CHINESE AGRICULTURAL FOREIGN DIRECT INVESTMENT IN DAIRY: COULD GERMANY BECOME A CHINESE CASH COW?

Douglas M. Robinson, Sebastian Lakner & Verena Otter

douglas.robinson@uni-goettingen.de

Lehrstuhl für Betriebswirtschaftslehre des Agribusiness, Georg-August-Universität Göttingen, Platz der Göttinger Sieben 5, 37073 Göttingen

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**Germany Become a Chinese Cash Cow?**

*Douglas M. Robinson¹, Sebastian Lakner, Verena Otter*

**Keywords**
PESTEL analysis, agricultural FDI, dairy supply chains, market entry

1 **Introduction**

With a view to food security and sovereignty objectives, China has implemented an extensive strategy in outward foreign direct investments (OFDI) into the agribusiness sectors of industrialized countries over the past decade. In light of this strategy and the 2008 melamine scandal, remarkable investments have been made in New Zealand’s (NZ) dairy sector, provoking scepticism in this nation’s policy makers and practitioners. The corresponding tentative support of such investments in NZ may persuade the Chinese to seek alternate target countries. Even though Germany is the largest dairy producer in the EU and a significant exporter of dairy products to China (BMEL, 2017), it has yet to experience these investments. However, there is little existing research examining Chinese OFDI in dairy or other agribusiness sectors in developed economies. To close this gap, this exploratory study aims to gauge the attractiveness of the German dairy industry for Chinese actors from an investment perspective by the use of a case-specifically adapted PESTEL framework, considering factors which may act as either incentives or dampeners. By focusing on Chinese entrance into the agriculture sector in a developed economy, this study offers insights for managers and policy makers, which may be applicable to dairy industries in other economies and other agricultural sectors in Germany and abroad.

2 **Methodology**

A PESTEL framework considering the political (P), economic (E), socio-cultural (S), technological (T), environmental (E) and legal (L) factors influencing the external business environment (CADLE et al., 2010) is constructed from the perspective of Chinese enterprises investing in the German dairy industry. Factors range from macro-level to industry-specific, and are drawn from a comprehensive review of quantitative and qualitative literature and supplemented with relevant descriptive secondary data. Based on contextual interpretations, the PESTEL categories are evaluated and assigned directional impacts (see Table 1) to develop an overview of the German dairy industry and attractiveness for Chinese investment.

3 **Results and Discussion**

Noteworthy favourable factors include: the strong performance of the German economy (E), the fourth largest worldwide in nominal GDP terms (US$3.68 trill. in 2017; Eurostat, 2019); well-established trading arrangements (E), Germany is China’s sixth largest export market (3.16%) and China is Germany’s largest bilateral trading partner (World Bank, 2019); high perceived quality of German dairy products (T) by Chinese consumers (Yang et al., 2018); strong preferences for German dairy products in China (S), with a premium of 57.9% for German UHT milk (Zhang et al., 2018); strong German agricultural R&D performance (T), with the highest absolute spend in the EU (€831.55 mill. in 2016; EUROSTAT, 2019); and feed availability (E) through index prices in line with EU averages (EUROSTAT, 2019) and zero import tariffs on oilseeds.

¹ Georg-August-Universität Göttingen, Department für Agrarökonomie und Rurale Entwicklung, Betriebswirtschaftslehre des Agribusiness, Platz der Göttinger Sieben 5, 37073, Göttingen, E-Mail: douglas.robinson@uni-goettingen.de
Table 1: German dairy industry PESTEL framework with directional impacts

<table>
<thead>
<tr>
<th>Factors</th>
<th>Agricultural policy</th>
<th>Energy policy</th>
<th>Investment policy</th>
<th>Economic openness</th>
<th>Political risk</th>
<th>~</th>
</tr>
</thead>
<tbody>
<tr>
<td>(P) Political:</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(E) Economic:</td>
<td>GDP +</td>
<td>Industry profitability -</td>
<td>Value added in agriculture -</td>
<td>Bilateral trade +</td>
<td>Chinese imports +</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chinese FDI stock -</td>
<td>+</td>
<td>Inward FDI -</td>
<td>FDI outflows -</td>
<td>-</td>
</tr>
<tr>
<td>(S) Socio-Cultural:</td>
<td>Chinese population -</td>
<td>Animal welfare +</td>
<td>-</td>
<td>Consumer preference +</td>
<td>Agricultural education +</td>
<td>-</td>
</tr>
<tr>
<td>(T) Technological:</td>
<td>Product quality +</td>
<td>Agricultural R&amp;D +</td>
<td>-</td>
<td>Production system -</td>
<td>Labelling and standards -</td>
<td>+</td>
</tr>
<tr>
<td>(E) Environmental:</td>
<td>Geographic factors +</td>
<td>Agricultural land -</td>
<td>-</td>
<td>Feed availability +</td>
<td>Climate change -</td>
<td>-</td>
</tr>
<tr>
<td>(L) Legal:</td>
<td>Legal structure -</td>
<td>Investment freedom -</td>
<td>-</td>
<td>Legal origins +</td>
<td>Investment/FTA agreements +</td>
<td>+</td>
</tr>
</tbody>
</table>

Source: Own presentation; Note: Factors are assigned a directional impact, with + being favourable for Chinese investors, - being unfavourable, and ~ being neutral.

Subsequently, major unfavourable factors are: investment legislation and interpretation (SAUVANT and NOLAN, 2015), where applications by Chinese investors in Germany have recently been declined; legal structures (L) of German dairy cooperatives, potential lack of board representation, and documented M&A failures (KÜHL, 2012); and limited socio-cultural overlaps such as a small local Chinese population in Germany (S).

Overall, strong disadvantages exist in the German dairy industry, with legal structures (L) and investment legislation (P) playing a critical role. These could potentially be outweighed, with consumer preferences (S) and product quality (T) prominent. German firms may also benefit from FDI in overcoming sectoral economic downturns or securing long-term export sales channels, but awareness is required of maximum acceptable FDI levels.

References


