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Foreign direct investment in China - good prospects for German companies? China Special

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- Up to 2003, German companies had invested an estimated EUR 7.9 bn in China. Even though this constitutes a tenfold increase from 1995's figure of EUR 800 m, German investments in China account for only 1.2% of total German FDI.
- In an international comparison, investment flows from Germany to China were relatively small. China's neighbours – South Korea, Taiwan and Japan – and the USA have invested considerably higher amounts in the emerging economic powerhouse. In Europe, though, Germany has overtaken the UK as the top investor in China.
- There are three main clusters of German firms' investment activity: 1) The greater Shanghai area/Yangtze River Delta, 2) the industrialised North East, and 3) the Pearl River Delta. In addition, many companies have a representative office in Beijing.
- Most firms cite China's huge market potential and low-cost manufacturing possibilities as the main reasons for doing business there. China's accession to the WTO was a major driving force for German investment.
- Significant obstacles remain: legal uncertainty and limited market transparency. Moreover, firms are burdened by high prices for electricity and raw materials, and fierce international competition is keeping a lid on profit margins. In the medium term, Chinese companies will turn into serious competitors, particularly in the lucrative mass-production segment.
- A survey conducted among Germany's largest companies revealed that German investment in China could more than double in the period to 2010, to approx. EUR 20 bn. However, many of the large investment programmes are planned to be built up in several steps and often need to be largely self-financing.
- According to the survey, German companies hold widely differing views on their China involvement. Three different assessments, with roughly the same weighting, can be identified: 1) China is an essential part of our business strategy; 2) business in China – yes, but not at any cost; and 3) China is of little importance at present.
- There are, in our opinion, both positive and negative prospects for German investment in China: recent investment flows show that more and more German companies find China attractive. On the other hand, there are rising concerns about excess capacities and decreasing investment efficiency (measured by the "Incremental Capital Output Ratio", ICOR). The profitability of existing investment has in many cases yet to materialise.
- At the end of 2003, Chancellor Schröder signed a new German-Chinese treaty on the protection and promotion of investment with a view to fostering bilateral economic relations. The treaty provides an improved regulatory framework that complies with international investment protection standards.

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Trade relations between Germany and China are expanding steadily. More than 1,500 German companies are currently represented in China. In 2002, China overtook Japan as Germany's most important trading partner in Asia: the volume of trade with China amounted to EUR 28 bn, while the figure was slightly lower (EUR 27 bn) for Japan. In 2003, this gap widened further (see chart). China's accession to the World Trade Organization (WTO) in early 2002 marked the start of a process to dismantle trade barriers and significantly improve access to the Chinese market. The opening of this rapidly growing market of 1.3 billion people has lured in an enormous number of companies and investors from all over the world, including German firms. Not surprisingly, there has been a boost not only to trade relations but also to German foreign direct investment into China. As an emerging market, China is benefiting from the flow of goods and investment from abroad which will support future growth.

This report looks at the German contribution to future investment flows to China. After evaluating a few stylised facts, we will analyse incentives and obstacles to future German investment in China. Subsequently, we will give an outlook on German investment plans in China until 2010.

I. German investment in China – stylized facts

Germany is China's most important European trade partner and ranks sixth internationally. In 2003, German companies were the 7th largest investors in China and were thus the top investors from Europe.

Up to 2003, German companies had invested an estimated EUR 7.9 bn in China (according to the latest Bundesbank statistics, the stock of FDI reached EUR 6.3 bn by 2002). Although this constitutes a tenfold increase from 1995's figure of EUR 800 m, German investments in China account for only 1.2% of total German FDI. According to the Bundesbank, the bulk of German FDI still goes to the EU and the US, each attracting about 40% of the total. For a while, there was an obvious bias in favour of the US (see chart). In Asia, the focus of German investors rests no longer just on Japan but increasingly also on China.

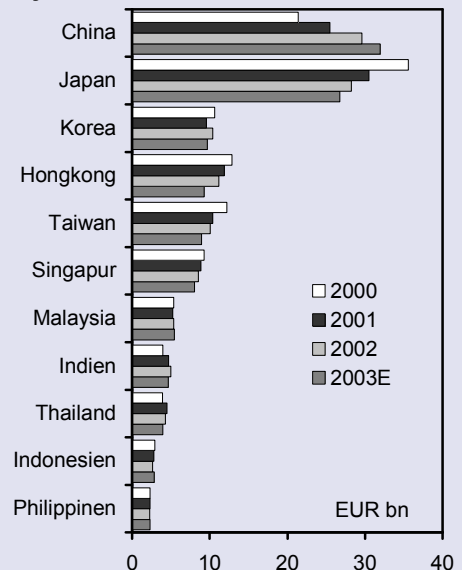
In an international comparison, investment flows from Germany to China were relatively small. Apart from Hong Kong, which channels large volumes of FDI from other countries to China, considerably higher investments came from South Korea, Taiwan and Japan – as well as the US. However, Germany has overtaken the UK as the top European investor (see chart on p. 3).

