



Dr. Michael Fuchs

Interview with Dr. Michael Fuchs, Vice Parliamentary Group Leader of the CDU/CSU Parliamentary Group in the German Bundestag

Europe, China and the World – a Turning Point where Innovation is Key

by JAN NOETHER and SELMA KOEHN

He is a politician by heart, one who is extensively engaged in several economic committees and holds many leading positions. Dr. Michael Fuchs is the Vice Parliamentary Group Leader of the CDU/CSU Parliamentary Group in the German Bundestag, Chairman of the SME Circle (PKM) of the CDU/CSU Parliamentary Group, Committee Member of the German Chamber of Commerce in Hong Kong, Member of the Board Asia-Pacific Committee of German Business (APA) and owner of Fuchs Holding GmbH. Engaged with the business in Asia since the '80s, he has gained profound knowledge about the economic development of the region. The German Chamber Ticker spoke with him about the current crisis in Europe, the fate of the Euro and how the German economy can further expand in China.

In Europe, more and more countries are falling into the financial crisis. Indeed, as you mentioned in your speech yesterday, one can say the fault is mainly their own. But at the end of the day, it concerns one union. And that is why the question appears: Can the Euro still be saved?

Definitely. The Euro has to be saved. Especially from the German point of view, it is of utmost importance that the currency stays. We, Germany, are very much profiting from the Euro as we have a stable currency. During the last ten years we had an inflation-protected currency and still the inflation in the Germany of the Euro is lower than that of the Deutsche Mark. At the same time our exports, especially to China, profit significantly from the low Euro.

From conversations with different Chinese companies we always receive positive feedback in terms of their strong praise for the German position regarding the collectivisation of debts. This has even led to an increasing interest from Chinese investors in Germany. Now, and apart from that, is there a softening of Germany's position towards this collectivisation?

Chancellor Merkel has made it very clear. She

said that "not in her lifetime" will she ever agree to Euro-bonds. And I wish her a very long life as we really need her. We also need the guaranty of no Euro-bonds. We are convinced that the crisis can be solved without them. It just has to happen without them, even if it is only because countries are then forced to change something. They won't do that if they can lend money again under either more or less severe conditions – the pressure to change something will be gone. They would continue as before with the same outcomes and this needs to be stopped. Of course compromises have to be made but a softening of Germany's position should be avoided. Chancellor Merkel shares the same opinion. I'm very convinced that she will implement the right positions in Europe. I can not emphasize enough how important it is for us to keep the Euro.

What would it mean to German companies if a collectivisation occurs? Could you give us one or two consequences?

It would result in us paying higher interest rates. At the moment Germany pays very low to almost no interest rates. Two to three months ago we had a tender of EUR 1bn where we even received a bonus of 0.1%. This is a negative interest rate which benefits the German economy financially as it pays less than the German government. And the European Central Bank has lowered the value again. This is an opportunity for investment for many who mainly invest in real estate in Germany. So it is indeed very important to us for interest rates to remain as low as they currently are.

As a consequence, does this mean that the respective countries should be thinking about a bigger alliance?

What is important is that we ensure that the criteria, which we have defined ourselves, are met in all countries. We aren't the best example either; this has to be openly admitted. Germany has a current national debt of around 81% or

83% depending on this year's GDP. This is much higher than the 60% which we have set according to the Maastricht criteria. On the other hand there are other criteria where we fall below the value like the 3% annual budget deficit limit which will be less than 1%. But at the end of the day we have to consider the total indebtedness, which is high.

The economic as well as the political ties between Germany and China are better than ever before. A lot of German companies invest in China and many Chinese investors consider Germany to be a great location. How important is China for Germany?

First of all, China is the hub of Asia. This goes without saying. The country with its more than 1.3bn people is a huge market, which is globally unique in this dimension. German products have a great reputation worldwide. They are needed and are being consumed, no matter the industry. Especially in sectors like automotive, mechanical engineering or chemical we have very good chances to succeed in China, which we are already doing. We are better off for doing so and we should be even more present here. I hope more small and medium-sized companies will discover and use the Chinese market. Here, the work and the support of the German Chamber are absolutely necessary.

By the same token, how important is Germany for China?

