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# China Finds Bargains in Germany



By Peter Dolle

**German engineering companies have become a prime target for Chinese investment. But it's a mixed blessing.**

China has overtaken the U.S. as the largest foreign investor in Germany. Since the beginning of this year alone, Chinese companies have bought or invested in three German engineering firms – for an estimated €1.2 billion – and have their sights on a fourth. “For the target firms in Germany, it can be a blessing – they have access to fresh capital and can get better access to the Chinese market through the know-how of the investors,” **Martin Kapp**, Chairman of the German Machine Tool Builders’ Association, VDW, told INSEAD Knowledge in a statement.



# Martin Kapp

In January, Sany Heavy Industry bought German pump maker Putzmeister for €360 million. Several months later, the Xuzhou Construction Machinery Group purchased a majority stake in Schwing, a rival concrete pump manufacturer to Putzmeister for an undisclosed amount. In the summer, Shenyang Machine Tool confirmed that it was in talks to buy MAG, along with other bidders. And in the largest deal of its kind in Germany, the Chinese heavy equipment firm Weichai Power Company acquired a 25 percent stake in the forklift group Kion for €738 million.

## **Needed cash injections**

Many of the deals are orchestrated on the German side out of desperation stemming from the global economic crisis. Kion lost €93 million last year as it grappled with restructuring. It is the world's second largest forklift manufacturer with €4.4 billion in sales, making it an attractive target. Similarly MAG closed its fiscal year 2012 with a €30 million loss but is now drawing suitors as revenues improve.

The VDW is watching developments closely, given the heavy subsidies it says the Chinese government grants domestic machine tool builders. "Our medium-sized industries must pay for research themselves," Kapp declares. "That can be an incentive for German industry, but it must be fair – there must be free market access, protection of intellectual property and no hurdles to foreign investment in China. We demand that politically."

In the past year, Germany has managed to narrow its trade gap with China to €15 billion, down from €23.5 billion in 2010. Exports to the Asian heavyweight are now worth €64.8 billion a year – mostly automobiles, machinery and chemicals – according to the German Federal Statistics Office. Some 5,000 German companies are now active in China.

German industry leaders believe if they continue to innovate, they will continue to dominate the market with machines labeled "Made in Germany". They admit Chinese machine tool manufactures are getting more advanced, but suggest price competition pales in the face of long-term innovation and branding.

Kapp says with confidence: "What Chinese companies don't have today, is the (global) acceptance of high tech machines "Made in China". But that

moniker is becoming less of a drawback every day, prompting German industry leaders to continue looking over their shoulders at competition from Asia, now in their own backyard.

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