Asia becoming more attractive to German investors?

A pan-Asian comparison (ex-Japan) reveals that since 1997 China has outstripped all other emerging countries of Asia with regard to German investor interest. Taken together, the two financial hubs and entrepôts – Singapore and Hong Kong – are still the main destinations for German investment in Asia (see chart p. 3). But generally, German investors have seriously neglected China's neighbours: since the mid-1990s, only about 3% of total German FDI has trickled to Singapore, Hong Kong, South Korea, Malaysia, India, Thailand, Taiwan, Indonesia and the Philippines. Including China, the Asian share in German FDI rises to c. 4% (incl. Japan, the figure is 5-6%).

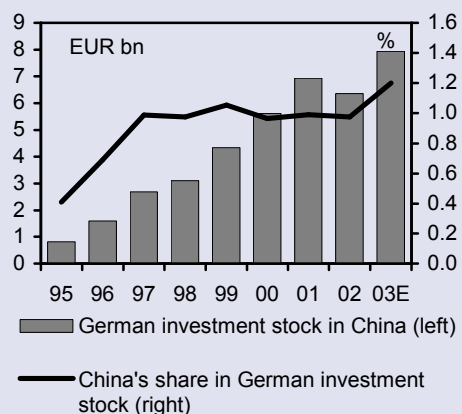
If one compares these figures with other emerging markets regions such as Eastern Europe or Latin America, it is obvious that the Asian

German-Asian trade dominated by China



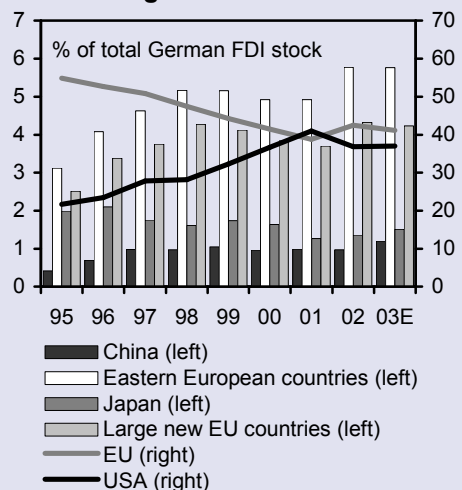
Source: Direction of Trade Statistics (IMF)

German investment in China



Sources: Deutsche Bundesbank, DB Research estimates

Overall German investment in China insignificant



Sources: Deutsche Bundesbank, DB Research estimates



emerging markets played only a subordinate role up to the end of the 1990s (see chart). Of the 14-15% of German FDI that went to emerging markets, Asia received less than one-third for a long time. There are indications, though, that this is about to change: the economic difficulties encountered by Latin America are resulting in declining investor interest in the region. One of Eastern Europe's most attractive features is its geographic proximity to Germany, but many investment opportunities there have already been taken up. In the past, German investors have placed particular emphasis on similar degrees of development (i.e. other industrial countries) and geographical proximity (EU and Eastern Europe). Today, in light of Asia's high growth rates and the fact that the region is home to 45% of the world's population, German companies are increasingly recognising its great potential. This could result in increasing investment activity in the future.

Most investors are from the manufacturing industry

Roughly two-thirds of all German investors are manufacturing firms, mostly from the automotive, electrical engineering, chemicals and mechanical engineering sectors (as of 2002, see chart p. 4). The pioneers were leading enterprises like Siemens, Bayer and Volkswagen, some of which look back on over 100 years of doing business in China. Although the services sector accounts for only 3%, the gradual opening of the Chinese services market to foreign firms since China's WTO accession in late 2001/early 2002 has seen more German firms discovering the Chinese market. Today, large services firms such as Metro (wholesale and retail trade), Allianz (insurance), Deutsche Post's DHL subsidiary (logistics), TUI (travel) and most large German banks are present in the Chinese market.

Given the industrial background of most German investors and China's reputation as the world's „assembly line" it can hardly come as a surprise that over 80% of all investment in China went to the manufacturing sector, especially the automotive, steel and chemical industries (see chart p. 4).

An estimated 10-20% of investors were small and medium-sized enterprises. Hence, the majority of German investments were made by large companies which have long-standing business ties with China – ten years on average. Many of these companies invested in large-scale projects. Today, many investments go towards transforming joint ventures into wholly foreign-owned enterprises (WFOE). Volkswagen is probably the largest German investor in China, followed by Siemens.

