Angela Merkel
and Xi Jinping.
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Chinese Investors in Germany

A Threat to Jobs and Labour
Standards?

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While the German economy is generally quite open to FDI, Chinese investors in the country have been facing widespread mistrust, a feeling reinforced by concerns related to transfers of know-how and the relocation of jobs to 'low-cost' China. In order to gather empirical evidence about the actual impact of Chinese investment in Germany and confront prejudice, Wolfgang Mueller carried out a survey on 42 of about 70 Chinese-invested companies in the country with more than 150 employees, covering the manufacturing, logistics, and service sectors.

German industry, especially the small and medium enterprises (SMEs) that constitute the so-called 'Mittelstand', has been a target of Chinese foreign investment for some time. But according to data from the German Central Bank, in 2018 the proportion of German foreign direct investment (FDI) in the People's Republic of China (PRC) compared to Chinese FDI in Germany remained 16 to 1 (Jones 2018).

In general, the German economy is relatively open to FDI. But since private equity funds and other financial investors entered the FDI arena in the early 2000s, there has been an increasing

public awareness about the impact of foreign investment on labour and society. This has culminated in the coining of the term ‘locusts’ (*heuschrecken*) to describe financial investors in light of their habit of cutting jobs and dismantling companies after a takeover. In the case of Chinese investors, those reservations are reinforced by concerns related to transfers of know-how and the relocation of jobs to ‘low-cost’ China.

To gain empirical evidence about the real impact of Chinese investment in Germany and confront prejudice, Hans-Böckler-Stiftung, a German foundation affiliated to the German Trade Union Confederation (Deutscher Gewerkschaftsbund; DGB), commissioned me to conduct a survey on the implications of China’s FDIs for employment and working conditions in German companies acquired by Chinese investors (Mueller 2017). The study was finished in early 2017 and covered 42 of approximately 70 Chinese-invested companies (including ‘green field’ investments) in the manufacturing, logistics, and service sectors. Each company had no less than 150 employees, and in total employed more than 55,000 people. In this sense, we can say that the results presented here are representative.

Chinese investors covered by the study include both state-owned enterprises (SOEs) and private companies. Most Chinese investments focus on the mechanical engineering and automotive sectors, but investments in environmental technology are also relevant. The study was based on structured interviews conducted on the phone, plus face-to-face interviews with worker council members or trade union officials. These worker representatives are the basic and most reliable source of information on labour issues within German companies and are normally also well informed about the latest corporate developments.

Codetermination and Workers’ Participation

My survey found that after the entry of Chinese investors, the codetermination culture at the factory and company-level, as well as the collective agreements, remain essentially unchanged or, in some cases, even improve. Fears of widespread job losses do not materialise, and while know-how is indeed being transferred to China, at the same time the research and development capacities expand of the companies in which the Chinese have invested.

According to employee representatives whom I interviewed, Chinese investments are generally long-term, compared to the short-termism that dominates western management culture. Even under significant economic difficulties, in some of the companies that I investigated the investors maintained a long-term perspective and further investments were being made.

From the point of view of investors from China, although labour relations in Germany are quite opaque, they seem to grasp codetermination and collective agreements as part of the institutional arrangement of their investment. There are also indications that some investors consider codetermination and workers’ participation as an assurance of quality production. For them, the worker council seems to represent the skilled workers and the quality work they do—in other words, exactly those intangible ‘assets’ that prompted their decision to invest in Germany in the first place.

Wherever Chinese investors have taken over companies with established worker representation bodies, these structures have remained untouched. Wherever previous owners had hitherto successfully thwarted the founding of worker councils, the company has remained free of worker councils after the entry of Chinese investors. Similarly, green field investments, especially in the information technologies and telecommunications, have

not yet led to the founding of worker councils—although in the telecom service companies that Huawei and ZTE have acquired from Vodafone and Telefonica, existing worker councils have thus far not been touched.

In some cases, contacts between representatives of the Chinese investor and the worker council in the targeted company were established well before the takeover was completed. Such contacts happened not only with companies that Chinese investors saved from bankruptcy, but these contacts—sometimes actively pursued by the Chinese side—suggest that the support of the workers is important for the decision to commit to the investment. In some cases, regular contact is established between representatives of the Chinese investor, the worker council, and the German trade unions active in the company. This might express an appreciation of the Chinese side for worker councils that is not common among other foreign investors in Germany.

As in some other European countries, German laws stipulate that public companies adopt a two-tiered governance structure consisting of a management board and a supervisory board, with workers taking up representation on the supervisory board. Insofar as the acquired companies already have supervisory boards, the Chinese investors have sent their representatives to sit on these bodies. In some cases, representatives from labour on supervisory boards report on intensive communications with the Chinese representatives.