In my opinion, it is utterly right that the Chinese have started to invest in German companies. Voices which appear after each merger or take-over and shout that the German economy is about to be sold out are nonsense. German companies buy plenty of companies all over the world on a daily basis. So we too have to accept that Chinese or foreign companies can buy companies in Germany. Export-driven as Germany is, and as the strongest export nation in the EU, it cannot afford to be ridiculously

protective, neither in regards to products nor in terms of avoiding the purchase of German companies. When we establish protectionism we shouldn't wonder why others follow our lead, which will come back to haunt us three-fold. Due to that I'm strictly against any protectionism. On the contrary, I basically endorse more ties between Germany and China, either through companies or any other structures. The better these are the bigger our opportunities in China.

Dr. Fuchs, in your position as the Honorary Chairman of the SME Circle (PKM) of the CDU/CSU parliamentary group, what would you recommend for German SMEs, the German "Mittelstand", in regards to their activities in China?

There are certain reasons why the German "Mittelstand" is more or less holding back with its engagements in China. The fear of being copied is still there, which is justified and I understand that. From my point of view the German Chamber should advise which legal steps exist in regards to IPR. The Chamber should support German companies in their market entry in China in order for them to lose this fear of "as soon as I have entered the market they are going to copy me and I will be forced to shut down my com-

pany as I won't be competitive anymore." This is the main reason why much bigger German SMEs don't go to China. I think this is wrong and in my eyes the AHK can do really good work in helping German companies avoid such situations. There are plenty of examples already which show that it works.

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the lack of qualified labour, which is a major topic in China. And even here the Germans are importing their best products: vocational training according to the German Dual Principle. What do you think of that?

The need for qualified labour is also a huge topic in Germany. A look at the demographic development reveals that this year we will have a significant shortage of apprentices for the first time ever. There are districts where the markets for apprentices are absolutely empty. In the whole country there are hundreds of vacancies and no prospects. Of course, there are lots of young people who could be educated accordingly but they are hardly suitable for that due to linguistic, cultural or other barriers. In a joint project with the Chamber of Commerce we are already looking for young people from other European countries who can be educated and are willing to come to Germany. The Goethe Institute should offer more intensive language courses in order to encourage them to come and work in Germany. As for the German dual education system I think it is important to establish it in China. But, to be honest, a fear that this could result in a disadvantage for Germany is not justified in regards to the dimension. If a couple of hundred workers are being educated

along our dual system then this is something great.

One of the findings of our survey was that protectionism in China has increased, which often keeps international or German companies in an adverse position, such as when it comes to requests for tender. When we treat politics in its role as an economic promoter, how can it represent the interests of the German economy, especially in China?

Surely, it is very important that the Chancellor travels again to China later this year. I'm sure she will mention this problem during her visit. As China is enormously export-driven it has to follow international rules in order to be fully integrated into world trade. We have to have a free trade and China too has to accept that and to

understand that they can not have a special role. But I must say that we also face these tendencies in other countries like in the US, for example. In my opinion this is a result of the fact that the Doha Round unfortunately has come to a standstill. What bothers me most in this correlation is that we are increasingly having free trade agreements, although we just established one with Korea. The downside of FTAs especially for SMEs is that such agreements create difficulties as companies have to adapt to each country's conditions and business accordingly. For me, it would be much better if we would stay multilateral. But as long as the Americans pursue the creation of FTAs and don't show any interest in multilateral agreements there is no other chance for Europe than to stick to FTAs too.

Dr. Fuchs you are a very active man and as such you even hold a position as Member of the Board of the AHK in Hong Kong, which of course is very pleasing to us. How would you describe the role of the AHKs in regards to promoting the German economy abroad?

In my opinion the AHKs play an important role in building bridges for German companies abroad, especially the small ones. I think it's very important that we support the latter so

that they have a real chance. When I say small companies I mean the "golden Mittelstand". Each of them should have people who are willing to go abroad and are in close contact with the respective AHK. It has to be the case that our hidden champions, and we have lots of them, increasingly go abroad. The German market alone or the European market can become too small for them. So, in the end, I'm very glad that an institution such as the AHK exists and I strongly support at least maintaining the current budget for AHKs. I have discussed this several times with Eckehard Goetting, the Delegate in Hong Kong. My concern is always that the services the AHKs offer need to be so good that companies are easily willing to pay for them, provided that their services are needed. What we don't need is a never-ending chain of translation services. What we need is com-



petency in accessing markets. Especially in a country like China this is of utmost importance as the conditions here are very complicated. The AHK has to provide this kind of competency. I'm convinced that companies find it worth paying for this competency. They have to see it this way if they want to succeed in these markets. Hence, the subsidies from the German Ministry of Economics and Technology have to be as low as possible.