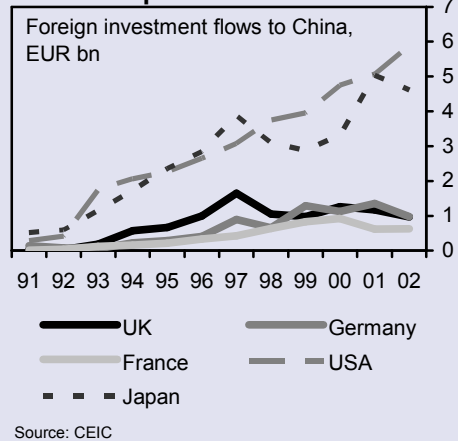
German investment locations

Approximately 80-90% of investments flow to three main clusters in the coastal regions: 1) The greater Shanghai area/Yangtze River Delta, 2) the industrialised North East, and 3) the Pearl River Delta. As proximity to major political decision-makers is crucial, many firms have representative offices in Beijing.

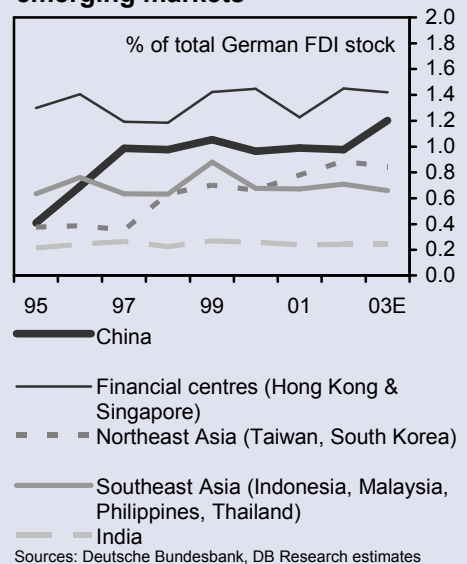
1) Shanghai, the magnet

The Shanghai metropolis has become a magnet for German companies. However, there are widely differing estimates (between 30 and 60%) as to the share of German firms that have located in and around Shanghai and the Yangtze Delta (also including the Jiangsu province northeast of Shanghai). Almost all German firms active in China have a representative office in Shanghai. Services companies, above all, seem to be using Shanghai as a stepping stone to enter the rest of China. A case in point is the presence of all

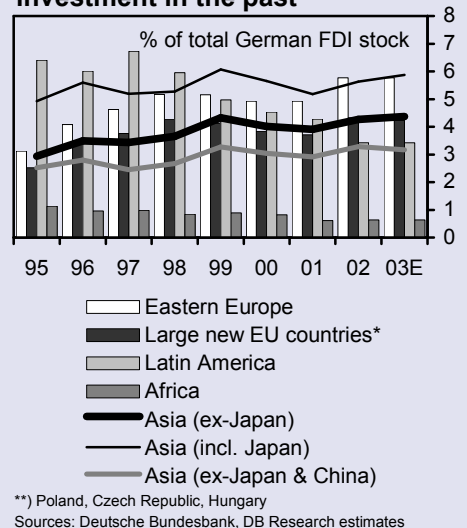
Top G7 investors in China: USA & Japan; Germany No.1 from Europe



German investment in Asia: China way ahead of other emerging markets



Asia no magnet for German investment in the past



German banks doing business in China (see table). Schenker runs a large logistics centre in Shanghai, and Metro built its first wholesale subsidiary there. Among the large industrial groups are VW, Thyssen-Krupp and Degussa, as well as Bayer and BASF, which are both located in the Caoijing industrial zone for chemical industries near Shanghai. Further along the Yangtze delta, there is a BASF joint venture in Nanjing (Jiangsu province) and a Bosch joint venture in Wuxi (Jiangsu province).

Germans are one of the largest investor groups in Shanghai. Its attractiveness to German firms lies in:

- a relatively good infrastructure (a big port city),
- closeness to customers (incomes in Shanghai are among the highest in the country),
- an attractive image (former premier Zhu Rongji was Shanghai's mayor from 1987 to 1991; he strongly improved the city's infrastructure and promoted its opening to the outside world – Shanghai is being fostered into a counterpart/competitor to Hong Kong).
- the pull of industrial clusters (suppliers tend to locate near their customers),
- and, not least, a growing network of German companies and entrepreneurs (China's largest community of German expats is found in Shanghai, which offers good opportunities for new investors. Also, integration of German workers is easier in places with an existing German community.)

2) The industrial North East

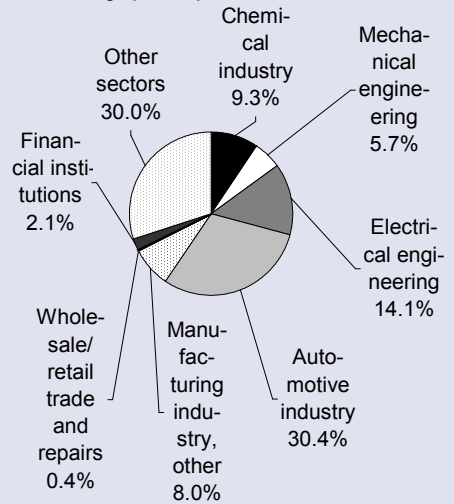
In the Bay of Bohai in the North East, German investors can be found at traditional locations of the heavy industry (the "rust belt") like Liaoyang and Shenyang. Numerous joint ventures were launched there with China's large state-run companies, which have traditionally operated in this area. The area's wealth of commodities (oil, coal, iron ore) was probably the reason for its industrial development. It hosts another VW site in Changchun (Jilin province) as well as Thyssen joint ventures in Liaoyang and Dalian (both Liaoning province) and a BMW production site in Shenyang (also in Liaoning). To the South in the town of Qingdao (Shandong province) are Degussa and Rhein-Chemie (a Bayer subsidiary); the latter is supplier to "local" manufacturers of sports shoes such as Adidas, Nike or Reebok. The proximity to South Korea and Japan has triggered large-scale Korean and Japanese investment to this area.

