

## More dedication, please!

*The economic crisis has demonstrated very clearly to entrepreneurs that, in the future, growth will primarily be generated in Asia. In the past Germans were too hesitant in their engagement with the ASEAN states.*

**BY Gunter Denk** :: A few years ago those who started production in Asia mainly wanted to lower costs. Unions and the public protested against such plans, predicting massive job losses in the homeland and accused the entrepreneurs of lacking national responsibility. Those who stayed at home were commended. The economic crisis has changed the picture. The great “Tom-Yam-Kung” crisis of the 90’s – named after the sweet and sour national dish of Thailand – still originated in Asia. But today, ten years later, the region is a bringer of hope and the driving force for a speedy end to the international financial and economic crisis that came from the U.S., the “Hamburger Crisis”. Recent months have also made it clear where the markets of the future lie. Even the German engineering companies relied too much on manufacturing their products at home and selling them into the EU or US markets. However, these regions experienced the worst slumps.

### World champion plays in the regional league

When it comes to direct investment in Asia, the world’s acclaimed leading exporter Germany actually plays in the regional league. The Germans were still drawn to China, whether it is because they went with the flow or followed the lure of the big money. German businesses have already clearly fallen behind their competitors in many Asian regions. Even though German businesses invested €987 million in Thailand between 2006 and August 2009, for example, the small Netherlands managed €1.256 billion and the even smaller Switzerland invested nearly €200 million. The direct export competition from Japan (€8.226 billion) and the USA (€2.901 billion) is already almost out of reach for the Germans in regards to their investment activity in the ASEAN countries. China is also no longer holding back on this market and, with €743 million, it has invested almost as much as Germany.

The experience of the past has already shown one thing: In the long term, only those who produce in the large submarkets of Asia will sell successfully there. The automotive industry has already undergone this development. In the beginning entire fleets of ships transported cars from Germany or Japan throughout the world. Today, the factories are on site, and BMW even assembles its flagship 7 series in Thailand. Noventa AG is one of those medium-sized businesses who have made the move to produce locally. The Swiss enterprise develops and produces technical

equipment for renowned customers such as Bernina, CWS and Nestlé.



*Toyota leads the way; in 2007, the Japanese car manufacturer opened its third factory in Thailand. Toyota also shows its commitment with campaigns such as tree planting in Ban Pho.*

Many products are destined for Thailand, China and other Asian growth markets. Consequently, it has been determined that growth would happen in those countries as well. In the coming weeks a factory in Thailand will go live to produce superior injection moulded parts and to fully assemble high-quality units according to the European quality standard. The company ensured that this would not cause one job to be lost in Switzerland. On the contrary: Through this global cooperation the ties to its key customers will become so close that plans for expansion of the home market can also be made.

Production within the country naturally also brings with it a greater proximity to the customers and enables the company to react quickly to a change in their customers’ requirements. It is too often observed in Asia that German machines are simply not bought despite being highly regarded. The products are not adapted to the market enough, and the service is too weak to fulfil the needs that come with the increasingly effective and efficiently organised Asian factories. Commitment to a market and its customers means presence, first and foremost. Nothing demonstrates and proves commitment more than setting up production locally.

### Tax breaks for investors

Many Asian states are also attractive due to incentives to facilitate investments. For example, Thailand offers its investors up to eight years of income tax exemption and five further years at half the rate.

Most South-East Asian states offer similar “promotions”, ranging from land ownership and special depreciation rates to custom duties exemptions.

Thailand has the advantage that the benefits do not have to be laboriously negotiated; instead they are guaranteed by law and thus predictable and certain.

#### **Cost savings remain a motive**

The cost benefits, of course, continue to play a part. The costs in Asia vary significantly at the moment. Today, China is no longer the first choice in all divisions: The highly developed regions of the “bacon belt” from Shanghai to Shenzhen have become too expensive for low wage products, and the western region is a new, high-risk territory even for Chinese entrepreneurs.

Manufacturers of simple products are increasingly focusing on Indonesia: Low wages, positive constitutional developments, improved transparency of the framework conditions for foreign investments, and a domestic market of around 250 million people offers a thoroughly attractive environment. Vietnam also still belongs to the countries with cheap production costs, although once again, rent, corruption and poor logistics can override some of these cost advantages again. The situation in Cambodia is similar, even though growth in the country is still being by its smaller population and a clear lag in development.

The Philippines, with a western culture and a young, well educated population, would easily be a further option if it

were not for the political situation and widespread corruption.

#### **Convincing overall package in Thailand and Malaysia**

Thailand and Malaysia therefore remain favourite production sites for the Asian market, as the “overall package”, i.e. costs, logistics and other general conditions, closely corresponds to the needs of investors. By 2010 a company will be able to deliver from there to most states in the ASEAN zone with a maximum custom duty of 5%. From 2015 on, this limit will apply to all ten ASEAN countries. Even with China, Australia, Japan and Korea there are agreements that facilitate the exchange of goods and reduction of customs duties. Negotiations to further eliminate trade barriers are being held continuously.

Something recent months should have made clear is that medium-sized German export businesses need a production hub in Asia. This is the only way to secure Germany’s future as a quality manufacturer for the world. :::

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