This is especially true of Chinese SOEs. My interviews show that the Chinese representatives on supervisory boards perceive the employee representatives primarily as spokespersons of the acquired company. They regularly seek their opinions regarding the situation of the acquired company and on upcoming decisions. In this regard, it seems that representatives of the Chinese SOEs appreciate the trade union even more than most previous

owners. However, it is consistently reported that the workings of the supervisory boards suffer from language problems.

Attitude towards Existing Collective Agreements

My survey highlights that collective agreements already in place are not affected by Chinese investors. In some of the companies where there were no collective agreements, this was because previous owners had successfully prevented or terminated them. In some cases I examined, worker councils, the union, and the workers were trying to establish collective bargaining coverage after the takeover. Resistance against such initiatives did not come from the Chinese investor but from the German management that had been kept in place, with their experience in ‘concession bargaining’. Employee representatives repeatedly reported that management demanded concessions from the employees in return for a new contract and for safe jobs, referring to alleged pressure from China. But that pressure from China could never be substantiated.

So far, there are no documented cases of interventions by Chinese investors against collective bargaining. On the contrary, when the German management of a mechanical engineering company left the employers’ association and recalled the collective agreement in 2011, the workers went on strike against that move. On that occasion, the parent company from Beijing intervened and pressed for a return to the collective agreement.

As with the worker councils, the acceptance of collective agreements and their higher standards is quite different in Chinese companies in the information technologies and electronics industry. Huawei and ZTE in Germany are not bound by collective agreements. Whether the recent conclusion of a collective agreement between IG Metall and

Huawei TS for the former Vodafone services division marks a rethink in this regards will become apparent in the near future.

In the takeover process of the German robotics maker Kuka by privately owned Chinese company Midea, the worker council and trade union succeeded in getting concrete commitments and guarantees regarding locations, the temporary exclusion of redundancies, and further investment in Germany. In addition, the Chinese investor agreed to a binding timeframe to ensure that the commitments are respected until 2023. Similar binding job protection agreements have been signed in other Chinese-invested companies.

Some economists—for instance Jean-Marc F. Blanchard (2016)—question the quality of such guarantees, especially their legally binding nature. It should be noted that: a) there is currently no evidence that Chinese investors are particularly unreliable; b) such longer-term guarantees are rather rare in corporate takeovers and the same claim could be levied against other investors as well; and c) such commitments are very important for the action of worker councils and unions because they can generate considerable pressure in spite of possible legal shortcomings.

Corporate Development

Chinese investors use considerable funds to make the acquired companies fit for the future. They invest not only in research and development, but also in new production facilities and plants. This applies to both SOEs and private companies. Even in cases where it was apparent that the Chinese investor had significantly overpaid, suggesting they would try to cut costs to offset losses, future funding and continued investment was nevertheless forthcoming. Sometimes the new investors also had to beef-up the working capital to keep the acquired company going. To the delight of the employee representatives and much to the

astonishment of some German managers, the new owners sometimes shoulder investments that the previous owners had shied away from.

On balance, headcount development across the companies has so far been positive. Jobs are being added not only in research and development, but also in production. The focus of the new owners and the main shareholders is not limited to margins, but resides primarily in revenue growth. This focus on growth applies to all industries and is confirmed in many interviews.

One possible explanation is that the companies sold to Chinese investors are already ‘lean’ after years of downsizing and cost cutting. However, this can only partially explain the fact that job cuts have not been on the agenda. Rather, the SOEs and private investors from China apparently pursue other goals than the vendors: they want to grow with the help of the acquired companies.

So far, there is no evidence of the much-feared job relocations to China. For instance, when an SOE took over an insolvent, medium-sized specialty vehicle manufacturer, the members of the worker council were very much concerned about the jobs. The representatives of the SOE made it clear that they wanted to buy that company precisely because of the label ‘Made in Germany’, and today the new owner has created more than 100 additional jobs.

Transmission of Know-how

A major concern in the public discourse in Germany about the dangers of Chinese FDI is related to the outflow of know-how to China, with the consequent loss of technological leadership. Many employee representatives talk about training programs for employees from China and support from Germany in setting up new production lines and new research and development departments in China. Yet, they also mention that the quality of processes and products transferred to China

often leaves much to be desired despite the fact that, in some cases, the transfer of know-how has already been going on for years.