3) Pearl River Delta dominated by SMEs

Fewer German companies have located in the southern Pearl River delta in Guangdong province, which borders on Hong Kong. Among the few companies present are Thyssen in Shenzhen and Guangzhou (Canton). In the neighbouring province of Guanxi to the west, Degussa is represented in Nanning, but many other German companies are by-passing this location. In the neighbouring province of Fujian, to the northeast of Guangdong and opposite Taiwan, there is a relatively new DaimlerChrysler site in Fuzhou and a gas project run by Linde in Xiamen.

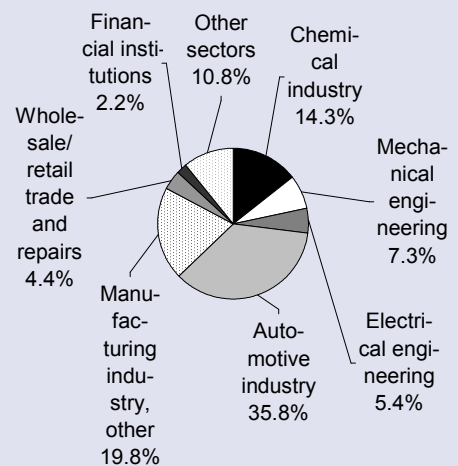
The fact that German companies have so far by-passed Guangdong could be attributed to the dominance of small and medium-sized firms here and the few heavy industry players. (It should be noted, though, that free choice of location is not always possible.) The area's most important sector is electronics, but numerous textile companies are located here, too. Since the policy of reform and opening began in the early 1990s, especially funds from Hong Kong

Origin of German investment : mostly from the automotive industry (2002)



Source: Deutsche Bundesbank

Destinations of German investment in China (2002)



Source: Deutsche Bundesbank

German banks in China (ex-Hong Kong)

	Beijing	Shanghai	Guangzhou	Shenzhen
Bayer. Landesbank	X	X		
Commerzbank	X	X		
Deutsche Bank	X	X	X	
DZ Bank	X	X		
Dresdner Bank	X	X	X	X
HSH-Nordbank		X		
Hypo Vereinsbank	X	X		
Norddeut. Landesbank	X			
LB Baden-Württemberg		X		
WestLB	X	X		

Source: German embassy in Beijing



and Taiwan have flowed to this region. Taiwanese companies are mostly found in Fujian province, located opposite Taiwan.

4) The as yet undeveloped West

Two-thirds of total investments flowing to the West of the country come from ethnic Chinese firms located in Hong Kong, Taiwan and Southeast Asia. Industrial centres there are Xian in the North West as well as Chengdu and Chongqing in the South West. There are hardly any German companies represented here, a situation which is changing only slowly. Infineon, for instance, is currently building an R&D site in Xian.

II. Incentives and obstacles to German investment in China

Incentives

1) Market potential

When asked about their reasons for operating in China or planning to do so, most companies cite the large market potential as the main argument. There were an estimated 76 million prosperous consumers in China in 2001 (people who do not have to spend the lion's share of their incomes on food and housing). This figure is larger than Germany's entire population. Up to 2015, it could increase almost tenfold (see table).

2) Low-cost "assembly line"

As a second, equally important argument companies cite the use of China as an "extended low-cost assembly line". Without doubt, cost pressures are a driving factor behind investment in China. Looking at the massive share of manufacturing companies among German investors (see chart p. 4), Germany's industry has recognised the advantage of using China as low-cost manufacturing site, especially if the goods produced are earmarked for exports. Fierce global competition is literally forcing international producers to exploit China's low wage costs (see table).

3) New opportunities arising from WTO membership

The driving forces behind investment in China have changed over time: prior to WTO accession, China's market potential could only be tapped to a very limited degree, while export-oriented investment was promoted. WTO membership now enables foreign companies to benefit from China's vast appetite for foreign products.

China's membership in the WTO has proved to be a major driver behind German FDI, as firms are now hoping for better and easier access to the Chinese market. In addition, rapid economic growth despite the Asia crisis (see chart), and not least the 2008 Olympics (estimated investment volume: EUR 24-35 bn) are raising hopes of German participation in large-scale infrastructure projects, which would be particularly attractive to the large industries.

