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WHAT ARE EU INVESTORS LOOKING FOR?

Good morning Gentlemen and Ladies,

Mr Major and the authorities attending this conference,

I feel honoured and I thank the president of Huachun Group, Mr Li, and Dr. Susan Pattis, for inviting me to participate in this seminar, and giving me the opportunity to talk with you about European investors and what they are looking for. That I am here with you today is only a merit of Susan, whom I want to express my thanks and gratitude for having given me the opportunity to have such a beautiful experience with people and beauty of Xinjiang.

I will not talk about the Venture Capital market in general, because you can find such information in lots of newspapers, in the internet and in books. I would like, among others, to tell you about the experience I have gathered during the past years in connection with venture capitalists and other similar entities.

I will explain:

- 1) The EU market situation as of today,
- 2) The Situation of Venture Capitalists in Europe, and
- 3) What we learnt from the crash in the new economy

1) The EU market situation as of today

European investors begun several years ago to invest in Eastern European Countries because of their wages being 65% lower than those in Western EU countries. In the past two years, real wages have risen by 20 %. Despite the recent increases, wages in Eastern Europe's most dynamic economies are still 25% lower than those in Western Europe. Yet the gap is widening with China, where wages have stayed roughly the same for unskilled factory workers during the last ten years. *Source: Business Week*

Major global players are now closing their plants and moving the work to China, where wages are 75% lower than in Europe. Last November IBM moved 3,700 jobs to China, Royal Philips Electronics (the Dutch electronics maker) have moved an additional 1,500 jobs from Hungary to China during the past one and a half years; Flextronics has closed a plant with 1,000 jobs in the Czech Republic. Even Eastern European companies are shifting work to Asia.

However, labour costs are not the only factor when making investment decisions. As an example, for large appliances and autos, shipping costs are high. In 2005, Peugeot-Citroen and Toyota Motor Corp. will open a joint plant in the Czech Republic employing 3,000 people and another 3,500 workers in 2006 in Slovakia.

The manufacturing job flight is prompting some governments to look for ways to diversify their economies. Wim Wielens, Philips regional CEO for Europe, Middle East and Africa says that Eastern European countries have to decide where they want to be in 10 year's time, because if they try to keep attracting investment based only on cheap labour, they will have problems. Moreover he says, and I fully agree with him, that their real future test will be, how well they train their labour in a knowledge-based economy.

2) Venture Capitalists in Europe

Firstly, let me remind the distinction between:

‘Old/traditional Economy’ – known since very long time as an economy based on tangible assets, as well as real and measurable values and

the ‘New Economy’ – what has boomed worldwide during the last decade: an economy based on ‘non tangible’ assets derived by the frenetic and very quick development of new technologies.

One of the major facts which caused the crash in the new economy was the way European Venture Capitalists accepted the fact that out of ten invested projects, they would accept nine of them being non

successful, because one ‘STAR’ project would finance all the other nine failures.

This concept worked successfully for several years until some people realized that they did not need anything but an innovative idea plus a business plan and they would receive millions of dollars. Securing finance became the ends rather than the means. As soon as people realized that the new economy was only virtual, the bubble burst.

As a result, individuals, banks, insurance companies and other institutions invested and lost huge amounts of money. For example: one institution in the UK invested their entire pension fund in the stock market and lost more than 3 billion dollars.

3) What did we learn from the crash in the new economy?

Europe now faces the investor's revenge. Investors are pulling out of the stock market: Some of them because they lost their trust and others because they have nothing to invest any more.

The painful crash of the new economy has given the Venture Capital investors some good lessons:

- ❖ To invest in people and their credibility, because ‘trust’ is normally not for sale and because in such cases, success is made 10% by a good and innovative idea and 90% by the people involved in the project.
- ❖ To thoroughly check and evaluate the companies tangible-assets, yet moreover evaluate the intangible assets, which are more difficult to be assessed.
- ❖ To look for investments which are profitable and sustainable.
- ❖ To return to the methods and values of the old, traditional economy combining them with the tools and methods of the new economy.

When seeking investors, Xinjiang companies are advised to keep in mind the following rules:

- ❖ Secure and protect your intangible assets i.e. intellectual properties such as patents, copyrights, licenses. This will give you a strong position at the negotiation table.
- ❖ Select your investing partner very carefully; no matter if it will be a Venture Capitalist or a traditional participative investment. Such cooperation is like a marriage: a long term commitment ending in success or disaster, depending on the choice of partner.

Xinjiang has three essential assets and values to offer to investors:

Human Capital = Workforce.

Natural Capital = Natural and mineral resources.

Cultural Capital = 5,000 years cultural heritage and tradition.

European investors offer several very attractive types of investments, and funding, which I have no time to explain in detail today, but I can briefly summarize. They are funding:

- ❖ Research & Development projects
- ❖ Strategic Alliances and Joint Ventures between European and Chinese enterprises
- ❖ Partnerships between research institutes and companies
- ❖ Regional investments to build up infrastructures in a country

In the past, some Chinese products have developed a negative image in the world market with regards to quality, but Xinjiang has a great opportunity to promote a new brand “Made in Xinjiang China”, standing for excellent quality, reliability, and optimum balance between cost and benefit. I believe this day will come soon.