China-Overseas-Investment-Network Chinese businesses that plan to invest overseas and international companies that aim to enter or expand into the China market face a wide range of challenges. Ernst & Young offers a wide spectrum of professional services to help address these challenges.
KMPG - The Global Solutions Group	http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/documents/CIF-3-Global-solutions-group-MA-market-entry-201010.pdf KPMG Advisory (China) Limited, Ogilvy PR, Ascension Capital Group, Jones Day, and MRI China Group have developed a joint service offering that is designed to assist Chinese companies as they expand abroad and multinational corporations as they enter or expand operations in China.
US Pacific Rim International (USPRI)	http://www.us-pacific-rim.net/ An American consulting company that provides a full array of services to international companies interested in marketing and selling their products, technologies, services and investment projects in China. In addition, USPRI now leverages its broad network and cultural knowledge to identify and qualify Chinese investors for overseas investment opportunities.
Aigo Entrepreneurs Alliance	http://aea.aigo.com/AigoWebsite/index.asp ONLY in Chinese available at the moment! An alliance of private-sector companies with offices in Europe to aid and advise other Chinese companies investing in the continent. Feng Jun, president of Aigo Digital Technology, who founded the alliance in 2011, said private companies should help each other expand overseas. The alliance has about 100 members, with many more set to join, including companies that have already set up an overseas presence. He feels that overseas subsidiaries of Chinese businesses must create value for local communities. Consequently, Feng encourages the alliance's members to expand through joint ventures with foreign companies, rather than acquisitions.

Name	Details
China Business Network (CBN)	http://www.chinabn.org/business/ Among its many activities, CBN focuses on providing foreign businesses with expert consulting services and effective marketing activities in China while supporting many groups of officials, investors and business executives going abroad to invest, finding business partners, attending exhibitions or simply for incentive travel overseas.

Appendix C-1: Competitors of DKSH that offer consultancy services for Chinese companies going abroad