Obstacles

1) Lack of information and planning certainty

Main impediments that argue against involvement in China are persistent legal uncertainties, reflected not only in a lack of intellectual property rights protection but also in quickly changing framework conditions and regulatory obstacles. Another problem is limited market transparency. There is insufficient data on customer structures and preferences as well as potential supplier networks. Moreover, the problem of defining individual market segments and the sheer size of the country are making the search for relevant

Consumers worldwide (m)		
	2001	2015
USA	236	284
Germany	70	76
Japan	110	112
China	76	700

Source: German Chamber of Commerce in China

Comparison of wage costs	
(average hourly wages for low-skilled workers, incl. all non-wage labour costs, in USD)	
Japan	20
South Korea / Singapore / Hong Kong / Taiwan	8
Malaysia	3
Thailand	2
China	1.5

Source: W. Krokowski, Global Procurement Services, figures as of end-2002/beginning of 2003



market information even more difficult. By no means can China be considered to be "one country - one market". China is about as large as both Western and Eastern Europe together, and in many respects it is just as diverse as the various countries of Europe. A balanced investment strategy should therefore be designed to either service different regions or concentrate on a smaller and relatively homogeneous main market.

Potential investors are often finding the collection of relevant information on the market and the competition the main stumbling block. In addition, there are cultural and linguistic barriers, an underdeveloped infrastructure and still relatively low living standards in many parts of the country. There is a shortage of qualified managers (with language and trustworthiness posing the greatest problems). Also, there are too few technicians and engineers. Another problem is the high fluctuation rate among this group. Some companies have had trouble with customers' payment history.

2) High input prices

Apart from the high cost of legal and other professional services, or arising from regional protectionism or logistic and bureaucratic inefficiencies, companies are now also facing high prices for electricity and raw materials. This makes it increasingly difficult to achieve profit margins. Demand for electricity rose by 15% in 2003, while capacity increased by only 8%. This led to a shortage of approx. 40 gigawatts (roughly equivalent to the electricity needs of Australia). This year many factories are operating at night or on Sundays and holidays rather than at regular working hours. According to industry sources, however, China is in the process of commissioning enough additional capacity to meet the demand of several medium-sized European countries in order to balance the supply and demand of electricity by 2006. The immense demand from China can to some extent explain the rising world market prices for commodities: especially since the second half of 2003, the prices of copper, aluminium and tin have soared (see chart). Any normalisation will depend on future developments in China.

3) Fierce competition

With increasing attractiveness of the Chinese market, competition is rising. Many competitors have been active in China longer than the German firms, as EU companies have so far lagged behind their Asian peers and behind the dollar block (USA, Canada, Australia, New Zealand) in getting involved in this vast market (see chart). Competition is particularly tough in manufacturing, which received two-thirds of foreign investments (as of 2003, see chart).

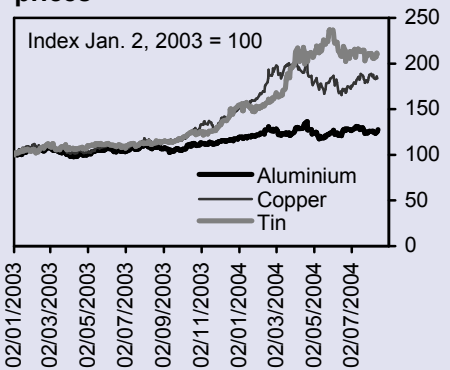
German technology enjoys a very good reputation in China, so most German companies operate in the premium segment, or higher end of the market where competition comes mostly from US, Japanese and Korean firms. Taiwanese companies are active in the medium value segment, while the Chinese competition is predominantly found in the mass production sector. In the medium term, and particularly for German companies seeking to access the mass market, this means Chinese firms will emerge as their main competitors. Technological progress at Chinese firms is often very fast. Entire generations of basic materials are being by-passed in the production of higher-quality capital goods with state-of-the-art technology. Today already, there are so-called "hidden local champions" exhibiting enormously fast technology advances and are often promoted by the government. In addition, the particularly attractive sectors of the economy are witnessing an increasing presence of foreign companies going hand in hand with overinvestment – especially in the automotive, mobile

China and Europe: a comparison

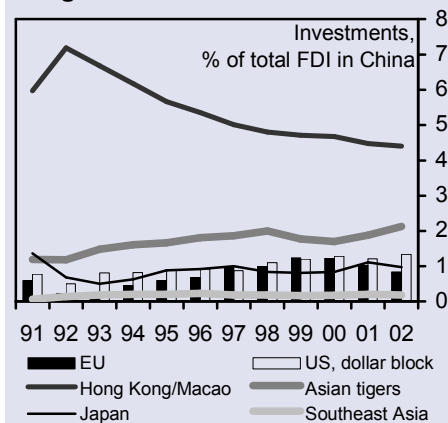
	China	Europe
Area (sq.km)	9.6 m	10.1 m
Administrative regions or states	23 provinces (incl. Taiwan), 5 autonomous regions, 4 municipalities	approx. 40
Population	1.2 bn	700 m

