

# **Ostasiatisches Liebesmahl**

Hamburg, 4 March 2016

Host:  
German Asia-Pacific Business Association (OAV)

## **Welcoming Remarks**

**Dr. Hubert Lienhard**  
APA Chairman and President and CEO, Voith GmbH

**Check against delivery!**

Address,  
Mr. First Mayor,  
Mr. Chairman of the OAV – Dear Hans-Georg Frey,  
Dear Michael Lawrence,  
Your Excellencies,  
Ladies and Gentlemen,

It gives me great pleasure to be once again able to share a few thoughts with you about our Asia commitment at today's Love Feast.

Internationalization, especially towards Asia, is a traditional keyword for the OAV, because, since its foundation, the discourse with and about Asia has been at the heart of the "Ostasiatisches Liebesmahl".

We are all well aware that Asia will shape the German economy to an extent that we can hardly foresee today.

Mr. Frey has already mentioned it: during the last few decades, China's economy grew steadily and is today, after the USA, the world's second largest economy and the largest trading nation. As the Asians say: "When China sneezes, the rest of the world catches a cold."

China is on the move and looks for the right way in a new phase of structural change and the economic insecurities that come with it. We should not treat this lightly, but also stick to the facts:

- In 2010, growth in China was at a solid 10 percent and the GDP amounted to some 6000 billion US-Dollar. In 2015, with a growth rate of "only" 6.8 percent,

the GDP was nearly twice as high with 11,385 billion US-Dollars. Which means, it nearly doubled in only five years.

When the Chinese government speaks of the “New Normal”, it refers to a growth rate that adds an annual amount to the Chinese economy comparable to the size of the national economies of the Netherlands, Turkey, or Switzerland.

- With a growth of nearly 15 percent, Chinese direct overseas investments amounting to 118 billion US-Dollar were only slightly less dynamic than in 2014.
- Investment in China from abroad experienced an upswing in 2015. After a modest plus of only 1.7 percent in 2014, foreign investments in China rose by 6.4 percent last year. Out of the 126 billion US- Dollars that went to China from all over the world, a respectable 1.6 billion US-Dollar came from Germany.

But what are the challenges?

- Structural reform: the transition from a quantitative growth model driven by investment, to a qualitative growth model driven more strongly by domestic consumption.
- Low productivity, due to old and non-competitive industries that can no longer be compensated by low labor costs. This is an area, where China has to shift towards an economy that is boosted by innovation and competition.
- Environmental problems: the rapid economic growth of recent years has consequences for China’s environment. We are all aware of the massive air pollution problem.
- China’s debt is growing: since 2007, the country’s debt has more than doubled. An alarming factor is the high debt of state-owned companies,

the provincial governments and, sadly, unlike in the West, also of corporate China.

What worries us in particular is the speed by which this debt has risen over the last two years.

- Currency: within one year, the Chinese Yuan dropped about 5 percent against the US-Dollar. At the same time, there were fluctuations in the stock market, where share values have almost halved.
- Excess capacities: the problem is well known. China produces too much steel, coal, cement, paper. The list can be expanded. I am grateful to the European Chamber of Commerce in China, headed by Jörg Wuttke that it has taken up this subject. Without pressure from abroad, the Chinese government might not have reacted so promptly and announced 1.8 million job cuts in the affected industries. But we also have to note: the German industry has contributed to building these excess capacities and has made quite some money by doing so.

I agree with the roll call of the EUCCC: it is not acceptable that these excess capacities are directed towards third markets and that the Chinese problem is transferred to the European market. China has to get a grip on this, otherwise, the approval of the European institutions to grant China market economy status at the end of 2016, is under threat. We have to keep in mind that the EU-Parliament has to agree to the amendment of the EU-dumping-regulation. Members of Parliament will consider the jobs in their regions which compete directly with industries concerned with access capacities.

Yet the crucial question is:

Can China avoid the “Middle Income Trap”, the stagnation of the economy on an intermediate level?

Never before have so many people overcome poverty as during the last 30 years in China. It is now a question of putting this prosperity and the social security system on a solid basis.