Ultimately, however, the question of the future viability of Chinese-invested companies is not determined by the transfer of know-how. It is about whether the new investors or owners of these companies invest in research and development, i.e. whether further know-how is being built up in Germany. In this regard, my interviews reveal that Chinese investors are by no means cutting development budgets, but are investing more in the advancement of know-how in Germany than the old owners.

Adopting a long-term view, Chinese investors want German quality and know-how, and have an appreciation for skilled workers. They know that the know-how in companies is first of all from accumulated experience that cannot simply be transferred through a USB stick. That is why they want motivated employees to remain in the business—a longer phase of uncertainty with the ensuing discouragement of employees is not in their interest.

Dealing with Crises

Chinese investors in general accept longer periods of drought. They do not demand immediate staff readjustments following reduced sales. For worker councils, but also for the German management, such an experience is rather uncommon. Even existing collective agreements are initially left untouched, in some cases in spite of years of losses. Some worker representatives pointed out that the patience of Chinese investors is atypical. If a restructuring of the company is finally inevitable, necessary adjustments are developed in consensus with employee representatives. There are also reports about contradictions between the management favouring quick solutions and hard cuts, and the Chinese investors. In at least one case, restructuring plans were scrapped by the investors.

The employee representatives whom I interviewed showed little concern about how Chinese investors would behave in the event of a crisis. There is more uncertainty about future developments in China and how these will impact investment. So far, Chinese investors—especially the SOEs—seem to have unlimited liquidity at their disposal. This has contributed significantly to the positive mood among employee representatives and employees of Chinese-invested companies in Germany. But there are fears that this course might change should developments in China force Chinese investors to re-evaluate their investments in Germany.

Incidentally, Chinese investments in Germany and Europe and the commitments made by Chinese investors are also an issue in China. There have been discussions in Chinese media that some investments have been overpriced, for example in the case of Kuka. Reportedly, Chinese blogs have been debating whether China pays too much to protect jobs in Germany.

How to Communicate with Chinese Investors?

In many cases, especially in companies without a supervisory board including labour representatives, worker councils or trade unions have virtually no contact with the Chinese side. The investor remains invisible, and the German management remains mostly unchanged after the investors' entry. This lack of communication with the Chinese investor is a problem for the worker representatives whom I interviewed. They regard a direct channel of communication with representatives of the investor as important, especially as the interests of the local managers and the Chinese side are sometimes different.

Therefore, some worker councils or unions have actively tried to contact the Chinese investor. Thus far, the Chinese side has generally responded positively to these

initiatives. In one case, the boss of a Chinese SOE was astonished that the union had contacted him and had expressed a positive assessment of the takeover.

Once a direct contact has been established, the worker council can use this channel and turn directly to the Chinese side in critical situations—e.g. when there are massive problems in the company or in the event of a substantial conflict with local managers. In many cases, the establishment of a direct channel between the Chinese investor, the worker council, and the trade union also includes reciprocal invitations to join worker or corporate meetings. In some cases, contacts are also being established with the company union in the parent company in China.

Nevertheless, many representatives whom I interviewed complained about a general lack of understanding on industrial relations and codetermination on the Chinese side. This deficit should urgently be addressed, especially since the number and volume of Chinese investments in Germany and Europe is likely to increase further in the future.

Dispelling Misconceptions?

The overall picture of labour relations in Chinese-invested companies in Germany that I presented is astounding in view of both the widespread reservations about Chinese investments and the often negative experiences with corporate takeovers by financial investors.

This could partially be explained as stemming from the fact that Chinese investors do not have much experience with FDI yet, nor with Western management practices. China's private companies and SOEs have been following the 'going out' strategy for about a decade now. So far, they have little capacity and experience to manage the companies they invest in and integrate them into their corporate structures. They therefore leave the management untouched.

They have also different strategic interests compared to financial investors. China's SOEs are investing in the long term. They provide cushions for corporate crises and finance future investments. They want a bridgehead for their international expansion and for the acquisition of technology, process, and management know-how. Private investors, who also pursue strategic industrial interests with their foreign acquisitions, act in a similar way. In the context of the Made in China 2025 programme, German industry has a special appeal for China. This also applies to the acquired companies in which they develop 'stripped-down' products for China and for the world market. Through German products, Chinese investors also want to get rid of the cheap image that still clings to Chinese products.

Most importantly, the results of my survey raise a fundamental question: whether the Chinese investors represent another breed of capitalism—an alternative to the dominant Western model of neoliberal capitalism and the management practices associated with it. To answer this question by properly taking into account all the important political, economic, and societal implications associated with the continued expansion of Chinese investment in Europe and elsewhere, further studies are necessary. ■