Sources: Global Geografia, CIA World Factbook

Rapid increase in commodities prices

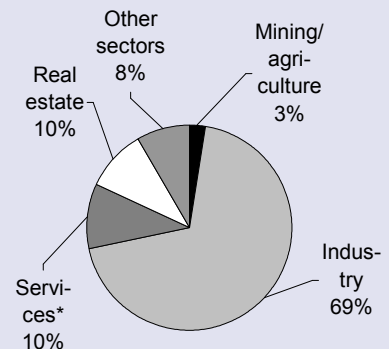


Origin of FDI in China



Source: CEIC

FDI mostly goes to manufacturing industry (2003)



*) transport, wholesale/retail trade, financial services, social services, healthcare and education

Source: CEIC



telecommunication and real estate sectors – which are also contributing to a decrease of profit margins.

III. German investment in China – prospects till 2010

Firms' opinions differ widely

A survey conducted among Germany's largest companies (23 firms listed in the DAX30 - see appendix) revealed that German investment in China could more than double in the period up to 2010. According to currently available investment plans of large German firms, investment in China could increase to approximately EUR 18-20 bn over the next six years. However, many of the large investment programmes are planned to be built up in several stages and are often largely self-financing, i.e. the profits achieved need to be reinvested. If the economic outlook worsens or sales prospects decline, follow-up investment can be frozen or cancelled altogether.

According to the survey, German companies hold widely differing views of China: there is agreement that China is a growth market but there are differences in the companies' assessment of their own involvement in China. Three about equally-sized groups can be identified:

- 1) China is an essential part of our business strategy;
- 2) Business in China – yes, but not at any cost; and
- 3) China is of little importance at present.

Amid this wide range of opinions, one can find statements like: "One out of ten people from our staff will soon work in China" or "Besides Russia and India, China is for us one of the three large, core growth markets" or "Next to Germany and the USA, China is one of our largest single markets". Other firms, by contrast, are satisfied with their current business volumes in China but are not expecting China to become a volume market for their products comparable to the US in the near future. Some investors are becoming more critical of the chances of further expanding their business in China. Also, there are those with only small investments in China. Their statements include comments like "China is no relevant market for us" or "Our investment volume in China is negligible". Also, "China is no target market, no core region for us".

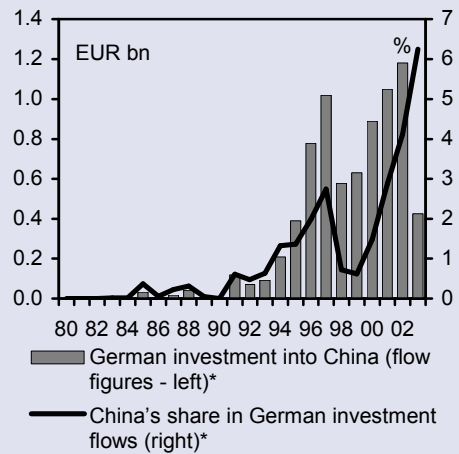
An interesting aspect of the survey is that none of these opinions seemed to outweigh the others and that there was no obvious trend within one sector of the economy. Some voices from the services sector were very euphoric but others considered their involvement in China an experiment with little relevance for the entire company.

To what extent the weighting of these opinions will change to China's benefit or disadvantage will depend significantly on the experience gained by these companies while doing business in China.

Positive trends ...

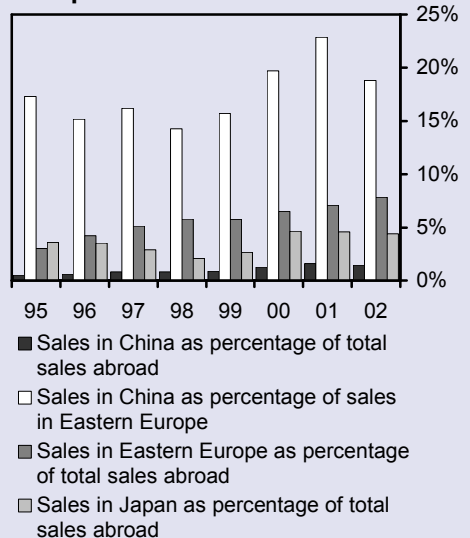
On the one hand, there is no doubt that more and more German companies are investing in China: annual new investment flows reached a record volume in 2002. In addition, China's share in total foreign investment flows rose to an estimated 6% in 2003, compared with approx. 1.5% in the mid-1990s (see chart). Also, German companies active in China are registering rising sales, even though China still plays a relatively minor role. The latest available Bundesbank figures show an increase in total German annual sales in China of 0.5% to 1.5% between 1995 and 2002 (see chart).

German investment flows to China peaked in 2002



*) 2003: Jan-Sep figures only
Source: Chinese embassy in Germany, Deutsche Bundesbank

Annual sales of German companies abroad



Source: Deutsche Bundesbank

Nonetheless, in comparison with Eastern Europe, China's importance as a sales market is gradually growing (see chart). In 2001, sales in China amounted to 23% of the total Eastern European figure (1995: only 17%).