Let's look at China and its current challenges like the lack of qualified labour and the need to establish an innovative industry. In your opinion, what should China do in order to successfully face these challenges?

I think it is very important for China to change the notion of "copying is the only way forward". They have done it long enough now. But interestingly, this is not only China. Other Asian countries have also grown based on copying. I've been involved with the Asian business world since 1980 and back then the best copiers were the Japanese. But they quickly changed as they relatively soon realised that with copying they would not progress a lot. Then the Taiwanese took over and even copied the Japanese copies until they also realised

tronics. They could take the lead in new industries such as electronic vehicles, where they have already been engaged for a long time. A company like BYD is very interesting, for example. To sum it up China can only further develop through innovation.

In the event that the China you imagine comes into reality, why wouldn't the German economy and Germany itself need to be afraid?

I think we are still one step ahead. And in all honesty I'm convinced that the German economy has already learned that and knows exactly that the high wages we pay in Germany are the highest in the European or even world context. And we can only pay them if we constantly reinvent ourselves, if we are continuously innovative and create new products regardless of the industry - the innovations we have done in the automotive industry in particular are enormous. Ten years ago cars consumed much more fuel than today. And this is just one example of the major innovations Germany created. And it is necessary to achieve that. If we come to a standstill then one day the German economy will suffer significantly.

be reduced. Only if there is a compact system full of possibilities can a financial centre be established. Hong Kong is still in front and I don't think that the Chinese government intends to change that so quickly. The free convertibility should be claimed but I have the impression that out of protectionist reasons it is not really demanded. The moment the RMB is freely convertible it would be highly revaluated. This would make China's exports more difficult and minimize the foreign assets, which are mainly held in USD. This would cost a lot of money at one go. As a result the Chinese government doesn't have much interest in an international convertibility of the RMB in a short-term period, in my opinion.

Finally, what can Germany learn from China?

A lot, I would say. China has proven how quickly one can get out of a desperate situation. I still wonder about how fast they actually did it, for example how approval processes and structural changes occurred so fast. When you look at cities like Shenzhen, which developed from a small village into a bustling city, you can hardly imagine the speed. Furthermore, when one learns that a high voltage co-flow transmission line with a



that they wouldn't develop very well due to their growing wage level. And they stopped too and started to innovate. Then the whole idea of copying went to Hong Kong before it came over to China. So the Chinese too have to comprehend that the future doesn't lie in copying. When wage levels further increase, especially in the coastal region, innovation is the only way forward. That's why I basically would like to see China invest more in innovation. At first this of course would be in education at universities, high-technology fields and the like. This is what China will need if it wants to further improve and develop. In case they would like to keep the stage they are in right now then they wouldn't need all of that. But then again that isn't the China I imagine. I'm essentially convinced that they can be very innovative in the fields of high-tech or elec-

The current intention of the Chinese government is to establish Shanghai as an international financial centre and, furthermore, to achieve an international convertibility of the RMB. Looking at your profound experience in Hong Kong, how would you foresee the future of Hong Kong as the financial hub of the region and in regards to the plans of the Chinese government?

I don't see any critical development for Hong Kong as I don't believe that the Chinese government will open up the banking and insurance market as quickly as would be needed if they want to establish Shanghai as an international financial hub. In order to achieve that they have to make the RMB fully convertible and all possible bank regulations and insurance regulations have to

length of 1,200km has been built at the Three Gorges Dam in only two years, I would wish to see something similar in Germany. We need that speed especially for the energy transition.

Dr. Fuchs, thank you very much for the interview.



Mr. Jan Noether, Managing Director German Chamber of Commerce in Shanghai, talking with Dr. Michael Fuchs, Vice Parliamentary Group Leader of the CDU/CSU Parliamentary Group in the German Bundestag