China itself has to become a consumer. For this it needs a strong middle class with purchasing power. This fundamental economic change, from investments into infrastructure, to consumption and innovation, which enables the Chinese economy to satisfy local demand, is not easy. We know this from our own experience in the 1960s. Let me just mention the Ruhr Area and the coal and steel industry. Whereby, it had to be said that the subject is 150 times bigger in China today.

How can these challenges be classified?

What we have here, are the typical problems of emerging economies on the move, which constitute a special challenge for the government’s leadership ability.

Under President Xi Jinping, the first steps have been made, corruption has been tackled, jobs were cut, and attempts were made to reduce the country’s dependence on exports and industry, all of which helped to boost the economy by higher domestic consumption.

In areas where highly indebted regional authorities lack financial means, third parties are increasingly to be taken on board in the form of public-private partnership models. The expansion of the infrastructure will be further accelerated and, some of it, relocated abroad. The key words are: Silk Road and Asian Infrastructure Investment Bank.

How will China proceed? How can we support China?

APA welcomes the reform efforts of the Chinese leaders and their guiding principle, that the market should play a decisive role in this context. But China has a long way to go.

China is and will remain one of the central markets for the German economy. The world's growth depends or depended highly on China in recent years. China remains by far our most important trading partner in Asia. This opens up huge opportunities for Germany, especially with respect to the intended conversion to qualitatively higher production, a larger service sector, environmental issues and Industrie 4.0.

Especially in such a period of transition, the German economy should support China and Asia as a whole. But the German economy needs to rethink its strategies, too. We must also provide new impulses. We need to strengthen our presence in these markets. Anyone who is not at home in Asia, will become insignificant on the international stage.

Today, the German economy adds enormous value in Asia due to its local presence. German companies create jobs in Asia. Through our subsidiaries, our know-how and

our technology are represented in China. We train employees and suppliers and thus contribute to the country's quality standards. We pay local taxes in China and we re-invest in local value creation. Through these activities, we, the German companies, make a positive addition to the sustainable development of the Asia-Pacific economies. We therefore deserve to be recognized as local by our Asian partners and to be treated as equals.

Let me name three areas where reforms are absolutely essential, so that German companies can increase their potential in China:

- Improve market access for foreign companies and create reasonable framework conditions, always under the keyword "more market".
  
- A fast and reliable internet. This is indispensable, especially in view of the digitalization of the economy and Industrie 4.0 .
  
- An open environment for innovation. This is vital for the success of the structural transition in China.

All this results in a clear mission that can only succeed, if politics and industry in Germany join forces.

I trust that we, together with German politics, with Chancellor Merkel, with all our organizations, which are active in or around Asia – among them OAV -, succeed in taking up these messages with the Chinese government and also the private Chinese companies.

We believe that the best way for China, to get past a Middle Income Trap, and overcome it, is to open itself up to the world. By taking down restrictions, by having a clear IP protection, by treating German companies as equals.

We strongly believe that this would be the best possible way for China, during its transformation from the world's "workbench" to a technology-oriented industry. This is how the modern western industries emerged.

And this is where we German companies can offer China considerable assistance; with our know-how, our technology and our IP.

Unfortunately, I have to say, that we currently do not get the impression that this is the general strategy of Chinese politics. We do not see the right and necessary signals.

Yet, we continue our way forward, and determinedly and persistently.

It is exactly in this interface, between politics and economy, where I see the role of our Asia initiatives, of the APA and its members:

As intermediaries, supporters and translators that stand up for equal treatment, partnership and sustainable development.

- Asia is not only China. Even if I have mainly talked about this country today, we must see our sales, our investments and our research and development activities being at home all over Asia.

- Asia as a whole is in a transition phase: never before has dialogue been so important. We intend to further strengthen the exchange among us and to talk to each other. Please let me use this opportunity to promote our APC in November this year which aims at doing exactly that:

The Asia Pacific Conference of German Industries is a unique event for the dialogue between Germany and Asia. Join us in Hong Kong in November this year, invite your Asian partners and use the opportunity for an open exchange.