... but also growing scepticism

On the other hand, the obstacles described above are also affecting companies already doing business in China. The hopes raised in connection with the WTO accession seem to have made room for a more sober assessment, as theory is only slowly being translated into practice: according to a survey by the Shanghai office of the German Chamber of Commerce, about half of all German firms represented in China are not satisfied with the implementation to date of the WTO agreements.

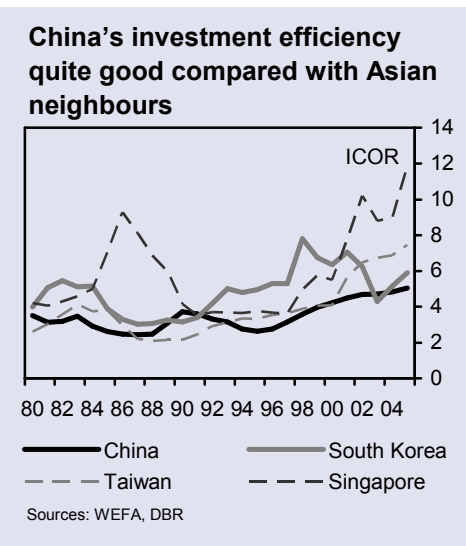
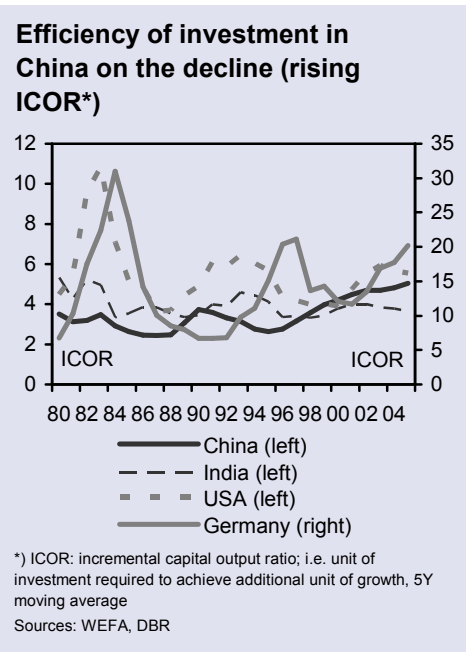
As mentioned above, there is also growing concern about excess capacities in the real estate, automotive and mobile telecommunications sectors. Especially in the automotive industry, it is feared that the massive build-up of capacities in China will result in a situation of overcapacities similar to the one in Brazil several years ago. At the end of the 1990s, all international automobile companies were present there, with far too much production capacity at their disposal. In light of the fact that foreign carmakers are massively pushing their way into the Chinese market, researchers have warned that the first excess capacities could be seen in a space of only three years. Moreover, one must not forget the "native" Chinese carmakers, who are already dominating the national commercial vehicle segment and are maturing into serious competitors. As a consequence, German companies in this sector are seeking to grow with the market and only re-invest to the extent to which profits can be achieved there.

Given these overcapacities in some sectors but also the emergence of bottlenecks due to extremely high demand, the question has arisen repeatedly how much investment China can actually digest each year. Analysts estimate that direct investment of USD 10 bn will create an increase in Chinese GDP of 0.9-1.6%. So, if annual investment flows were to fall by half from the currently over USD 50 bn p.a., GDP growth would be considerably lower than the 7-8% target. So it cannot come as a surprise that China is keen to keep up the flow. In view of the danger of overheating, which results from overinvestment, a more even sequencing of investment flows could benefit China by preventing boom-bust cycles.

Profitability has yet to materialise

Another important aspect is profitability. It is striking that only few firms comment on the issue of profitability in the survey. It is perfectly normal that new investment needs an initial "warm-up" phase before profits can be reaped. However, in light of the above-mentioned excess capacities and bottlenecks, persistent legal uncertainty and ever fiercer competition, many a foreign investor is wondering whether his investment in China can actually yield adequate profits that reflect the risks taken.

Besides the possibility of lacking profitability, the fact that investment in China has become increasingly inefficient is another black mark on investors' books. The incremental capital output ratio (ICOR), i.e. the relation between capital input and economic output, has increased in China: more money must be invested in order to produce one more unit of output. So the efficiency of investments has fallen since the mid-1990s (see chart), while the ratio is more favourable today in India. China's ICOR could soon approach that of the USA (Germany lags markedly behind). Compared with the Asian tigers, though, China is still doing quite well (see chart).





Fewer large-scale investment projects

Most large international companies such as the ones listed in the DAX30 or Fortune 500 have made considerable investments recently or at least launched major projects. Fewer such projects than in past years are expected to be embarked upon in the coming years, especially if the existing investments fail to yield profits. In light of declining investment efficiency and looming excess capacities, profits could take longer to materialize than initially expected.

