



“The Hamburg Summit: China meets Europe”

Keynote Speech
“Europe and China – The need for deeper trust“

by

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Minister Wan, Excellencies, Ladies and Gentleman,

When BASF and Sinopec signed the contract for our joint venture in Nanjing in 2000, we looked back to five years and 175 rounds of negotiations. We had discussed and agreed on every little detail that one can imagine. And today both companies are glad that they did this, because this joint venture contract is still in place. More importantly, the partnership that arose from this contract is not built on the paragraphs of the contract. It is built on the deep knowledge of the two partners about each other. We know what to expect from each other, we know where the other side has room to maneuver or not and we know where the limitations are. Even more importantly, we talk about all this very openly. This deep knowledge has, over time, built the real foundation of our partnership – and that is trust.

Why am I telling you this story? Because for me, it shows what we need to strive for when we talk about a real partnership between Europe and China. We need to build much deeper trust between each other.

Just take a deeper look at the relationship between Europe and the US – and you immediately see how strongly this partnership is built on trust. The differences of interest in this partnership may sometimes be as big as they are in the relationship between Europe and China - but they are not perceived as such on both sides. What really makes the difference is trust.

You might object that the partnership with the US is built on a wide set of common values and that this is not the case to the same degree with China. True. But I believe that trust can also be built between partners that do not share 100 percent of their values - if they truly engage with each other based on respect. Trust can be built if both sides stop an attitude of knowing it all and better and instead find joint solutions for both sides.

Let me relate this to the world of business and trade. Also here we are lacking trust, and it is particularly our economic and technological relations which can help to deepen the trust. I want to focus on two exemplary areas: investment and innovation.

Let me first look at **foreign direct investment**.

From a European perspective, market access in China is still very restricted in some areas for European companies. China is identified by the OECD as having the most restrictive regime for foreign investment in all of the G20 states. The China Committee within the Asia-Pacific Committee of German Business is addressing the most important issues. You all know these points, such as restricted sectors, limits on equity ownership, forced joint ventures and forced technology transfer, licensing requirements or public procurement practices just to mention a few important ones. I can assure you that we continue to address these issues in our dialogue. But we need to address them in a way in which we also take into account the interest of the other side.

First of all, we should not forget where China started: The real opening of the Chinese market for international trade started with China's WTO accession and that was only 11 years ago. We seem to expect that the opening and the transformation by reforms of a huge economy like China happens within a decade. But with a bit of

self-criticism we should realize that we ourselves are not even able to build a new airport for our capital Berlin in that timeframe.

Secondly, we should talk to Chinese investors who are interested in investing in Europe. They tell us that the European market is also not fully open to them. The reasons surely are different and there is no doubt, that the EU has one of the most open FDI regimes of the world. But among the hurdles Chinese investors face, massive mistrust in Europe is a prominent one. Just take the current situation of lower valuations of European companies due to the debt crisis. Of course, this provides good opportunities for Chinese investors. But isn't that just the opportunity that every company in the world is looking for when making acquisitions?

China is not buying up Europe as public perception is addressing. Despite the fact that in 2011 the volume of Chinese investment in the EU for the first time was higher than EU investment in China – €11 billion against €7 billion - the scales are by far not in balance. In 2010, Europe had assets in China worth €75 billion, which is more than 10 times the amount Chinese owned in the EU.

We should acknowledge that this increase of Chinese investment in Europe in 2011 is a very positive development for both China and the EU. A detailed study by the Rhodium Group in June 2012 supports the view that Chinese direct investment in Europe is overwhelmingly driven by commercial motives. Today, Chinese companies want to invest to combine their knowledge with the Western know-how and market access. They want to create value from their distribution channels in China for with the newly acquired European company's products in China. Most of them rightfully want to continue running their acquired businesses out of Europe, thus creating jobs and value in Europe. I am convinced that we will see more positive examples for that. The acquisition of Putzmeister by Sany seems to be one of them.

And there is another side to this. More direct investment from China in Europe represents a huge opportunity on the path to free and fair markets: As European markets become more important investment destinations for China, we increase the incentive to establish free and fair access to the Chinese markets as well. Chinese investors will experience on a very practical level the advantages of our openness and our way of doing business. This will for sure help us to build trust over time. And Chinese investors in Europe may become our allies when pushing for more open markets in China. Thus we have many good reasons to welcome Chinese investors here in Europe.

But when it comes to creating trust in Europe and Germany, it is obvious that there is also a responsibility on the side of the Chinese investors. If they want to be successful they need to become much more visible in the public discussion. Otherwise, it will create public distrust and the fear that they actually have something to hide. That is why I always encourage my Chinese friends to become much more visible and to engage actively and openly. On top of that, the Chinese government could set a signal in its further opening process by letting European private companies participate in China's privatization of State Owned Enterprises. So it is in our utmost mutual interest to deepen the trust among both sides.

After looking at foreign direct investment, let me quickly turn to **innovation and technology**, which is the second area with a need for deeper trust. Unfortunately, this topic is still very much dominated by the issue of technology transfer. The position of the German industry on this is very clear. We are highly interested in

cooperation in technology and innovation - but on a voluntary basis. Enforced technology transfer dramatically reduces the willingness to invest. And this cannot be in the interest of either side.

The need for innovative solutions in China is enormous and evident when looking at the huge collateral damage stemming from the very dynamic economic development.

European companies are very well positioned to contribute to these urgently needed solutions. So China should have a huge interest in ensuring a level playing field and in attracting as much investment as possible – in line with driving the programmatic change of their economy moving from cheap production to a focus on innovation. For European companies, this transformation offers great market opportunities. But more importantly, being in China with their own innovation activities will ensure that they also become part of the technological developments that will develop in China. I am very convinced that in future we will see more and more innovations moving from East to West. An ambitious European company cannot afford not to be part of this development.

And again it is about mutual trust. The Chinese side is afraid that we will merely exploit the opportunities of the Chinese market, and do not want to create value in China. European companies are afraid that the Chinese government just wants to get insights into their technology and copy it. Only a clear commitment from both sides to work together in mutual interest will help to move beyond these perceptions.

One such area could be a transparent global approach for the protection of IPR. The challenge ahead of us is to harmonize the current deliberate “quantitative patent strategy” of the Chinese government with international standards. The huge number of applied patents and utility models in China partially contain only a low degree of innovation. This patent strategy carries the global risk to dilute the value of patents overall, especially as we see similar tendencies in other jurisdictions. In such an environment it is no longer possible to maintain an overview about protective claims, particularly when not fully assessable in English language. Violations on both sides will be the consequence, a scenario not supporting to build trust.

As someone representing a very innovation-driven company, I can only warn against this trend. If we cannot sustain the level of trust in our global patent system ensuring that innovation is fairly valued and IPR are properly enforced, we risk losing the incentive for innovation as such.

Ladies and gentlemen,

Investment and innovation – these are two major areas where cooperation built on trust can and must strengthen the partnership between Europe and China. And despite differences in values we have many common interests.

From a business perspective, we are used to developing our relationships based on trust. I also believe that growing trust in the area of investment and innovation does translate into a wider trust between nations - because people see the benefits that come from these relationships.

But we cannot build the partnership between Europe and China based on business relations alone. Such a strategic partnership needs the full range of cooperation

between all parts of society: between universities, schools, foundations, governments of all levels, cultural institutions and many more players. And it includes the willingness of individuals to meet each other without prejudices and preconceptions to create cooperation to the benefit both sides. This, I believe, is the great value of the Hamburg Summit, and I congratulate the organizers for providing this forum to build the trust that we so urgently need.

I thank you for your attention.