Investors will only be prepared to expand further when the current investments have proved profitable; in most cases profits from existing projects will be re-invested. So investment flows will gradually shift from foreign to domestic investment. Additional projects will have to be self-financing. Further economic development could then mean a trend away from green-field investment toward M&A investment, i.e. mergers with local firms.

IV. Promoting sustainable German investment in China

Both China and Germany would benefit from continued involvement of German firms in China. Economic growth in China will continue to depend on know-how and technology transfers from foreign companies. On the other hand, it cannot be denied that despite all the obstacles mentioned, China offers a huge potential market for German companies. Also, companies active in China can cut production costs and become more competitive internationally.

In order to promote bilateral economic relations between the two countries, a new Sino-German treaty on the promotion and protection of investment was signed at the end of 2003, during Chancellor Schröder's most recent visit to China. Compared with the previous agreement reached in 1983, this treaty has improved bilateral trade relations through an improved framework of regulations that comply with international investment protection standards. Besides the usual calls for greater legal certainty, contractual freedom and a level playing field for foreign and domestic firms, however, there are also strong demands for better information dissemination and communication. The rising number of conferences organised for German investors by the chambers of trade and commerce are a step in the right direction.

Germany currently ranks among the top 10 foreign investors in China, with significant upward potential. The fact that China's neighbours boast markedly higher investment volumes is attributable in part to their doing business in China for a much longer period of time. It also indicates that investment in China is a common feature of most parts of their economies. For example, almost half of Korea's total foreign investment went to China in 2003. Most investors active in that year were SMEs.

V. Conclusion

Bilateral trade relations between China and Germany could expand considerably. German investment in China has also risen markedly in the recent past, but compared with China's neighbours and the USA there is still potential for further increases.

The advantages for an investor of including China in his global business strategy are obvious: the country's attractiveness is based on the potential for cost cutting and the large and growing market. Besides this huge potential, however, there are challenges facing investors in China that should be considered when evaluating investment opportunities: information on markets and customers is

difficult to come by, and legal uncertainty and personnel problems are making serious planning extremely difficult. It is not surprising therefore that opinions on investment in China differ widely among German companies. There is a trend towards rising German investment in China. However, concerns regarding excess capacities, asset bubbles and bottlenecks, which could have an adverse effect on the profitability of investment, could slow down investment flows. It is encouraging to note that the Chinese government is determined to take measures designed to strengthen foreign investors' confidence in the country's future economic development.

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Results of a survey conducted early 2004 among 23 DAX-30 companies regarding their China business

Company	Investment so far	Investment plans	Profitable?	Type of investment?	Since when?
Company 1			(past rumours of withdrawal) now moving into profitable territory		more than 10 years
Company 2	small double-digit millions	2004-2007 EUR 1.2 bn	not yet	JV; R&D centre, subsidiary	1994
Company 3	2001 single-digit millions, 2002 lower double-digit figure	EUR 30 m; significant investment growth	yes	100% subsidiaries	end of the 1990s
Company 4	USD 35.2 m	relatively small volume/only minor investor	profitable	JV	1994
Company 5	negligible volume (very small)			JV, sales organisation	business relations for over 100 years
Company 6	EUR 300 m	about EUR 600 m*	not yet	JV; 18 locations	1995
Company 7		long-term investment, long-term growth opportunities	not yet	JV	2003
Company 8	very small	not a targeted market, no core region		1-2 smaller projects	
Company 9	equity EUR 1,267,000	about EUR 100 m over 5 years	profitable	R&D centre, support, sales	
Company 10		long-term investment RMB 5.4 bn (USD 650 m)		JV	130 years
Company 11	(at least EUR 200 m)	EUR 1.5 bn	returns in China not comparable with Europe	JV	at least 1998
Company 12	very small initial investment!	not a relevant market			2003
Company 13	EUR 3 bn	EUR 6 bn over 5 years*	yes	JV	mid-1980s
Company 14		subsidiary: EUR 100 m			
Company 15	about USD 132 m	between 2004 and 2008: USD 200 m		JV	mid-1980s
Company 16	total volume (past and future): EUR 1 bn			JV, framework agreement	1984
Company 17	(2003: EUR 80 m; 2002: EUR 44 m) EUR 124 m	EUR 270 m between 2004 and 2008		JV; 100% subsidiaries	
Company 18		EUR 450-500 m (up to 2005)	exports to China doing very well	JV	May 2003
Company 19		USD 3.1 bn		local production sites - JV	1882
Company 20	(throughout Asia, 1990-2000: EUR 2.6 bn)	EUR 2.9 bn since 2000	not yet	JV	first JV in 1997
Company 21			yes	100% subsidiary	
Company 22	double-digit millions (about EUR 15-20 m)		not yet	JV, now also 100% subsidiary	10 years
Company 23	relatively small investment in China - low priority		yes	own distribution, production by Chinese firms	5 years

*self-financing

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